

Management level integrated case study – Examiner’s report**November 2016 exam session**

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 Portafone, a company in the mobile phone manufacturing industry. This industry was chosen because of its obvious interest and relevance to students worldwide. As ever, 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.

Overall, the answers presented were of similar quality to previous sessions, with a wide range of performance observed. As with previous case studies, the strongest answers were those which were clearly applied to the scenario. This case study continued the trend first observed in the August exam of candidates appearing to be getting weaker in technical accounting and stronger in general management. Candidates must be better prepared in technical accounting areas in the future.

There were some very short answers to the case study and some candidates did not seem 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. There were also answers which had obviously been rote-learned and reproduced even though they had little relevance to the questions asked.

Once again, some candidates demonstrated a worryingly poor understanding of several syllabus areas, including crucial material such as the accounting standards, transfer pricing, ethics, rights issues and even net present value. This was clearly very disappointing; however there were also some very good answers where candidates made good use of the pre-seen material, were technically competent and made excellent attempts at answering what was asked.

Variant 1

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Discuss added value	Technical skills	P2 (A1a) Evaluate activity-based management.
	Discuss impact of new CEO's appointment on corporate culture	Leadership skills	E2 (B2b) Explain the importance of organisational culture.
Task 2	Explain risks of moving production offshore	Business skills	P2 (D2a) Discuss risk management.
	Discuss implications of selling subsidiary for financial statements	Technical skills	F2 (B2a) Demonstrate the impact on the group financial statements of disposing of all or part of a shareholding in the period.
Task 3	Discuss issues arising from negotiating design changes with manufacturers	People skills	E2 (C2a) Discuss the roles of communication, negotiation, influence and persuasion in the management process.
	Discuss problems associated with setting suitable transfer price	Technical skills	P2 (B3b) Discuss transfer pricing systems.
Task 4	Discuss possibility that restatement of management accounts might demotivate staff	People skills Leadership skills	E2 (B1a) Discuss the concepts of leadership and management.
	Discuss ethics of reporting misleading figures	Business 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

The first part of the task was about whether or not Portafone's manufacturing process adds value. Answers should have recognised the commercial realities of the business and the problems associated with establishing whether there was any added value. In general, candidates performed poorly at this task and did not really address the question. They did not relate their answers to the case study and did not seem to understand the commercial reality of Portafone.

The second part of this task focussed on the appointment of a new CEO and the effect this could have on Portafone's culture. Candidates should have established their understanding of the culture that is presently in place and then contrasted this with their view of the culture that is being introduced. It would have been legitimate to categorise these cultures differently, provided the justification was logical and linked to the scenario. This part was answered reasonably well, although the answers tended to be very generic rather than applied to Portafone's situation.

Task 2

The first part of this task was about locating production offshore. The risks should have been evaluated in terms of likelihood and impact. The suggested answer offers some scenarios, but candidates could have approached the problem in different ways provided that they demonstrated some logic. Many answers to this part were poor, mainly as candidates did not relate their answers to the case and just discussed company relocation in general. Answers must be linked to the case study and pre-seen information.

In the second part of this task, candidates were asked to comment on the effect on the financial statements of disposing of a subsidiary. A good answer should have covered a range of accounting entries that would be made in response to the disposal of this subsidiary. Ideally, there should be scope for the changes to be material, otherwise there is little point in discussing them.

The solutions to this task were unfortunately very poor; some candidates wrote very little and did not discuss the accounting entries. Most marks were very low for this section and it was clear that few candidates had studied this topic.

Task 3

This section was about how to negotiate design changes and was generally done well by candidates. The issues arising from minor changes differ from more substantial changes, such as the replacement of a model with another that will require the manufacturer to adapt. Some candidates commented on this in their answer, which was pleasing to see.

The second part of the task part asked about transfer pricing. A good answer would have explained the difficulties associated with determining an appropriate transfer price. The difficulty that had to be addressed was that the products do not really change hands in such a way that an objective market price can be determined or observed. This was a good example of an area of the case study where technical accounting issues were examined that was poorly attempted by candidates.

Many candidates made very weak suggestions about what might be an appropriate transfer price. In general, marks were low for this section.

Task 4

The first part of this task asked whether or not restating the management accounts would demotivate staff. Candidates should have recognised the risk that staff would be demotivated by the correction of this error in the monthly accounts. There should also have been a logical recommendation for addressing that risk. Many candidates gave very strong answers to this part.

The second half of the task tended not to be answered as well as the first. This was a rather complicated ethical problem, bearing in mind that the ratios are to some extent determined by the shareholders. Unfortunately many candidates did not discuss the ethical issue at all of simply reporting the ratios with no comments and just discussed comparisons of ratios. Many candidates simply discussed ROCE and neglected to discuss what was asked for.

Variant 2

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Discuss risks of continuing with premature product launch	People skills Leadership skills	P2 (D2a) Discuss risk management.
	Identify errors in project management	Business skills	E2 (D2c) Discuss management and leadership issues associated with projects, including the roles of key players in projects.
Task 2	Identify accounting issues associated with potentially defective inventory	Technical skills	F2 (B1d) Produce the accounting entries, in accordance with relevant international accounting standards.
	Discuss implications of asking sales force to sell a potentially flawed product	Leadership skills	E2 (B2a) Discuss behavioural aspects of management control.
Task 3	Discuss implementation issues for target costing	Technical skills	P2 (A1c) Discuss techniques for enhancing long-term profits.
	Advise on poor collaboration between engineering and finance	People skills	E2 (C1b) Discuss the effectiveness of handling relationships between the finance function and other parts of the organisation and the supply chain.
Task 4	Discuss approach taken to TQM	Business skills	P2 (A1b) Evaluate TQM techniques.
	Explain the implications of a positive project for WACC	Technical skills	F2 (A2c) Calculate the WACC for an incorporated entity.

Comments on performance

Task 1

In this task, candidates were first asked to address the implications of the launch of a new product at a time when some technical issues relating to its manufacture were still being resolved. Candidates were then asked for feedback on the project management issues.

Many candidates addressed the first element of this task well, identifying the problems that might arise from launching a very visible product before it is really fit for sale. It was perfectly acceptable to focus entirely on downside risks, although a minority of candidates developed their answers by addressing the upside risks as well.

Answers to the second requirement were weaker, with a tendency to focus on the detail of the errors made by the engineers and a lack of clear discussion on the project management issues that were revealed by the fact that these errors were not identified and addressed sooner.

Task 2

This task required candidates to advise on the implications of the fact that the new phone's battery will not work as advertised. The first part asked for a discussion of the financial reporting implications of holding inventory that may not sell at a profit. The second part dealt with the challenges of motivating the sales force to push sales of the new phone.

Answers to the first part were disappointing. Candidates often said little or nothing concerning the key accounting issue, namely the valuation of inventory at the lower cost and net realisable value. Many candidates addressed other issues altogether, such as the impact on liquidity ratios of making such a large purchase. Any such answers were marked on their merits, with credit being awarded to anything that was both relevant and valid.

Candidates tended to provide better answers for the second part. The basic problem is that the sales team may be unwilling to risk their personal reputations and contacts in order to maximise sales of an unproven product that may not operate as promised. Many candidates wrote sensibly on those problems and the appropriate responses that are open to the company.

Task 3

Here, candidates were required to discuss the ongoing implications of dealing with the problems associated with the new product, immediately before the launch. The first requirement dealt with target costing and the second with the difficulties in encouraging the engineering and finance teams to work together.

Answers to the first requirement varied in quality. Some candidates merely discussed target costing in very general terms, without addressing the specifics arising from the scenario. Even basic matters for application, such as the significant price reductions that are required, would have helped.

The second requirement yielded some better answers, with most candidates being able to identify the need for all areas within an organisation to work together.

Task 4

The final task required a reflection on the project, with the first requirement dealing with the application of total quality management and the second dealing with the implications of a successful product launch for Portafone's weighted average cost of capital.

The first requirement was answered well, with a wide range of issues being raised in a helpful and relevant manner.

Answers to the second requirement tended to be relevant but were often a little brief. Some candidates brought in arguments that reflected either wider reading or prior learning. The fact that such arguments were not directly drawn from the F2 syllabus did not reduce their relevance or their validity and so they were awarded marks. Other candidates produced clear and detailed answers from within the boundaries of the syllabus and were awarded good marks as a consequence.

Variant 3

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Evaluate benefits from market research	Technical skills	P2 (D2b) Discuss the risks associated with the collection and use of information.
	Negotiate with customers	People skills	E2 (C2a) Discuss the roles of communication, negotiation, influence and persuasion in the management process.
Task 2	Advise on customer profitability	Business skills	P2 (A1a) Evaluate activity-based management.
	Advise on the structure for an effective sales force	People skills Leadership skills	E2 (C1a) Evaluate the issues associated with building, leading and managing effective teams.
Task 3	Explain the implications of a rights issue for EPS	Technical skills	F2 (B4a) Produce the disclosures for earnings per share.
	Discuss the issues associated with creating a responsibility centre for research and development	Leadership skills	P2 (B1a) Discuss the information needed for decision making in different organisational structures.
Task 4	Discuss the approach taken to strategy development	Business skills	E2 (A1b) Compare and contrast alternative approaches to strategy development.
	Discuss potential implications of reporting investment in development for the share price	Technical skills	F2 (A1a) Discuss the characteristics of different types of long-term debt and equity finance. 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

This task focussed on the implications of forthcoming 5G technology for Portafone. Candidates were first asked to assess the benefits of using an external market research agency and then for their thoughts about how best to approach negotiation with the networks.

Unfortunately the first task was not answered well by the vast majority of candidates. There was much written on the benefits of market research and generic comments on big data, very little of which was relevant or representative. Substantial amounts were also written on the problems of using big data, very little of which was given in the context of the scenario. Many candidates responded as though Portafone would be using big data and not the research company. Most candidates failed to identify the problem of accepting market research on a future product whose specifications are far from defined.

In the second part, most candidates had ideas about how to conduct a generic negotiation process; the various stages involved, the appropriate personnel and protocol needed, and marks could be awarded for this. However very few candidates demonstrated any real awareness of dealing with commodity network suppliers.

Task 2

This task examined market profitability analysis. Candidates were first required to critically assess profitability analysis before commenting on the organisation and motivation of the design sales team.

In the first part, many candidates failed to see any underlying faults in the report or in the director's analysis and conclusions derived from that report. Most candidates merely used the figures to re-iterate the report and made simple comments on these figures, for example that most of the European profit comes from global network providers.

In the second part, very few scripts covered the structure of the sales force in any depth whatsoever. Most candidates were able to respond reasonably to the motivation element of the task covering performance related pay, feel-good factors and superficial motivation.

Task 3

This task focussed on raising investment capital for research and development relating to 5G technology. Candidates were first asked to explain the consequences of a rights issue for Portafone's earnings per share, and then to suggest how its Research and Development function could be organised and measured.

In the first part, the majority of candidates showed reasonable knowledge about rights issues and the effects on various investment ratios and were able to make some sensible comments. However, very few showed in-depth knowledge of standard financial reporting on earnings per share.

In the second part, most candidates gave some generic views on the organisation of the department under the new proposals. There was a lot of description of the different types of responsibility centre but not much about how the department should be managed beyond references to a normal budgeting process. Only a few scripts spotted the dangers in the proposals and that there was a need for overall board supervision and authorisation of expenditure while still giving some autonomy to the department. It was surprising that few candidates recognised the difficulty in establishing measurable criteria in the current timeframe, for example how should one recognise the extra revenue generated from a new patent or an improvement to an existing product? Those candidates who opted for a profit centre or investment centre option often then discussed return on capital employed or return on investment as historical performance measurements without mentioning the difficulty of applying them in this type of function.

Task 4

The final task in this variant focussed on the lessons to be learnt from a board-level review of Portafone's strategy and performance. Candidates were first asked to comment on the implications of Portafone starting to follow the emergent approach to strategy and then to discuss the news that Portafone's share price had increased.

The first part was generally well answered. The vast majority of candidates were able to generalise and describe (sometimes at great length) the concept of emergent strategy. Most accepted that Portafone was following this type of strategy. The stronger candidates were able to identify that Portafone was really in a hybrid situation between formal and emergent approaches. Comments on the implications for the board tended to be limited and short.

In part two there was virtually no explanation offered on net present value theory and the share price (as described in the suggested answer) but there was much discussion that the share price increase reflected not present but future profits and expectations. Good scripts highlighted future expectations and that research and development indicated that Portafone did not look like they were going to be left behind; better scripts highlighted the bubble effect and the collapse that can ensue when expectations are deflated.

Variant 4

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Discuss potential competitive advantage from product modification	Business skills	E2 (A1c) Explain the approaches to achieving sustainable competitive advantage.
	Discuss implementation of TQM to modification	Technical skills	P2 (A1b) Evaluate TQM techniques.
Task 2	Discuss ethical implications of creative accounting scheme	Technical skills	F2 (B1e) Discuss the ethical selection and adoption of relevant accounting policies and accounting estimates.
	Advise on need to record and manage time spent on research and development projects	Leadership skills	P2 (B1b) Prepare reports to inform decisions.
Task 3	Discuss key risks from building a new factory	Business skills	P2 (D2a) Discuss risk management.
	Manage stakeholders and recommend the membership of a team	People skills Leadership skills	E2 (D2c) Discuss management and leadership issues associated with projects, including the roles of key players in projects.
Task 4	Identify impact of financing decision for recognition of currency gains and losses	Technical skills	F2 (B2b) Demonstrate the impact on the group financial statements of consolidating a foreign subsidiary.
	Improve relationships between functional areas in the business	People skills	E2 (C1b) Discuss the effectiveness of handling relationships between the finance function and other parts of the organisation.

Comments on performance

Task 1

Candidates were first asked to advise on the potential competitive advantage that the Wonderfilm product might offer Portafone, and also to report on the total quality management issues and potential quality costs that will arise from the manufacture and application of Wonderfilm to new phones.

The first element was generally well addressed; many candidates provided good appraisals of the product's appeal. Many did not address the issues arising from the deterioration over time of the film, some saw this as an ethical issue only without recognising the appeal to network providers of encouraging customers to replace their phones after a couple of years.

Many candidates provided good discussions of total quality management and quality cost issues but a lot of answers were too generic, repeating what had been learned about total quality management without applying it to the specific issues presented by the case study.

Task 2

The second task required candidates to tackle the issues arising from the accounting treatment of the development costs of Wonderfilm and also to address the point that the detailed recording of time and money spent on individual projects was not worthwhile.

For the first element, the candidate was provided with a schedule of IAS 38 criteria, with all shown as met other than the intention to complete the product for use or sale. Stronger candidates recognised that this was an ethical issue and produced very good answers. Many good answers included real world examples for reference, and also referred to the CIMA code. Weaker candidates discussed the standard, and true and fair view, more generally. Some spent a lot of time restating the information provided in the paper, addressing each of the IAS 38 criteria in turn without really addressing the requirement.

For the second part, many candidates provided very good discussions of the importance of recording the detailed information. However, very few recognised any drawbacks to doing this.

Task 3

This task began by telling the candidate that the decision to go ahead with Wonderfilm had been made, and that a factory was to be built in a different country to manufacture the product.

The first requirement was for the candidate to discuss two key risks associated with building and operating the factory. Mostly this was well-attempted, with environmental risk a popular choice. Some selected less obvious risks such as availability of raw materials. Also, some candidates ignored the requirement to consider two key risks and instead discussed risks in general or presented a long list of risks.

The second requirement was to identify the key stakeholders in the project and recommend suitable membership for the management team. Again, this was generally well-attempted, with many candidates presenting sound justifications for their choices. Some weaker candidates merged the two, stating that all stakeholders should be part of the project team, and some discussed team-building issues for the project team rather than directly addressing the requirement.

Generally, this task was the best-answered of this variant.

Task 4

For the final task the candidate was told that the company planned to borrow to build the new factory, and was asked to address the implication for the recognition of currency gains and losses in the consolidated financial statements. They were also asked to make suggestions to improve the relationship between Research and Development and Finance.

The currency issues were generally very poorly addressed. Some candidates did not answer the specific requirement and instead discussed whether debt or equity should be used, or talked more generally about funding. Very few demonstrated sound technical knowledge of the recognition of currency gains and losses. Even fewer mentioned hedging.

The second requirement was better addressed, with many recognising the importance of a good working relationship and making suggestions for how this could be improved.

Variant 5

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Advise on aspects of project appraisal	Business skills	P2 (C1a) Analyse information for use in long-term decision making.
	Discuss impact of investment on financial statements	Technical skills	F2 (C1c) Advise on action that could be taken to improve an entity's financial performance and financial position.
Task 2	Advise on ethics of accounting choice	Technical skills	F2 (B1e) Discuss the ethical selection and adoption of relevant accounting policies and accounting estimates.
	Discuss implications of disciplinary actions	People Leadership skills	E2 (B1b) Discuss HRM approaches for managing and controlling individuals' performance.
Task 3	Discuss key project management issues arising from scenario	Business skills	E2 (D2c) Discuss management and leadership issues associated with projects, including the roles of key players in projects.
	Discuss key risks	Technical skills	P2 (D2a) Discuss risk management.
Task 4	Interpret TQM report	Leadership skills	P2 (B2a) Prepare performance reports for the evaluation of projected and actual performance.
	Manage conflict	People skills	E2 (C2b) Discuss approaches to managing conflict.

Comments on performance

Task 1

Candidates were asked here about predicting future cashflows, risks and rewards and the impact on the financial statements of a new manufacturing process.

Many of the weaker candidates seemed to miss the first requirement about predicting future cashflows altogether, instead going straight to risks and rewards, which suggests that they had not spent enough time checking the question to ensure that they were covering all parts. The risks and rewards part was answered better, with most candidates discussing rewards of increased market share, the need to keep up with developments in this industry, and the risk of having a sole supplier (Tait Welding). A minority of candidates wrote generally about risks and how to address them using the TARA framework, or appraising risks such as Identify, Rank, Manage, Monitor, so stated the theory without identifying any risks that related to the scenario, which limited the marks. The difference between the quality of answers here tended to be down to the quality and quantity of the risks and rewards described.

The last requirement, impact on the financial statements, was poorly answered in general. Many answers only focussed on the acquisition of the new technology and calculations of new depreciation compared to the existing machinery that was being scrapped. Few candidates discussed the impact on company ratios.

Task 2

Most candidates did discuss both issues in this task, in which candidates were asked to comment on some apparently unethical behaviour in Portafone's Research and Development function and then decide whether this warranted disciplinary action and what the implications of talking this action might be.

In the first part, the weaker candidates didn't refer to this being an ethical issue at all. Many weaker candidates just described the different approaches that could be taken for depreciation i.e. straight-line versus reducing balance and concluded that, since the employees involved were not from the accounting department, there wasn't actually a problem as the accounts department would have got it right, which wasn't a realistic approach to take.

In the second part, most candidates described why the behaviour was wrong, however many candidates decided that disciplinary action should not be taken as they were worried about the staff leaving and passing Portafone's secrets on to other companies. It was disappointing to see some candidates discuss all the ethical breaches but then allow them to be unpunished for fear the staff would leave!

Task 3

This task introduced a new project and asked candidates to discuss the key project management issues and suggest who should be on the project team, before identifying and suggesting ways of managing the key project risks. In the first part, the weaker candidates either gave no answer for the project management issues or no answer for the membership of the project management team. For membership of the team, some candidates just listed very briefly three or four roles i.e. someone from Finance, someone from Research and Development, but these short lists were restricted in terms of the credit that could be awarded. More details were needed for a good answer.

For the second part, candidates needed to discuss the risks that might occur during implementation and how they might be managed. Some candidates missed the 'during implementation' part, giving irrelevant risks such as funding or shareholders being unhappy, which again suggested a lack of time spent reading and understanding the requirement.

Task 4

The first part of this final task asked candidates to interpret a total quality management report related to a new production process. The weaker candidates merely restated each cost line and said whether it was higher or lower than the previous year, generally concluding that overall spending was lower, which was a good thing.

For the second part of this task, candidates were required to suggest a strategy for handling conflict with a third-party supplier (Tait Welding). Some of the weaker candidates tried to do this in the context of Mendelow's matrix, describing each type of stakeholder, but much of this information was irrelevant and sadly just used up time for little credit. Stronger candidates correctly identified the need for objective analysis of the problem at hand, escalation of the issue to board level and potential recourse to legal action.