

This document should be read in conjunction with the examiner’s suggested answers and marking guidance.

### **General comments**

This examination was based on a pre-seen scenario which described a company in the film making industry. The scenario was made available in advance of the examination and five variant papers were set, each presenting additional scenario-based information and setting four tasks to be completed. Each task was split into two or three specific elements.

The film making industry is very interesting, with some unusual costings and different risks compared to some other industries.

There is a lot of information available on the film making industry and it is one that most candidates will be aware of.

The standard of answers was similar to previous diets, with some well-structured answers based on the scenario. The main difference is that candidates appear to be getting weaker in technical accounting and stronger in general management. The best answers were where the candidates were strong in technical accounting areas and good at management. Candidates must be better prepared in technical accounting areas in the future. The other area where candidates were weak was ethics, this has been the case over the last few diets and is disappointing.

The presentation of the answers is much better than in earlier diets which is excellent.

There were some poor answers, some candidates did not seem to know much about the industry or the company. Given that the pre-seen material had been available well in advance of the examination, this was disappointing.

As discussed in previous examiner’s reports there were some areas of weakness in many papers. These were the more technical areas of the syllabus, such as consolidations, dividends and ethics.

### **Summary**

As usual the standard of scripts varied widely. There were some excellent scripts submitted by candidates who had clearly prepared well, made good use of the pre-seen material and were technically competent. At the other end of the scale there were some very poor scripts, where candidates had written very little and did not always demonstrate any understanding of the requirements. Many did not demonstrate adequate understanding of technical accounting issues, the weakest technical area is financial reporting.

**Variant 1**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Task 1</b>	Discuss realism of budget	Technical skills	P2 B2c - discuss the criticisms and behavioural aspects of budgeting in responsibility centres
	Discuss approach to project management	Leadership skills	E2 D2a - discuss the characteristics of the different phases of a project
<b>Task 2</b>	Discuss application of IFRS 12 to accounting for investment in entity	Technical skills	F2 B1b - discuss the need for and disclosure of interests in other entities
	Discuss implications of disagreement with external auditor for share price	People skills	E2 C1c - discuss the effectiveness of handling relationships between the finance function and external experts and stakeholders
<b>Task 3</b>	Manage conflict with actor and motivate producer to control conflict	People skills/Leadership skills	E2 C2b - discuss approaches to managing conflict
	Manage risks	Business skills	P2 D2a - discuss risk management
<b>Task 4</b>	Discuss applicability of NPV criterion	Business skills	P2 C1c - evaluate investment appraisal techniques and explain their results
	Discuss accounting issues associated with purchasing intangibles	Technical skills	F2 B1c - discuss the provisions of relevant accounting standards

## Comments on performance

### Task 1

#### *Requirement 1*

Candidates were asked to comment on the reasonableness of a budget. A good answer focussed on the practical issues associated with establishing whether Marta's budget was realistic. For example, which costs might have been most open to manipulation?

Candidates should also have offered sensible suggestions for the application of ZBB. These should have been linked to the specific problems associated with budgeting and should have focussed more on budgeting from scratch, as opposed to the elimination of costs. There were some very good answers to this part but there were also some poor answers where candidates did not seem to know what ZBB was.

#### *Requirement 2*

The candidates were asked to discuss the approach to project management. Good answers offered a sensible argument in support of the benefits of having the outputs that might be determined from the Prince2 methodology. This question was answered quite badly, with many candidates writing very vague and ill-informed answers.

Many candidates did not seem to know what Prince2 was, which was very disappointing. There were some really good answers which made relevant points.

### Task 2

#### *Requirement 1*

Candidates were asked to discuss the application of IFRS 12 to accounting for investment in entity.

A good answer discussed the economic reality of the relationship with Destiny. This is clearly a funding vehicle that is intended to keep liabilities off the statement of financial position.

The financial statements will have to disclose the interest in the notes and candidates should have developed this point by explaining how that would affect shareholders' understanding, this was also answered badly. Candidates did not realise that the intention was to keep this investment off the balance sheet and just discussed the disclosure as if it was a subsidiary. This is an instance where candidates were poor at technical accounting issues.

### *Requirement 2*

The candidates were asked to discuss the implications for the share price of a disagreement with their external auditors. Candidates were not expected to be experts in external auditing, but they should appreciate the implications of the external auditor expressing displeasure, especially when the auditor is threatening to resign. This was by far the worst answered question. Candidates did not seem to have much idea at all that the auditor resigning could be a serious issue. At most there were 20 answers that were at all reasonable. Candidates must learn how to answer technical questions.

### **Task 3**

#### *Requirement 1*

Candidates were asked to discuss how to manage conflict with actors and motivate producers to control conflict. A good answer reflected the commercial implications of the relationship with the author. The concerns are of little consequence in themselves and so the response has to be proportionate.

This was answered and presented well by many candidates.

#### *Requirement 2*

Candidates were asked how to manage various risks. A good answer made it clear how the company would demonstrate that the risks have been evaluated and resolved.

Candidates are, in general, very good at risk management questions and this question was answered well.

### **Task 4**

#### *Requirement 1*

A good answer needed to focus on the information that was required, rather than a mechanical recitation of the calculation of NPV and needed a clear reference to sensitivity analysis, many candidates were weak at the latter, but did discuss NPV very well.

#### *Requirement 2*

A good answer should have offered a relevant discussion of the accounting issues associated with this specific investment. This question was answered well by many candidates, which was pleasing to see.

**Variant 2**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Task 1</b>	Determine costs and profits associated with different products	Technical skills	P2 A1a - evaluate activity based management
	Discuss implications of approach to strategic management	Business skills	E2 A1b - compare and contrast alternative approaches to strategy development
<b>Task 2</b>	Discuss recognition of revenues from contract	Technical skills	F2 B1d - produce the accounting entries in accordance with relevant IAS
	Discuss implications of establishing a separate department to manage a revenue stream	People skills/Leadership skills	P2 B2b - discuss traditional and non-traditional approaches to performance measurement/ P2 B1b - prepare reports to inform decisions
<b>Task 3</b>	Discuss risks to business arising from social media comments	Business skills	P2 D2a - discuss risk management
	Recommend negotiating approach with client	People skills	E2 C2a - discuss the roles of communication, negotiation, influence and persuasion in the management process
<b>Task 4</b>	Recommend approach to building a suitable team	Leadership skills	E2 C1a - evaluate the issues associated with building, leading and managing effective teams
	Discuss shareholder understanding of the business	Technical skills	F2 A2a - calculate the cost of equity for an incorporated entity using the dividend valuation model

## Comments on performance

### Task 1

#### *Requirement 1*

This task focussed on the determination of production costs of film variants, produced for different audiences in the Airline viewing market and really allowed some candidates to gain excellent marks. There were some excellent in-depth responses to this task which brought out the commercial implications.

Equally, there were many candidates who did not really understand what was required, despite being given good material with which to explore the issue. Weaker candidates merely accepted the cost drivers given in the examples as being acceptable and they then went on merely to describe ABC at some length.

#### *Requirement 2*

There were a large number of candidates who performed well in the first requirement, but gave little or no response in the second, which considered the extent to which Menteen's strategy should be influenced by the airlines. There were some good revenue issues discussed, but, in the main, production scheduling issues were given little consideration, making high marks unusual on the overall task.

### Task 2

#### *Requirement 1*

Candidates were often able to identify the correct accounting treatment and knew that there were FRS criteria to be followed as well as ethical issues involved. They did not always apply the FRS criteria appropriately to their nevertheless correct accounting treatment. Many candidates wasted valuable examination time discussing revenue recognition on the new film releases.

#### *Requirement 2*

Assessment of the measurement of the department's effectiveness was generally reasonably well done but few got into the commercial implications in any real detail. Most candidates missed the behavioural implications of cost centre status and only a few recognised the difficulties of managing a potential trade-off between quality and cost containment.

**Task 3***Requirement 1*

The obvious risks were generally recognised, e.g. lost revenue right through to falling share price. Regarding the use of Big Data many were able to give a 3V definition and generalise about data sourcing and application, but very few were able to apply the concepts directly to the problems and investigation in hand. The better scripts explained how it could be used to assess the size of the potential risk and then how it might be used by the company to mitigate that risk e.g. targeted advertising through social media etc.

*Requirement 2*

This was perhaps where most candidates failed to give a good account of themselves. Candidates scored marks discussing negotiating techniques, while some were able to identify different ways in which to compromise on the issues, mostly by making concessions. Virtually no scripts covered the issue from the airline's point of view, so this desired trait scored poorly even in the better scripts.

**Task 4***Requirement 1*

There was some evidence of good all-round theoretical knowledge of the various philosophies and writings on this subject. The better candidates quickly distinguished themselves by being able to relate their response to the case study and so were able to specify practical issues such as the lack of manufacturing capability in the company and the probable need for external help in the team.

*Requirement 2*

Knowledge of the dividend valuation model was very weak and few candidates brought this to bear in responding. However, most candidates realised that communication was needed with the market and company shareholders.

**Variant 3**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Task 1</b>	Discuss application of target costing	Business skills	P2 A1c - discuss techniques for enhancing long-term profits
	Evaluate relationship with investee	Technical skills	F2 B3a - discuss the need for and nature of disclosure of transactions between related parties
<b>Task 2</b>	Advise on pricing staff time	Technical skills	P2 C2a - discuss pricing strategies and their consequences
	Managing secondment of staff	People/Leadership	E2 B1b - discuss HRM approaches for managing and controlling individuals' performance
<b>Task 3</b>	Discuss risks and ethical considerations	Business skills	P2 D2a - discuss risk management
	Advise on motivational issues	Leaderships skills	E2 B2a - discuss behavioural aspects of management control
<b>Task 4</b>	Advise on accounting treatment of convertible bonds	Technical skills	F2 A2b - calculate the post-tax cost of debt for an incorporated entity
	Discuss change management issues	People skills	E2 D1b - recommend techniques to manage resistance to change



## Comments on performance

### Task 1

#### *Requirement 1*

There were some very good answers to the first part of this task, with candidates identifying the fact that it is difficult to link the CGI that is being commissioned to the revenue from the film. Film-goers will pay the same, regardless of the quality of the film and so the size of the audience will be the determining factor for revenues. Weaker answers tended to focus on the process of target costing, instead of the challenges associated with its implementation given the context of the case.

#### *Requirement 2*

The second requirement tended to generate good discussions on the recognition criteria, but there was a tendency to overlook the second part, that dealt with the implications for the interpretation of the figures. The whole area of identifying group members is complicated, because of the impact that omitting some subsidiaries can have for the group financial statements.

### Task 2

#### *Requirement 1*

The first requirement was generally answered well. The key is that the company wished to ensure the generation of a realistic return from the secondment, without overcharging, to the extent that Glowplug would seek temporary staff from outside. This was an opportunity to develop staff and have them learn new skills.

#### *Requirement 2*

The second part was also answered well. Some answers focussing on slightly peripheral issues, such as commute times and travel costs. Most candidates dealt with more substantive issues, including the question of whether staff preferences should be taken into consideration.

### Task 3

#### *Requirement 1*

Candidates were generally good at identifying risks in the first requirement, although there was a tendency to overlook the ethical issues associated with accepting those risks.

#### *Requirement 2*

Answers to the second requirement were poorer. The situation here was that there were senior managers choosing to accept a risk that could have significant effects for the company's reputation. Given the nature of the situation, it is a matter of some concern that the director and producer did not feel that they should have sought guidance from the board before proceeding.

#### **Task 4**

##### *Requirement 1*

Answers to the first requirement were often weak, with little discussion of the financial reporting issues of convertibles. Many candidates simply described the instruments themselves.

##### *Requirement 2*

Candidates were generally good at identifying the change management issues, but their recommended strategies were often very generic, with little direct application to the scenario.

**Variant 4**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Task 1</b>	Discuss application of target costing	Business skills	P2 A1c - discuss techniques for enhancing long-term profits
	Discuss recruitment challenges	People skills	E2 C2a - discuss the roles of communication, negotiation, influence and persuasion in the management process
<b>Task 2</b>	Recommend budgetary control system for subsidiary	Technical skills	P2 B2c - discuss the criticisms and behavioural aspects of budgeting in responsibility centres
	Recommend performance measures for subsidiary	People skills/Leadership skills	E2 B2a - discuss behavioural aspects of management control
<b>Task 3</b>	Discuss disciplinary action	Leadership skills	E2 B1b - discuss HRM approaches for managing and controlling individuals' performance
	Advise on accounting treatment of costs	Technical skills	F2 B1c - discuss the provisions of relevant international accounting standards ...
<b>Task 4</b>	Recommend approach to pricing	Business skills	P2 C2a - discuss pricing strategies and their consequences
	Discuss implications of business decision for cost of equity	Technical skills	F2 A2a - calculate the cost of equity for an incorporated entity using the dividend valuation model

## Comments on performance

### Task 1

#### *Requirement 1*

Candidates were asked to explain how the company might use target costing to manage “OWN – The Series”. The weakest ones did not know what target costing was about, with a few discussing cost plus pricing instead.

After discussing the target cost there needed to be some discussion about how the target costs could be achieved. The very good answers considered many of the costs separately, the weaker ones covered less of them. Candidates also needed to make the link to maintaining the need for a quality product.

#### *Requirement 2*

Candidates were asked about the challenges with recruiting major stars to the lead roles and how they may be overcome. Candidates adopt different styles for this with some providing a challenge and showing how it could be overcome altogether as one paragraph then making the next point while others chose to discuss the challenges together as one section and then to have a separate section to tackle the ways to overcome.

The weaker candidates did not read the requirement carefully enough and wrote about general challenges for Menteen in making the TV programme i.e. it wasn't just about recruiting the major stars.

### Task 2

#### *Requirement 1*

Candidates were asked to discuss the use of explicit targets for the subsidiary and about the involvement of Hannah and Roger. Some of the answers, from weaker candidates, were very short as they did not seem to understand the requirement. Some candidates discussed the need for explicit targets, as this was a new venture for the business guidance was needed and candidates were split, with some wanting flexible rolling type budgets and others wanting a more rigid set of budgets.

In terms of involving Hannah and Roger, there were many good answers as candidates discussed not only the benefits, but also the disadvantages of involving them. Weaker candidates discussed advantages, such as their experience and sometimes motivational aspects, but rarely discussed any disadvantages.

### *Requirement 2*

Candidates here launched straight into using the balanced scorecard, so the discussions re: providing a framework, were often not detailed enough. Most candidates then discussed the use of the balanced scorecard in detail providing relevant KPIs, this meant that they gained good marks for this section of the examination and some good knowledge was shown here. In discussing the balanced scorecard weaker candidates just tended to list KPIs, rather than giving any explanation, which limited the marks that could be awarded.

## **Task 3**

### *Requirement 1*

Most candidates answered this requirement well. Often discussing implications, such as reputation, cost of getting a replacement actor and whether Menteen had breached any health and safety regulations, in addition, the better candidates also discussed possible action from the actors' guild. Some very good scripts went into a lot of detail, providing a full range of the actions that could be taken.

### *Requirement 2*

This was the weakest part of the examination. Many candidates did not know the criteria for IAS38 and gave very vague and short answers. As many candidates were not familiar with the criteria, there was often no reference to the implications of non-completion of the filming. Instead of discussing IAS38 candidates sometimes discussed revenue recognition, or accounting for long term contracts, instead, with quite a few candidates wanting to record the costs as inventory. There were some very good answers where candidates were familiar with the standard and often used a good approach, discussing each of the criteria and whether Menteen complied or not – these candidates usually went on to discuss the \$2m of scrapped costs, as well as the possible problems if the actor had to be changed.

## **Task 4**

### *Requirement 1*

For the first part, most candidates identified that the deal with Beeland did not look very promising, this showed good commercialism, although the weaker candidates assumed that Webmax had already made a higher offer, this was not the case. In terms of the actual offer there were some good answers, discussing the pros and cons of going with Beenet.

### *Requirement 2*

This part of the section was generally poorly answered. Most candidates knew the low offer price would have a negative affect but were very vague in their discussions. There was virtually no discussion on the board's competence, or inexperience (as seen from shareholder's perspective). This was a disappointing section.

**Variant 5**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Task 1</b>	Discuss lifecycle costing	Business skills	P2 A1c - discuss techniques for enhancing long-term profits
	Discuss maintenance of sustainable advantage	People skills	E2 A1c - explain the approaches to achieving sustainable competitive advantage
<b>Task 2</b>	Discuss motivational implication of leaving transfer prices exposed to exchange rate movements	Leadership skills	P2 B2c - discuss the criticisms and behavioural aspects of budgeting in responsibility centres
	Discuss treatment of currency gains and losses	Technical skills	F2 B2b - demonstrate the impact on the group financial statements of consolidating a foreign subsidiary/C1b - evaluate the financial performance ...
<b>Task 3</b>	Discuss determination of goodwill on a newly acquired subsidiary	Technical skills	F2 B1a - produce primary financial statements for a group of entities ...
	Discuss change management issues	People/Leadership skills	E2 D1a - discuss the concept of organisational change and D1b - recommend techniques to manage resistance to change
<b>Task 4</b>	Discuss relevance of payback criterion	Technical skills	P2 C1c - evaluate investment appraisal techniques and explain their results
	Discuss creation of sustainable competitive advantage	Business skills	E2 A1c - explain the approaches to achieving sustainable competitive advantage

## Comments on performance

### Task 1

This task asked candidates to explain how life cycle costing might apply to the films and how it might change Menteen's approach to film making, marketing and associated activities. They were also asked whether the company was capable of developing a sustainable competitive advantage outside their home country.

This task was generally well attempted, although many candidates did not appear to allocate their time well, giving lengthy discussions of life cycle costing and very little on overseas competitive advantages. Life cycle costing was often well addressed, but there was little consideration of new products. Some described life cycle costing without relating it to Menteen.

### Task 2

This task addressed the financial reporting implications of a low exchange rate. Candidates were asked to consider the possibility that exchange rate movements could affect the motivation and behaviour of the marketing department in respect of budgeting and also to explain how the impact of exchange rate movements on reported revenues should be accounted for and the implications of guidance offered to shareholders.

The de-motivational effects of currency fluctuations was generally well addressed, with candidates correctly identifying that the fluctuations were outside the control of the marketing team and were really an issue for treasury management/finance. The impact on behaviour was less well discussed, with many candidates explaining how budgets should be prepared, rather than tackling the effects on performance and the possibility of dysfunctional activities.

### Task 3

This task began by asking candidates to discuss the issues associated with the recognition of goodwill on the acquisition of Wordshift, and whether the impairment of goodwill is likely to be an issue in future accounting periods. Candidates were then asked to consider the organisational change issues associated with Wordshift becoming an in-house translation bureau for foreign films, and how those change issues should be addressed.

This task was generally well addressed, most candidates provided accurate answers on the recognition of goodwill, but impairment was less competently discussed.

The change and change management issues brought about by the acquisition were also tackled well by the majority of candidates.

#### Task 4

The final task introduced the potential to buy software which could accurately translate languages. It asked candidates whether payback analysis is sufficient to analyse the project and whether the conclusion that Menteen should fund the remainder of the project is correct. They were also asked to think about whether the software should be retained for exclusive use or rented out under licence to other users.

Discussion of payback was a little disappointing, as many candidates covered the advantages and disadvantages of the payback method but in a very 'textbook' manner, with little, or no, application to the specifics of the case study. For example very few candidates recognised that with a payback period of just 2.4 years, there would have relatively little impact on the time value of money.



### **Tips for future candidates**

It is important that candidates understand all areas of the syllabus. Candidates who know the syllabus, study the industry and write well-structured answers will almost certainly pass the future case study exams.

It is important that candidates understand consolidations, transfer pricing, investment appraisal, leasing, ethics, dividends and all other technical areas of the management level syllabus.