

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

General comments

This paper was based on a pre-seen scenario which described an IT consultancy company. The scenario was made available in advance of the exam 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 service industry is interesting and is a refreshing change from manufacturing and retail.

One of the main problems in providing a service is making sure hours are fully utilised and charged out to customers. Candidates who understood the business model achieved higher marks than those who clearly did not.

Overall, the standard of answer presented was lower than in the August 2015 exam session; there were many very short and incomplete solutions. As with previous case studies, the strongest answers were properly applied to the scenario.

There were some very short answers to the tasks, with some candidates not seeming to know much about the industry or the company. Given that the pre-seen material had been available for several weeks prior to the exam, this was disappointing.

Some candidates demonstrated a poor understanding of several syllabus areas, including material that is clearly ‘core’, such as the value chain, balanced scorecard, leasing and share prices. This was very disappointing. However, there were some excellent solutions where candidates were well prepared and made excellent attempts at answering what was asked of them.

Summary

The standard of scripts varied very widely. There were some extremely good 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 spectrum were some very poor papers, where candidates had written very little, and did not always demonstrate understanding of the requirements. Some weaker candidates had clearly revised specific topics and were determined to work them into their answers despite the fact that they were not relevant.

Variant 1

	Designed to test a candidate's ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Conduct value chain analysis	Technical skills	P2 (A1) – Evaluate techniques for analysing and managing costs for competitive advantage
	Explain challenges associated with managing business relationships	Leadership skills	E2 (C2) – Discuss management tools and techniques in managing organisational relationships
Task 2	Analyse cost implications	Technical skills	P2 (C1) – Evaluate information to support project appraisal
	Identify the economic substance of a contract	Business skills	F2 (B1) – Produce consolidated primary financial statements, incorporating accounting transactions and adjustments, in accordance with relevant international accounting standards, in an ethical manner
Task 3	Manage the redundancy process	Business skills	E2 (D1) – Advise on important elements in the change process
	Evaluate a department head's performance	People skills	P2 (B2) – Discuss issues arising from the use of performance measures and budgets for control
Task 4	Advise on the impact on return on capital employed	Technical skills	F2 (C1) – Evaluate the financial performance, position and adaptability of an incorporated entity
	Advise on the valuation of directors' stock options	People skills	E2 (B1) – Discuss the concepts associated with managing through people

Comments on performance

Task 1

The key to this question is to understand how ABC goes about creating value. ABC provides a range of services to their clients and that would include the service that Cocoloco proposes to sell to them. That raises the question of whether it would be beneficial to outsource that service in the hope of adding greater value.

Any sensible issues associated with comparing the service currently offered by ABC with the revised version involving Cocoloco were given credit. Many candidates just discussed the value chain in detail and did not relate the discussion to the case study; those candidates did not pass this section.

In the second section answers should have reflected the nature of the relationship between ABC and Cocoloco. There will be a mutual dependence and there may also be scope for competition for certain work.

ABC would be heavily dependent on Cocoloco for the delivery of their service and so would have to ensure that they would work with them in an effective manner, thereby ensuring that their clients' needs are met. This part was not well answered. Many candidates did not understand the nature of the relationship between the two companies.

Task 2

This was essentially a question about relevant costs, including a discussion of how those costs may change over time and how they may flex in line with changes in activity. In other words, candidates received credit for expanding on a simple identification of costs, ideally offering some comments on their significance. There was also a need to discuss the issues of the sunk cost of the present hardware. The main problem for some candidates was the lack of discussion.

The second part was a complicated question and some flexibility was applied. The suggested answer focusses on the relevant accounting standards and all such arguments received credit. Candidates often followed a more peripheral route and offered arguments linked to the nature of the cash flows and the commitments being made by ABC; this also answered the question. Many candidates did not express their answer clearly and there were many confused answers about cash flows. Some candidates gave very clear answers and achieved high marks.

Task 3

Selecting staff for redundancy will always be a delicate matter and a wide range of arguments were expected here. Answers should have focussed on ABC's position, although it should be borne in mind that their interests are not wholly separated from those of their employees. LIFO will suit the majority of the workforce because they will be able to see that they are above the line for dismissal and so they will suffer less uncertainty. That may make it easier for ABC to implement dismissals. There are other considerations including the need to maintain a balanced workforce, with all of the skills required by ABC. There were many very good answers to this question.

In the second part of this task, candidates were rewarded for any clear arguments concerning the balanced scorecard. Ideally, candidates should have covered all quadrants. Many candidates struggled to come up with reasonable suggestions for KPIs. Even where they came up with good ideas for KPIs, they often failed to support them. The biggest problem for some candidates was that they did not discuss why the KPIs were useful.

Task 4

Candidates could not determine with any degree of certainty whether ROCE would increase or decrease, but they should have been able to offer a realistic argument about changes in both return and capital employed. Many candidates wrote very little for this part of the question. There were additional marks for arguments about how the gain or loss on disposal could affect ROCE differently in the year of transition to subsequent years.

In the second part of this task, candidates should have been aware of the factors that might affect the share price, even though they need not be experts in option pricing. The suggested answer is based on the anticipated level of knowledge and understanding for this level. Credit was given to candidates who discussed Black-Scholes and other models, based on prior learning or wider reading.

There were some very poor attempts at this question and candidates often came up with improbable ideas of what might affect the share price, or missed this out altogether.

Variant 2

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Compare projects in terms of net present value	Technical skills	P2 (C1) – Evaluate information to support project appraisal
	Compare projects in terms of strategic direction	Business skills	E2 (A1) – Discuss developments in strategic management
Task 2	Identify risks	Technical skills	P2 (D2) – Discuss management's responsibilities with regard to risk
	Evaluate managers' performance	Leadership skills	E2 (B1) – Discuss the concepts associated with managing through people
Task 3	Understand pricing strategies	Business skills	P2 (C2) – Discuss pricing strategies and their consequences
	Negotiate with clients	People skills	E2 (C2) – Discuss management tools and techniques in managing organisational relationships
Task 4	Recognise revenue	Technical skills	F2 (B1) – Produce primary consolidated financial statements, incorporating accounting transactions and adjustments, in accordance with relevant international accounting standards, in an ethical manner
	Behave professionally	People skills	E2 (C1) – Discuss the effectiveness of organisational relationships

Comments on performance

Task 1

This task asked candidates to compare and contrast two approaches that might be taken to meet a client's needs.

Most candidates made a good attempt at the first requirement. It was clear that the net present values were not directly comparable in terms of risks and the terms of the two projects.

Some candidates overlooked the fact that the second option would use facilities that would otherwise be available to serve on other projects; the resulting opportunity cost was not shown in the calculations.

Answers to the second requirement tended to have a little more consistency. It was acceptable to argue in favour of either alternative, but one was more clearly in line with the company's overall strategic direction.

Task 2

This task dealt with the implications of offering to manage the IT system of an IT-dependent client. Clearly there are threats and risks associated with accepting such a responsibility.

Candidates generally made a good job of identifying risks in the first requirement. There were some issues associated with actually measuring service quality that could have been explored in greater depth, but answers were generally good.

The measurement of performance in the data centre was less well developed. Candidates often focussed on measuring performance in terms of responding to breaches. Although this would be an important dimension of performance, it would be far more important to encourage managers to prevent breaches altogether. Measures that focussed on preventive maintenance therefore scored more highly, as it is better to avoid breakdowns in the first instance.

Task 3

This task asked about the pricing and negotiation issues relating to the contract.

Answers to the first requirement tended not to offer a great deal of commercial justification for the pricing approach being offered. That was crucial, because almost any argument could be seen to have some merit.

Answers to the second requirement often followed a structure that had clearly been outlined in the study materials. That was perfectly acceptable, except that the emphasis of different elements of the negotiation process change from case to case.

Taking both requirements together, there was a tendency not to relate the issues raised in the question to the specifics of the scenario. The fact that this is a significant contract for both parties is one factor that would affect both pricing and negotiation. There is also the question of the importance of both giving and receiving a good service.

Task 4

The final task dealt with financial reporting and associated professional relationships.

The first requirement offered an unacceptable basis for the recognition of revenue from the contract in order to give candidates a clear basis for rebutting the approach being suggested by management. Answers varied in quality, with many candidates offering a sound argument against the suggestion. Others simply repeated the arguments put forward in the task, which gained very little credit.

The second requirement was not specifically about the duties of external auditors. It was more about the question of whether any accountant should be open to persuasion to behave in an unprofessional manner. Answers often focussed on the CIMA Code of Ethics, which is of course a perfectly acceptable starting point for addressing any ethical dilemma.

Variant 3

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Resolve an argument arising from dysfunctional behaviour	People skills	P2 (B1) – Discuss decision making in responsibility centres
	Advise on the need for disciplinary action	Leadership skills	E2 (B1) – Discuss the concepts associated with managing through people
Task 2	Understand the financial reporting implications of investment	Technical skills	F2 (B1) – Produce primary consolidated financial statements, incorporating accounting transactions and adjustments, in accordance with relevant international accounting standards, in an ethical manner
	Understand the strategic implications of exiting a key business area	Business skills	E2 (A1) – Discuss developments in strategic management
Task 3	Advise on viability of business plan	Technical skills	E2 (A2) – Analyse the relationship between different aspects of the global business environment
	Advise on risks	Business skills	P2 (D2) – Discuss management's responsibilities with regard to risk
Task 4	Advise on viability of business proposal	Technical skills	P2 (C1) – Evaluate information to support project appraisal
	Retain trained and marketable staff	People skills	E2 (B2) – Discuss the hard and soft aspects of people and organisational performance

Comments on performance

Task 1

This task began by asking the candidate to suggest how an argument between two managers about the allocation of consultants to projects could be resolved. Most candidates recognised this as dysfunctional behaviour and, generally, this section was well addressed, although some candidates did not demonstrate an understanding of utilisation rates and charging systems. Many did not recognise the slack or surplus capacity in some departments.

Candidates were then asked for their views on whether the actions of a manager who had withdrawn his consultants from a project should be viewed as a disciplinary matter. A variety of approaches were possible here; some focussed on the mechanics of possible action, emphasising that proper procedures would have to be followed. Others discussed the possible choice of non-disciplinary action, given the danger of damage to staff morale. Weaker candidates did not acknowledge the seriousness of the problem and the danger of client dissatisfaction and reputational damage.

Many candidates had clearly not allocated their time evenly between the two sections of this task and had answered the first part much more fully.

Task 2

Candidates were presented with the proposal that ABC should buy shares in Bengo – a small IT company specialising in security. They were asked first to comment on the how this could affect ABC's published accounts, and whether or not they would appear more profitable.

This section was generally well attempted. Candidates provided a range of issues here, some focussing on the financial reporting impact on the statement of profit or loss, cash flow and the statement of financial position. Others concentrated on the profitability issue and the balance between loss of potential business to ABC versus a share of profits of a small but successful company. Some described the likely impact on key ratios.

Candidates were then asked if they thought this acquisition would be a strategic error. Whilst most correctly identified that security was a growth area and moving out of this could have adverse effects on ABC, answers were often poorly structured. The logistical impact on ABCs staff was generally well addressed, although often not at a strategic level.

Task 3

For this task, candidates were first asked to comment on the viability of a proposal to offer a security service based on clients converting their operating system to PetaWare's OS 2015. This was generally the least well-attempted section of the examination. A large number of candidates did not grasp the scenario and discussed whether or not ABC should upgrade their own operating system to OS 2015. Many also failed to identify the timeline issues, despite being prompted by a request to consider whether or not this would be a permanent solution to the underutilisation problem. Answers often lacked a clear structure.

Candidates were then asked to discuss the high consequence, high likelihood risks. Some provided risks which they identified as low consequence and low likelihood, and others rehashed their answer to task 1 of the examination, discussing the difficulty in overcoming the dysfunctional behaviour of managers in carrying out the work. Again, answers often lacked structure and clarity.

Task 4

Candidates were informed that in order to investigate further the proposal from task 3, training for consultants was being considered. They were asked to discuss whether or not this was an appropriate use of ABC's money. This section was generally well answered, with many candidates giving a sensible discussion of the revenues and costs involved and showing good commercial awareness.

Finally, candidates were asked for advice on how to manage the risk of consultants leaving ABC once trained. This section was again well attempted, with most providing suggestions for both incentives to remain with ABC and penalties for leaving. Some candidates clearly drew on their own experience of restrictive clauses in their training contracts.

Variant 4

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Advise on interpretation of unadjusted reports	Business skills	E2 (B2) - Discuss the hard and soft aspects of people and organisational performance
	Advise on value of staff training	Leadership skills	P2 (C1) – Evaluate information to support project appraisal
Task 2	Advise on operational risks	Technical skills	F2 (B1) – Produce primary consolidated financial statements, incorporating accounting transactions and adjustments, in accordance with relevant international accounting standards, in an ethical manner
	Advise on economic substance of investment	Business skills	P2 (D2) – Discuss management's responsibilities with regard to risk
Task 3	Advise on accounting treatment of investments	Technical skills	F2 (B1) – Produce primary consolidated financial statements, incorporating accounting transactions and adjustments, in accordance with relevant international accounting standards, in an ethical manner
	Advise on selection of staff for special scheme	People skills	E2 (B1) – Discuss the concepts associated with managing through people
Task 4	Advise on cost and quality issues	Technical skills	P2 (A1) – Evaluate techniques for analysing and managing costs for competitive advantage
	Advise on retention of long-serving staff	People skills	E2 (C1) – Discuss the effectiveness of organisational relationships

Comments on performance

Task 1

In the first element of the task, the responses differed between those who broadly understood the aims of the report and those who did not. The former group produced good to reasonable responses by understanding the need for control by senior management, yet also the need to motivate operational management. The latter group did not understand what was required. The balanced scorecard was popular with many candidates and could indeed be applied sensibly.

Many of the candidates who produced very strong answers to the first part of task 1 produced little or no response to the second part. A complete reversal of this scenario sometimes occurred, with some of the weaker candidates producing reasonable answers to the second element of the task only failing on the discussion of the usefulness of the utilisation report required by the first element.

Task 2

In the first element of the task, almost all candidate responses concentrated on downside operational risks only. Upside risk, however, was virtually ignored. The weakest area on the downside risk was the failure to criticise the plan as merely redundancy by another name, thus bringing obvious moral and legal implications.

The second element of task 2 was not dealt with appropriately. The typical candidate wrote that this would be an asset, gave the book-keeping entry and perhaps mentioned the need for impairment (possible bad debt). Many candidates could not correctly determine the book-keeping and financial reporting. Loans were often regarded as current liabilities, or written off to the profit and loss account (not through impairment). The write off to the profit and loss account could be accepted on the basis of substance over form, if they were deemed mere redundancy payments, but this was never indicated. Some of the better scripts came close to providing the coverage given in the suggested solution.

Task 3

In the first element of the task, the good to average scripts tended to cover the pros and cons of letting better or weaker employees leave. There was often a tendency to think that it was a good idea to let the better employees leave, so that the new companies would be successful and bring in revenue, 25% of which would go to ABC. What might then happen to ABC with a staff of weak consultants was rarely considered. Some candidates looked at the task as though it was just an HR employee selection process, in order to pick out the best members of staff. The best attempts defined the future departmental prospects of the company and the future ambition and prospects of individual employees as defining points, thus advocating a more balanced approach to selection.

The second part of the task, defining the necessary accounting for the loan conversion to equity, was covered sensibly yet with limitations by the average candidate. Associate company status was generally assumed without any real analysis. The necessary reporting was often soundly described. Full consolidation was generally ruled out. The marking matrix linked to the suggested solution gave substantial emphasis to the analysis of significant influence; this was poorly covered.

Task 4

The average candidate wrote at length on the quality and cost of the various consultant categories, but generally with a great deal of unfounded assumption. For example, it was often stated that the external consultants would be the most expensive option, yet if full time staff have significant unbilled time this may not be necessarily true. Internal consultants were often described as the best, which again is not necessarily true. Thus candidate responses were often simplistic; only the better scripts developed the in-depth nuance shown in the suggested solution.

In the second element of the task, good candidates emphasised the demotivation causes relating to external consultants as a result of the scheme. For example, increased market competition and subsequent work load reduction relating to the guaranteed 20 hours per month for funded consultants. Unfortunately, most scripts also tended to concentrate on how this demotivation could be solved by ABC, rather than the external consultants themselves.

Variant 5

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Advise on cost of equity	Technical skills	F2 (A1) – Discuss types and sources of long-term finance for an incorporated entity
	Advise on impact of loss of key executive	Business skills	P2 (D2) – Discuss management’s responsibilities with regard to risk.
Task 2	Advise on control implications of substantial shareholding	Technical skills	F2 (B1) – Produce consolidated primary financial statements, incorporating accounting transactions and adjustments, in accordance with relevant international accounting standards, in an ethical manner
	Advise on ethical implications of creative accounting	People skills	E2 (C1) – Discuss the effectiveness of organisational relationships
Task 3	Advise on risks associated with selling new software	Technical skills	P2 (D1) – Analyse information to assess its impact on long-term decisions
	Advise on role of executive director in management	Business skills	E2 (A1) – Discuss developments in strategic management
Task 4	Advise on interpretation of BSC	People skills	P2 (B2) – Discuss issues arising from the use of performance measures and budgets for control
	Advise on merits of reducing BSC to a single score	Leadership skills	E2 (B2) – Discuss the hard and soft aspects of people and organisational performance

Comments on performance

Task 1

Candidates seemed to take two approaches to the cost of equity. They either thought the question was about the costs involved in selling Collette's shares, that is; getting together a prospectus, costs in finding investors, using brokers, and who would bear the costs and time involved, whether it would be the company or Collette. The other approach was to correctly consider the cost of equity in terms of returns. Many candidates however argued that it was effectively cost-free, as the payment of a dividend would only be made if the company was profitable and was not mandatory, unlike having to pay out a fixed rate of interest on a loan. Very few candidates discussed the need of the directors to maximise the shareholders' wealth, which was disappointing.

Candidates performed very well on the second part of the task. They seemed to be very familiar with Collette's role within the company and how she had built up the consultant database and that she was skilled at networking, which led to many contracts. This showed that they had taken the time to digest the pre-seen information, which meant that many marks were gained. The weaker candidates often gave descriptions about what she had done while at ABC but then didn't go on to discuss how the consultants may leave and the impact it would have on ABC, or how the latest contacts Collette had may not develop into future contracts once she had left.

Task 2

Approximately half of the candidates thought that a discussion of significant influence meant a discussion of the size of shareholdings needed for a company to be accounted for as an investment, associate or subsidiary. Many of these discussions were too detailed in the way the investment or subsidiary would be treated in Nolan's accounts, even down to discussions of related party transactions. Candidates showed good technical knowledge but unfortunately without answering the question, so they were wasting valuable time – they needed to focus more on the question requirement.

Candidates tended to be much better at the second part of the task. Many were familiar with the CIMA Code of Ethics and scored highly for this. Answers were weaker on the board duties, with a few discussing the responsibility of the directors in preparing the financial statements.

Weaker candidates, somewhat surprisingly, didn't mention the ethical side at all, focussing instead on the reputational effects if they were to be found out. Whilst some credit was awarded for this, many candidates spent too much time discussing the reputational effect on everyone – directors, consultants, clients and employees – which was far too much detail for little reward.

Task 3

Many of the weaker candidates just seemed to copy out the benefits of the new OS 2015 software from the artefact provided in the examination. Moreover, some candidates thought that they needed to discuss the risks of the upgrade, so frequently also discussed TARA (transfer, avoid, reduce, accept) and tried to fit a discussion to the problems, for example, of bugs in the software, to the TARA model to show how they could reduce the risks involved, which at least showed some relevance to the question. There were some good answers and discussion of the risks. It was pleasing to see some attempts where candidates had thought of benefits, especially of being early adopters, and there were some very good answers along those lines.

Many of the weaker candidates just ignored the second requirement, possibly because they had run out of time in the first part. There were some good answers here and it was good to read scripts from stronger candidates who were keen to link Bippin's role in with Collette's departure, to suggest that it was now more important that he looked at the overall business strategy (having lost Colette's input) and suggesting that he let other, more junior, personnel look at the latest technology and provide him with regular briefings so that he wouldn't be distracted from the bigger company picture.

Task 4

Many candidates started off their answer to the first requirement by explaining what a balanced scorecard is, which was a reasonable approach. However, many candidates went too far, as they then discussed in detail each of the perspectives, defining them and explaining why they were included, but the answer then became too technical and was not focused on the balanced scorecard for ABC. After that, the weaker candidates often just retyped each of the measures and the performance rating under a heading for each element of the balanced scorecard. Overall this requirement seemed to present quite a challenge for almost all candidates.

Most candidates saw the second requirement in this task as being a question about incentives and how they were a good idea and would be motivating for the staff as they would like to achieve a bonus. Some candidates then went off on something of a tangent, discussing how the performance measures should be SMART and not enforced (top down), and that a participative approach should be taken.

Overall, candidates seemed to really struggle with this task. They kept trying to show their technical knowledge – for example, Mendelow or investment appraisal, but this wasn't required and meant that candidates wasted time producing answers that gained few marks. Candidates didn't seem to answer the questions set and often did little more than repeat facts from the pre-seen and unseen material.

Tips for future candidates

There are a number of key points to take into account when preparing for future management level case study examinations, as follows.

Candidates must make better use of the opportunity to gain familiarity with the pre-seen material. It is not necessary to memorise the material, or to become an expert in the industry, but candidates should develop a broad understanding of the industry.

Questions give explicit instructions as to what is required and marks will not be awarded for anything that has not been requested. In particular, essays on the theory underlying the problem at hand are unlikely to score well if the question asks for a response to a particular issue arising from a scenario.

With the time constraints in place, candidates can only spend a limited amount of time on each task. Therefore it is essential that candidates focus on making the points that they are most confident of before they run out of time.