

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

### **General comments**

The case study dealt with a retailer in the niche market of dollar/pound/euro shops that have become well established in many countries. These retailers share the basic selling proposition that everything on sale is priced at a single unit of the local currency. These organisations have attracted some controversy, but have developed a significant presence in the retail market. The pre-seen material provided some background to the business and the industry. It was expected that candidates would study the pre-seen material closely enough to be familiar with the business. It would have been legitimate for candidates to investigate the industry further, but there was no expectation of this in the tasks set. The focus when reading the pre-seen material should not be to memorise its content, but to imagine what the business actually does. Some answers did seem to have missed the point about the marketing approach and the need to maintain that E\$1 price point. Weaker candidates often had an unrealistic impression of what might be sold for E\$1 in these shops.

Each variant had four separate tasks, broken down into two or three requirements. Despite this familiar approach, some candidates underperformed by writing extensive answers to one requirement and not the other(s). The individual requirements are equally weighted and it is advisable to spend equal time on each, taking a little longer over the planning of the more difficult requirements.

### **Summary**

Overall, the standard of scripts was encouraging. Candidates are now writing clear and well-presented answers that reflect a commercial awareness of business issues. This is an encouraging development, indicating that candidates are taking time to practise. Unfortunately, the technical aspects of some scripts remains weaker than it should be. The fact that the case study does not require calculations should not be misunderstood as a suggestion that it does not test technical accounting techniques. Candidates should be familiar with all aspects of all three subjects covered in the case study.

**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 performance measures	Technical skills	P2 B2b - discuss traditional and non-traditional approaches to performance measurement
	Discuss motivation	Leadership skills	E2 C1a - evaluate issues associate with building, leading and managing effective teams
<b>Task 2</b>	Interpret financial statements	Technical skills	F2 C1a - calculate ratios relevant for the assessment of an entity's profitability, financial performance, financial position
	Manage risks	Business skills	P2 D2a - discuss risk management/upside and downside risk and TARA framework
<b>Task 3</b>	Discuss pricing	Business skills	P2 C2a - discuss pricing strategies and their consequences
	Discuss communication	People skills	E2 C2a - discuss the roles of communication, negotiation, influence and persuasion in the management process
<b>Task 4</b>	Discuss need for provisions in financial statements	Technical skills	F2 B1a - produce primary financial statements for a group of entities
	Discuss ethical issues	People skills/Leadership skills	E2 B1a - discuss the concepts of leadership and management

## Comments on performance

### Task 1

#### Requirement 1

In general, this was answered well. Good answers examined the potential benefits of introducing a balanced scorecard system within this scenario and suggested some specific performance measures that could have been considered. Most candidates discussed the potential benefits of introducing the system but many struggled to suggest sensible performance measures.

#### Requirement 2

Candidates had to consider the difficulties associated with inspiring and motivating staff in a retail environment, where the work is poorly paid and potentially stressful. This was not answered very well, with many candidates ignoring this requirement altogether. Candidates who did answer often failed to consider the retail setting and simply gave some very general points. Answers should always relate to the context in which the question is set. Good answers explained the behavioural consequences of a balanced scorecard framework within a retail setting.

### Task 2

#### Requirement 1

This was answered very well; it was the requirement which candidates answered best. There were some excellent answers particularly on financial performance and many candidates gained almost full marks. Good answers focused on both financial strength and financial performance. Candidates could use the information presented to them as they saw fit, there was no particular reason to favour either company.

#### Requirement 2

Good answers described realistic and significant risks and made practical and effective suggestions for their mitigation. They considered what market and competitor data could create a competitive advantage for BES and suggested possible sources in the retail context.

Candidates suggested many risks. Some were realistic, others were not. Some were vague, too general and could have applied to any business. The answers should have discussed relevant risks for this particular scenario and not list generic ones. There were some very good answers here but many weak ones.

### **Task 3**

#### **Requirement 1**

Strong candidates identified the advantages and disadvantages of the different pricing strategies that they described, focusing on the likely consequences for BES of each one. They demonstrated a very good knowledge of these strategies and discussed the consequences for BES.

#### **Requirement 2**

Good answers dealt with the issues created by the rumours of job losses that had begun to circulate and discussed how to motivate staff in stressful conditions and achieve high performance. They considered how store staff could best be involved in developing appropriate strategies to combat VES' aggressive price cutting strategies. Candidates did well in this task, with many achieving high marks.

### **Task 4**

#### **Requirement 1**

Candidates were required to present a clear explanation of the impact of IAS 37 on this scenario and how an announcement's timing would affect the disclosure required. They needed to identify the full potential content of any provision that might be required. This requirement was done badly, very few candidates had the technical knowledge demanded by it. It is very important that the technical issues in financial reporting are learned in order to gain marks.

Answers were very weak and some clearly based on guesswork.

#### **Requirement 2**

This requirement was answered very badly. Candidates should have discussed the processes to be followed and considered the ethical issues in dealing with redundancy, including the fact that the cousin of a director is one of those potentially at risk.

Very few candidates mentioned the issue of the director's cousin or ethics. This reflects a general and surprising trend of candidates performing badly at questions relating to ethical issues. Numerous candidates started discussing the ethical principles and gave up after two or three.

**Variant 2**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Task 1</b>	Discuss product lifecycle	Technical skills	P2 1c - discuss techniques for enhancing long-term profits/life cycle costing and its implications for marketing strategies
	Discuss big data	Business skills	E2 A2b - discuss... including the collection and interpretation of trend data/application of big data
<b>Task 2</b>	Discuss risk	Business skills	P2 D1b - analyse risk and uncertainty using decision trees
	Discuss ethical matters	Technical skills	F2 B3a/1e - discuss the need for and nature of disclosure of transactions between related parties/discuss the ethical selection of accounting entries
<b>Task 3</b>	Discuss challenges associated with staff theft	People skills	E2 B1b - dismissal and redundancy
	Discuss management of staff morale	Leadership skills	E2 C1a - evaluate issues associated with building, leading and managing effective teams)
	Discuss pricing	Technical skills	P2 D2a/C2a - risk management/discuss pricing strategies and their consequences
<b>Task 4</b>	Discuss need for provisions in financial statements	Technical skills	F2 B1a - produce primary financial statements for a group of entities
	Discuss performance evaluation	Leadership skills	P2 B1a - discuss the information needed for decision making in different organisational structures
	Discuss communication	People skills	E2 C2a - discuss the roles of communication, negotiation, influence and persuasion in the management process

## Comments on performance

### Task 1

#### Requirement 1

Most candidates answered this quite well, demonstrating sound knowledge of product lifecycles. There were some very good answers. Weaker candidates launched into the stages with little, or no, discussion about the importance of lifecycle costing, hence missing most of those marks. Most candidates discussed the 25% royalty and high initial costs, together with marketing and transporting goods from much further away. Weaker answers often had no structure and not all of the stages of the lifecycle were discussed.

#### Requirement 2

This was generally well answered; most candidates showed a good knowledge of big data and could successfully relate this to the scenario. Most answers were balanced, showing the benefits and costs involved. Weaker candidates only gave brief discussions of one or two benefits and costs, failing to gain many marks.

### Task 2

#### Requirement 1

This was not so well answered. Many candidates did little more than repeat the figures from the diagram. They questioned how the values had been arrived at and whether all costs had been included, rather than discussing limitations of the analysis itself. Most of the other risks discussed were narrowly focused, mainly on the fact that the supplier was from a different country. They tended to be foreign exchange, transport, delivery, political and economic risks of the overseas country.

#### Requirement 2

This was generally well answered; candidates were fully aware of the company's ethical stance and anti-bribery measures and used this as the basis for the discussion. Most candidates realised that the holiday was unethical, it was a bribe, and shouldn't be accepted. It didn't matter that the holiday was after the event and they also realised it was a related party and should be disclosed.

### **Task 3**

#### **Requirement 1**

The better answers were well structured, with an approach centred on following company procedures; gathering and recording evidence, talking to HR and Peter and then giving an appropriate action for example a written warning. The issue was not clear cut enough to immediately involve the police. Weaker candidates didn't follow any structure, often copying out the scenario before recommending the somewhat extreme measures of calling the police and dismissing Peter.

#### **Requirement 2**

The weaker candidates focused on the possible theft issue and how a policy for staff purchasing should be introduced. Other weak answers involved measures that were not always commercial, such as paying staff more money per hour or giving them longer breaks (difficult during really busy periods). However, most answers were reasonable as candidates discussed rewards, team building and communication (including praise).

#### **Requirement 3**

Answers here were quite mixed. The weaker candidates tended to quote different pricing strategies, such as price skimming or premium pricing, without considering that BES' E\$1 policy: as though the requirement was to discuss pricing strategies in general, rather than for the Princess Rose products.

### **Task 4**

#### **Requirement 1**

This was the weakest part of this variant for most candidates. Some attempted to discuss the theory of IAS 37 and often stated its rules, but then discussed provisions, contingent liabilities and contingent assets. Much of this was irrelevant to this scenario; there was no point in discussing outstanding legal cases or contingent assets. For inventory, candidates discussed cost, or NRV, in terms of possible price bundling/problems from the previous task, which was good to see.

#### **Requirement 2**

This was generally well-answered as candidates realised that the costs were out of their control and discussed that this would be unfair and demotivating and they usually concluded that a bonus should be given. Better candidates reviewed the figures within the answer

to confirm that no bonus was payable (but would have been with no write off). They also gave a more balanced view, whereas weaker candidates tended to go down the route of not including the inventory write offs.

### **Requirement 3**

This was often quite weak, with candidates writing very little. Discussions were often more focussed on what the manager would say (which did have some relevance) rather than how it should be delivered. Answers were focused on the motivation of staff following the loss of the bonus.



**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 the value chain	Business skills	P2 A1c - discuss techniques for enhancing long-term profits
	Discuss the five forces model	People skills	E2 A2a - distinguish between different aspects of the global business environment, including the competitive environment
<b>Task 2</b>	Discuss accounting treatment of goodwill	Technical skills	F2 B1a - produce primary financial statements for a group of entities in accordance with relevant international accounting standards
	Discuss change management issues at a new subsidiary	People skills	E2 D1b - recommend techniques to manage resistance to change
<b>Task 3</b>	Discuss transfer pricing	Technical skills	P2 B3b - discuss transfer pricing systems
	Discuss performance evaluation	Business/Leaderships skills	E2 B2a - discuss behavioural aspects of management control
<b>Task 4</b>	Discuss risk management	Leadership skills	E2 B1a - discuss the concepts of leadership and management
	Discuss financial reporting	Technical skills	F2 C2a - discuss the limitations of ratio analysis based on financial statements that can be caused by internal and external factors

## Comments on performance

### Task 1

#### Requirement 1

This was generally answered well, with candidates demonstrating an understanding of the value chain and the implications of the proposed change for the management.

#### Requirement 2

Answers were a little weaker here. The proposed switch to branding basic products will undoubtedly change the manner in which the company does business, but the implications for the relationship with suppliers will be more complex than many answers suggested. Weaker answers simply asserted that BES will be putting itself in a weak position with regard to suppliers, but BES need not commit itself to buying all of its own-brand products from a single supplier as was often suggested.

### Task 2

#### Requirement 1

Answers varied widely in quality here. Better answers worked through the process of determining goodwill and identifying the factors that would be more difficult to value, for both valuation and impairment purposes. Weaker answers tended to repeat the study materials' descriptions of goodwill and impairment, with little attempt made to relate them to the scenario.

#### Requirement 2

This was answered well. Most candidates started with the nature of the changes that were in store for the new subsidiary and discussed the changes that would create uncertainty and resistance. The quality of answers varied according to the extent to which candidates focussed on the scenario. Weaker answers simply listed general problems such as the alignment of company cultures.

### **Task 3**

#### **Requirement 1**

Candidates were generally good at identifying the principles associated with setting satisfactory transfer prices. This question raised some particular problems, particularly the fact that there are minority shareholders who are concerned that their share of the profit is being understated. Better answers dealt with the difficulties arising from this, because any pricing strategy that benefits the minority would harm BES.

#### **Requirement 2**

Answers were weaker. The poorer answers tended to summarise the balanced scorecard approach, without relating that summary to the scenario or even the requirement.

### **Task 4**

#### **Requirement 1**

Answers were generally logical, with candidates understanding the business problem. Candidates varied in their views as to whether the policy of selling smaller packs was a matter for discussion by the board. Marks were awarded according to the logic demonstrated rather than regarding this as an issue that necessarily had a single correct answer. It was encouraging that many candidates could make a case.

#### **Requirement 2**

Candidates were generally good at discussing the problems associated with interpreting business segment information.

**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 ability to compete	Business skills	E2 A1c - explain the approaches to achieving sustainable competitive advantage
	Discuss benchmarking	Technical skills	P2 B2a - prepare performance reports for the evaluation of projected and actual performance)/F2(C1c - advise on action that could be taken to improve an entity's financial performance and financial position
<b>Task 2</b>	Discuss application of throughput	Business skills	P2 A1b - evaluate total quality management techniques
	Discuss the recruitment and subsequent supervision of staff	People skills/Leadership skills	E2 C1a - evaluate the issues associated with building, leading and managing effective teams and E2 B1a - discuss the concepts of leadership and management
<b>Task 3</b>	Discuss project management	Technical skills	P2 C1c - evaluate investment appraisal techniques and explain their results
	Discuss reporting issues associated with leases	People skills	F2 B1e - discuss the ethical selection and adoption of relevant accounting policies and accounting estimates
<b>Task 4</b>	Discuss risk management	Technical skills	P2 D2a - discuss risk management
	Discuss conflict management	Leadership skills	E2 C2b - discuss approaches to managing conflict and F2 A2a - calculate the cost of equity using the dividend valuation model

## Comments on performance

### Task 1

#### Requirement 1

Candidates should have considered BES' ability to compete with a range of traditional shops in a retail park setting. The customer base may be different to that of the town centres where BES currently operates. Candidates could have offered a range of arguments on that issue. Many candidates did discuss this issue very well and achieved good marks. Apart from competition, there is also the question of whether customers who arrive by car, possibly with a specific destination store in mind, will take the time to visit BES. Very few candidates mentioned this argument but did raise some other good points. This task was well answered; candidates generally captured the essence of this task.

#### Requirement 2

This task was done less well. Good answers should have considered benchmarking both against existing BES stores in town centres and third party stores in the retail park. There are potential benefits to be had from both comparisons. Few candidates discussed the benefits of this. Many of the answers were definitional, identifying, for example, internal and external benchmarking. But in most cases candidates provided little detail beyond this. In some cases, there was a lack of practical commercial awareness, with candidates not recognising that information for some of the external measures would not be readily available.

### Task 2

#### Requirement 1

Candidates should have offered a realistic evaluation of the decision as to what ought to be sold from these stores. Answers were fairly wide-ranging, which is fine – but they did need to be realistic and should have reflected the needs of the business. This section was generally answered well, although again many responses lacked enough detailed discussion for high marks.

#### Requirement 2

Establishing the marketing department requires some thought to go into the whole process of what the department will actually do, so that we have some idea as to how best to select staff. Most candidates made reasonable comments on determining the need for a marketing department and the likely costs.

The reporting issues required some thought. Candidates were free to argue either way on whether there should be a traditional, single line of reporting or whether having the department report to two directors would make more sense. Many had difficulty with who the marketing manager should report to and why, and at what level they should operate. Some only provided a one line recommendation with no justification.

### **Task 3**

#### **Requirement 1**

Candidates should have been able to recognise that this is too important a project to allow it to proceed without a detailed and formal project appraisal. Even if there was no initial investment and the annual cash flows were always positive, there was no guarantee that the final outcome would be positive if the expected results do not materialise. A project appraisal will consider those issues. Answers to this part ought to reflect the confusion that may arise from reporting form rather than substance. Candidates should not have focussed exclusively on leases and should have discussed the broader implications.

Most candidates did not recognise the issue of the scale and length of the lease. Many produced answers which set out 'textbook style' approaches to capital budgeting, for example, NPV, payback, without actually addressing the need for an appraisal to be carried out. Few focussed on the risks of the project.

#### **Requirement 2**

Answers to this part should have reflected the confusion that can arise from reporting form rather than substance. Candidates should not have focussed exclusively on leases and should discuss the broader implications.

Despite the requirement specifically asking about economic substance, substance over form was not always mentioned. Many showed a lack of technical knowledge. Many candidates only discussed substance over form in relation to leasing rather than other topics. Candidates were generally able to recognise the distinction between finance and operational leases and the associated accounting treatment.

## **Task 4**

### **Requirement 1**

Candidates should have identified the severity of the risks associated with Gil's decision to proceed with this decision. The discussion of the decision to proceed without authorisation was then a matter of focussing on whether the candidate sees the risks as significant. The two aspects must be consistent. In other words, a weak answer might argue that this was a high risk, but that Gil need not have raised it. Most candidates attempted this well.

### **Requirement 2**

Candidates should have demonstrated an awareness of the likely impact on the share price and shareholders' attitudes generally. Candidates will not necessarily be experts on market efficiency, but they should have been able to discuss the impact of this action in a reasoned way. Better answers should have recognised that there could be a great deal of publicity, but the commercial issues arising may not be particularly serious.

There were many good recommendations as to how to resolve the conflict, with candidates making sensible practical suggestions. The issue of the perception of shareholders was not often addressed fully.

**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 performance measurement	Technical skills	P2 A1a - evaluate activity-based management
	Discuss suitability of emergent strategies	Leadership skills	E2 A1b - compare and contrast alternative approaches to strategy development
<b>Task 2</b>	Advise on interpretation	Business skills	F2 C1b - evaluate the financial performance and financial adaptability of an entity based on the information contained in the financial statements provided
	Discuss business acquisition	Technical skills	P2 D2a - discuss risk management
<b>Task 3</b>	Discuss pricing	Business skills	P2 C2a - discuss pricing strategies and their consequences
	Recommend approach to negotiation	People/Leadership skills	P2 B3b - discuss transfer pricing systems and E2 c1a - evaluate the issues associated with building, leading and managing effective teams)
<b>Task 4</b>	Recommend approach to managing staff redundancy	People skills	E2 B1b - discuss HRM approaches for managing and controlling individuals' performance
	Discuss impairment	Technical skills	F2 B1a - produce primary financial statements for a group of entities ... and A2a - calculate the cost of equity for an incorporated entity ...



## Comments on performance

### Task 1

#### Requirement 1

Very few candidates responded directly to the task set (to discuss the challenges associated with determining the new venture's profitability) despite being given the precise business model that BES was following. The majority simply outlined problems that arose as a result of the new venture. For example, how to forecast demand for the service and how to effect delivery without impacting on existing deliveries. In doing this, some relevant areas were discussed, for example, delivery problems, so it was possible to award some credit.

#### Requirement 2

Candidates' lack of knowledge of strategy led to this being poorly answered and resulted in this requirement being allocated little time, rather than candidates appearing to run out of time. The latter is often the case in the second half of the first question. Better candidates were able to score highly for moderate effort. Weaker candidates tended to confuse emergent with emergency.

### Task 2

#### Requirement 1

Very few candidates related any changes back to the actual scenario of change which had taken place over the past year. Most applied their energies into the year-on-year change in Boxliff's financial position without framing the changes into the overall context of an extremely profitable business, which had gone through major change. Many candidates came up with logical reasons for year-on-year change but failed to see the success of the business. They suggested that the company was a disaster because its performance ratios had declined.

Unfortunately, a lack of basic financial/business understanding was clear to see here. Candidates thought that the balance sheet reduction in equity might result from a falling share price and a number of them expressed the view that the fixed assets had been purchased in 2016. Relevant commentary on the company's assets was limited.

#### Requirement 2

Most candidates ignored that element of the task which told them 'as opposed to creating our own facility'. Hence the main thrust of responses was a list of general risks. For example, culture, reorganisation, obsolescence, finance and gearing. Although this could

gain some credit, most answers struggled to score anywhere near the 12 marks available, because upside risk was totally omitted, as was the risk of setting up an in-house facility.

### **Task 3**

#### **Requirement 1**

Candidates who answered the task and listed their response under the three options were generally able to achieve the passing standard or more. Those who tried to give a blanket response often went off at an irrelevant tangent.

#### **Requirement 2**

Candidates generally muddled through the transfer pricing task and had some idea of the motivational issues. Less evident was what constituted a realistic profit and how the transfer price should be determined. There was a clear lack of direction shown.

Many candidates described the various forms of transfer pricing and mentioned market value and 'arms-length', but there was little reference to this specific situation where the difference between the BES cost price and the Boxlift selling price (the total group profit) simply needed to be apportioned between the two companies on an equitable basis in order to secure staff motivation. A common misconception was that the transfer price was being charged by Boxlift to BES.

### **Task 4**

#### **Requirement 1**

Many candidates produced an acceptable response to this task but a substantial minority lost marks by discussing how to prevent a redundancy situation through marketing and staff motivation. The selection of staff for redundancy was often neglected.

#### **Requirement 2**

Candidates' knowledge of goodwill reporting issues was fairly basic, yet often accurate. What was lacking was basic common sense in relation to the case study. For example, it was reported that goodwill has to be scrutinised for impairment and any loss charged against profit, but the complexity and subjectivity in doing so was rarely touched upon. Whether an impairment was relevant to the situation at BES was for the most part ignored.

Shareholder reaction to impairment, in candidates' responses, was similarly lacking in a commercial sense. It was often stated that they would be unhappy with reduced profits and dividend and may possibly sell their shares, resulting in a reduced share price.