

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

General comments

This paper was based on ZX, a fictitious manufacturer of office furniture. ZX was positioned as a medium-sized company operating in a developed economy with strong competition and the exam focussed on a range of realistic scenarios for a company in this situation, such as the development of new product ranges and relocating production overseas to take advantage of lower production costs. Information on this type of manufacturing company is widely available and should have been easy for students to access. As ever, the pre-seen material was made available well 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.

Candidates’ performance was weaker than expected for this case study. As usual, some candidates scored very highly but there was a noticeable increase in the number of scripts falling a long way short of the passing standard.

Candidates appear to be getting weaker in technical accounting (i.e. much of the content of the F2: Advanced Financial Reporting syllabus) and stronger in general management. Candidates must be better prepared in technical accounting areas in the future.

It is essential that candidates read the questions carefully, including the pieces of reference material which follow many questions. Candidates are apparently not paying sufficient attention to these exhibits and this is costing valuable marks.

Wherever possible answers should refer to the scenario and pre-seen information; this will help give context to answers.

Some candidates demonstrated an alarmingly poor understanding of several syllabus areas, including material that is clearly ‘core’, such as the accounting standards, performance management, leasing and value analysis. This was obviously very disappointing to see.

Variant 1

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Evaluate establishment of overseas manufacturing plant	Business skills	E2 A2a – distinguish between different aspects of the global business environment, including the competitive environment
	Evaluate business risks	Technical skills	P2 D2a – discuss risk management
Task 2	Implement value analysis and value engineering	Business skills	P2 A1c – discuss techniques for enhancing long-term profits
	Discuss accounting treatment to sale and leaseback arrangement	Technical skills	F2 B1c – discuss the provisions of relevant international accounting standards...
Task 3	Identify stakeholders and their information needs	People skills	E2 C1c – discuss the effectiveness of handling relationships between the finance function and external experts and stakeholders
	Recommend performance measures	Leadership skills	P2 B2b – discuss traditional and non-traditional approaches to performance measurement
Task 4	Evaluate performance	Technical skills	F2 C1b – evaluate the financial performance, financial position and financial adaptability of an entity based on the information contained in the financial statements
	Evaluate effectiveness of incentive scheme and overcome staff resistance	Leadership skills and People skills	P2 B3a – discuss the likely behavioural consequences of performance measurement within an organisation E2 B2a – discuss behavioural aspects of management control

Comments on performance

Task 1

High-scoring responses to the first requirement (a discussion of the benefits of overseas manufacturing) should have covered a wide range of specific financial and non-financial benefits. Good answers will also have made use of the information provided in the newspaper article appendix to assist in developing suitable answers specific to ZX; unfortunately very few candidates seemed to have paid attention to the article. These articles are very important and candidates should read them and use the information. Weaker answers did not demonstrate any understanding of the potential benefits of manufacturing overseas. Some answers were very generic.

The second requirement focussed specifically on business risks and good answers here covered a wide range of risks specific to ZX. The candidates should have recognised some of the features and activities of ZX which could be lost as a result of relocation overseas, such as loss of goodwill from local customers and community and the reputational damage this may cause. Some weaker answers focussed largely on generic risks of manufacturing overseas; the other common mistake was to list generic risks rather than business risks.

Task 2

The first part of this task asked for a discussion of the use of value analysis and engineering to reduce costs and good answers should have evaluated the application of both techniques directly to ZX's primary activities. Limited credit was given to those candidates who demonstrated some knowledge of value engineering and value analysis without necessarily applying this knowledge to ZX's context; some students demonstrated a lack of familiarity with either technique.

The second requirement examined knowledge of the impact of a sale and leaseback arrangement on financial statements. A good answer should have demonstrated sound knowledge and understanding of IAS 17 but more importantly would have applied this knowledge to the information provided in the question to present sound and professionally competent advice to ZX. Unfortunately this question was not answered very well; many answers were confused and unconvincing. Candidates did not seem to know the difference between operating and finance leases. Very few candidates understood sale and leaseback. It seemed as if many candidates had not studied this topic at all, which was disappointing.

Task 3

Good answers to the first part on stakeholder management usually focussed on the need to ensure that ZX's key stakeholders understood the quality focus of the business. Many of the better answers used this as the starting point to discuss who and what to communicate to stakeholders. Many weaker answers were largely generic and focussed only on the basic information needs of stakeholders, which were not directly focused on quality issues or were based on a generic application/discussion of the Mendelow matrix.

Candidates could have taken a range of approaches to answering the second part of this task on performance measures and credit was awarded accordingly. Good answers should have focussed on a wide range of potential performance measures related to monitoring and ensuring high standards of quality and customer satisfaction. Many candidates used the balanced scorecard, which was a sound approach. Many answers did not mention customer satisfaction at all. A number of weaker answers merely listed measures which demonstrated no relevance to quality and customer satisfaction, this approach did not gain a high mark.

Task 4

The first part of this task asked for an assessment of ZX's forecast performance and good answers made use of the wide range of financial and non-financial performance data presented in the reference material; unfortunately many candidates simply ignored this information. Good answers recognised that the picture on performance is not straightforward and there is some disparity between the financial and non-financial results. Weaker answers offered limited evaluation of the results which they have identified and often gave a limited evaluation of the non-financial performance. Many of the answers were descriptive without offering an evaluation.

High-scoring answers to the second part of the task considered the benefits of introducing a staff appraisal system for ZX's production staff and also considered the actions necessary to overcome any resistance to performance measures used within this appraisal system. These answers were applied directly to the information presented in both the unseen and pre-seen material and assessed the likely benefits directly related to ZX and the likely causes of resistance to the new measures. Many of the weaker answers, however, showed very little application to ZX's context.

Variant 2

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Evaluate core competencies	Business skills	E2 A1c – explain the approaches to achieving sustainable competitive advantage);
	Identify business risks	Technical skills	P2 D2a – discuss risk management
Task 2	Recommend accounting treatment	Technical skills	F2 B1c – discuss the provisions of relevant international accounting standards...
	Evaluate project performance and identify stakeholders	Leadership skills and People skills	P2 B2b – discuss traditional and non-traditional approaches to performance measurement and E2 D2c – discuss management and leadership issues associated with projects, including the role of key players in projects
Task 3	Advise on learning curve	Business skills	P2 A1d – apply learning curves to estimate time and cost for activities, products and services
	Recommend response to currency risks	Technical skills	F2 B1c – discuss the provisions of relevant international accounting standards in respect of the recognition and measurement of revenue, leases, financial instruments, provisions, share-based payments and deferred taxation
Task 4	Advise on continuous improvement	People skills	P2 A1b – evaluate TQM techniques
	Explain need to delegate responsibility for continuous improvement	Leadership skills	E2 B1a – discuss the concepts of leadership and management

Comments on performance

Task 1

The first part of this task was generally well-answered. Stronger candidates recognised ZX's core competencies and considered whether or not they were applicable to the new contract. However, many candidates did not focus on core competencies and instead talked more generally about the range of activities that ZX undertakes, such as buying material and operating machinery, and discussed these even though they were not core competencies.

The second part of the task (key business risks of undertaking the project) was fairly mixed. A wide range of risks were generally identified but weaker candidates did not discuss them in sufficient detail. A list of risks is not sufficient to demonstrate understanding. For a high score, application to the scenario was needed and whilst better candidates provided this, many did not.

Task 2

Many candidates found the first requirement very challenging and produced quite muddled answers. Some identified IAS 18 as relevant; some discussed IAS 11. Many were confused, unable to work out which applied, and ended up with a hybrid application of both. In other words, they explained IAS 18 but then concluded that an IAS 11 apportionment was needed. Application was generally weak, and a lack of technical knowledge often evident, demonstrating a need for more revision. Many candidates attempted to give the bookkeeping entries needed to record the transactions but these were often incorrect.

The second part of the task was answered well, with candidates sensibly evaluating the performance of the project and giving a detailed discussion of a range of financial and non-financial points. Weaker answers included little real evaluation and merely explained that numbers were higher or lower, which is not sufficient for a high mark.

When asked to identify key stakeholders, many answers lacked focus, with candidates listing every stakeholder they could think of with no prioritisation or thought about whether or not they were really relevant in this situation. Surprisingly, many omitted the client, Korlux, from their stakeholder list. Some correctly identified Mendelow and used this as a basis for their discussion, but gave very theoretical answers which needed more application to achieve a high mark.

Task 3

Most candidates recognised the learning curve and showed an understanding of the learning curve theory in discussing the graph. Most also gave examples but these were often poorly developed and not discussed in any detail. Many did not make full use of the information available in the reference material.

When discussing potential financial risks in the second part of this task, theoretical knowledge was often reasonable but application to the case study scenario lacking. Many candidates discussed in very general terms the risks of using an overseas supplier, and operating in another country, identifying and discussing all risks rather than focussing on financial risks as the question asked. It is important to read the requirements carefully.

Task 4

Continuous improvement was generally well addressed in the first part of this task, with decent attempts made at explaining why it was important to ZX. Application as well as theoretical knowledge was demonstrated by many candidates here, which was reflected in the relatively high marks awarded. However, discussion of performance measurement was often weak, with candidates explaining this very generally rather than in terms of its importance in relation to continuous improvement.

A familiar theme emerged in the second part of the task: when discussing the merits of delegating responsibility for continuous improvement to staff there was little application in evidence. Many candidates had some knowledge of delegation and could provide a brief discussion but did not explore it in the context required by the paper. There was a lack of real understanding of delegation in making continuous improvement successful, and again many candidates did not utilise the information they had been provided with.

Variant 3

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Identify assumptions made in investment appraisal	Business skills	P2 C1A – Analyse information for use in long-term decision making
	Discuss sources of long-term funding	Technical skills	F2 A1a – discuss the characteristics of different types of long-term debt and equity finance
Task 2	Evaluate investment appraisal techniques	Technical skills	P2 C1c - evaluate investment appraisal techniques and explain their results
	Discuss project management issues	Business skills	E2 D2a – discuss the characteristics of the different phases of a project
Task 3	Discuss behavioural issues in budgeting	People skills	P2 B2c – discuss the criticisms and behavioural aspects of budgeting in responsibility centres
	Advise on managing resistance to change	Leadership skills	E2 C1a – evaluate the issues associated with building, leading and managing effective teams
Task 4	Discuss need to provide health and safety equipment and evaluate ethical issues	People skills and Leadership skills	E2 B1b – discuss HRM approaches for managing and controlling individuals' performance and P2 D2a – discuss risk management
	Advise on accounting treatment	Technical skills	F2 B1c – discuss the provisions of relevant international accounting standards in respect of the recognition and measurement of revenue, leases, financial instruments, provisions, share-based payments and deferred taxation

Comments on performance

Task 1

Many candidates misunderstood the first requirement and produced critiques of the NPV methodology rather than discussing the key areas and assumptions made in the spreadsheet. Where candidates did query the figures, they tended to look at sales price per unit and volume; it was rare to see discussions of the salaries, rates and maintenance costs. Higher-performing candidates queried the WACC used and noted the lack of tax. Only a very small number of candidates discussed using sensitivity.

The second requirement on sources of funding was generally well-answered, especially for debt, with most candidates discussing the current lack of gearing, that organising a loan would be straightforward, the range of assets to use for security and that interest payments would be fixed (good for budgeting) and/or allowable for tax. Equity was not quite so well discussed but most candidates still achieved a reasonable score, usually by discussing changes in control and dividends. Better candidates discussed the length of time it would take and the extra reporting.

Task 2

Candidates generally answered the first part of this task very well, with many achieving close to full marks for valid descriptions of the four capital investment appraisal methods and sensible interpretations of the results using the data provided. ARR proved the most difficult of the four methods for candidates to explain with some patchy answers from weaker candidates, followed by IRR. Some of the poorer scripts merely gave the results from the table rather than explaining the methods.

The discussion of project management issues in the second part of this task was much more challenging for candidates, with most struggling to achieve a reasonable score. Answers tended to be too narrowly focused, for example just discussing the choice of project manager and the project team with explanations branching into Tuckman or into the composition of the team (plant, leader etc) – as the question had asked for project management issues, this approach didn't fully meet the requirement. Some candidates also focused on issues such as buying plant from suppliers, training staff, staff resistance, how to achieve quality, testing the equipment etc which also wasn't what was required. The vast majority of answers lacked a strong enough focus on milestones and reporting/analysing progress against milestones.

Task 3

The first requirement was often very well answered, with high-quality discussion of the advantages and disadvantages of involving the workforce in budget-setting resulting in well-balanced answers. Weaker answers either focussed too much on the advantages (so the answer was not balanced) or only discussed one or two advantages and disadvantages (so the answer was too narrow). Some of the weaker candidates discussed other budgeting techniques such as ZBB or ABB, which was not asked for. Some also discussed the impact of automating the plant on the workers and their reaction, which didn't answer the question at all.

Answers to the second part of the task were disappointing as most candidates simply didn't write enough. They failed to make sufficient original points, for example only discussing education and training. Many answers were also limited to on Lewin's unfreeze, change, freeze model so again the answers were too narrow.

Task 4

The first requirement (ethical reasons for fitting safety barriers) was answered well, with many candidates discussing both the ethical code as well as health and safety, bringing in ZX's policy from the pre-seen material which was good to see. Weaker answers tended to focus just on health and safety with no reference to ethics at all, instead choosing to discuss reputational damage and fines imposed.

The risk management framework was also a high-scorer for many candidates, with the majority of answers discussing the TARA framework. Better candidates fully explained the framework and discussed each part in terms of what the company should do to address the risk. Weaker candidates didn't explore all the TARA components, often just stopping at one, for example transfer the risk by taking out insurance or reduce the risk by building the barriers.

Advising on making a provision for the safety barriers was more of a challenge. Some didn't discuss the technicalities of the standard at all, merely stating if a provision was needed, or discussed capitalising the cost of the barriers, which wasn't required. Some candidates did manage to give a very brief outline of the standard but then struggled to apply it to the scenario. The vast majority of candidates believed that as the decision had been taken to fit the barriers then the provision must be made.

Variant 4

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Discuss the benefits of competitor analysis	Business skills	E2 A2a – distinguish between different aspects of the global business environment, including the competitive environment
	Discuss business risks	Technical skills	P2 D2a – discuss risk management
Task 2	Advise on lease v buy	Business skills	P2 C1A – Analyse information for use in long-term decision making
	Recommend accounting treatment	Technical skills	F2 B1c – discuss the provisions of relevant international accounting standards in respect of the recognition and measurement of revenue, leases, financial instruments, provisions, share-based payments and deferred taxation
Task 3	Discuss merits of delegation	Leadership skills	E2 B1a – discuss the concepts of leadership and management
	Evaluate change from cost centre to profit centre	People skills	P2 B3a – discuss the likely behavioural consequences of performance measurement within an organisation
Task 4	Discuss interpretation of ratios	Technical skills	F2 C1a – calculate ratios relevant for the assessment of an entity’s profitability, financial performance, financial position and financial adaptability
	Discuss balanced scorecard	People skills and Leadership skills	E2 B2a – discuss behavioural aspects of management control and P2 B2b – discuss traditional and non-traditional approaches to performance measurement

Comments on performance

Task 1

Candidates' answers to the first requirement suggested that the concept of a competitor analysis was well understood, but many answers offered rather unrealistic examples of those benefits, such as knowing the revenues and profits made by competitors from their showrooms. Clearly, such information would be of immense value in any competitive business situation, but it is highly unlikely to be available. One possible way to avoid such mistakes would be to think about where external information would be obtained from. Where there is a realistic source available then it may be possible to incorporate that into the answer. If information is unlikely to be available then there is little point in suggesting that it should form part of the analysis in a question.

Answers to the second requirement showed that the concept of business risk was well understood. Collectively, candidates identified a wide range of risks, most of which were relevant to the scenario. Some candidates broke the risks down between strategic risk, product risk, commodity price risk and operational risk. That enabled them to cover a broad range of risks and generally improved their answers. It was, however, acceptable to discuss risk without offering such a breakdown.

Task 2

Answers to the first requirement varied depending on whether candidates had read the question properly! The question asked for non-financial factors to be taken into account in deciding whether to lease or buy the showroom, but many candidates discussed financial factors, which were clearly irrelevant. Some candidates recognised that deciding to lease rather than buy offered additional operational flexibility because the lease could either be extended or permitted to lapse when it reached its conclusion. Conversely, buying the property demonstrated a greater commitment to establishing a showroom.

The second requirement asked how the lease should be accounted for. Many candidates simply described the definitions of finance and operating leases without offering a conclusion as to which of these would be appropriate. The question left scope for exploration of the information provided, although a ten-year property lease is probably not a finance lease. Some candidates based their answer on IFRS 16 Leases, which has not yet come into effect. However, given that early adoption is acceptable and that the rules are moving towards the new standard, credit was given for its application in this question.

Task 3

Answers to the first requirement were generally well developed and relevant. Candidates clearly understood the concept of delegation and could offer both advantages and disadvantages. Better answers related the concept to the scenario and brought out the implications for ZX. Some candidates also gained credit by discussing the personality issues associated with having the ability to delegate.

In the second requirement, candidates clearly understood the difference between a cost centre and a profit centre, although they were less clear on the implications of changing the four divisions to profit centres. To an extent, the confusion arose from a lack of understanding about the roles of the four divisions. Some answers were difficult to follow because it was not clear how the candidate expected one or more of the divisions to contribute to overall profit.

Task 4

In the first requirement, candidates offered sensible descriptions of the various ratios. The application of that knowledge to the requirement and to the scenario was, however, disappointing. The question asked candidates to explain how the ratios listed might be used by showroom staff to improve profitability and liquidity. There was relatively little application of the profitability ratios to the scenario and almost no application of the liquidity ratios.

The second requirement comprised two elements. Candidates were asked firstly to identify a measure for each balanced scorecard perspective and secondly to justify those measures and explain how they could be used to monitor and motivate the sales team. Candidates generally addressed both elements well, with sensible suggestions and clear explanations of their use.

Variant 5

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Advise on accounting treatment	Technical skills	F2 B1c – discuss the provisions of relevant international accounting standards in respect of the recognition and measurement of revenue, leases, financial instruments, provisions, share-based payments and deferred taxation
	Discuss business risks	Business skills	P2 D2a – discuss risk management
Task 2	Advise on impact of JIT	Technical skills	P2 A1b – evaluate TQM techniques
	Advise on change management	Business skills	E2 D1a – discuss the concept of organisational change
Task 3	Advise on benefits of creating a special team	Leadership skills	E2 C1a – evaluate the issues associated with building, leading and managing effective teams
	Explain benchmarking	People skills	P2 B2a – prepare performance reports for the evaluation of projected and actual performance
Task 4	Advise on accounting for foreign currency transactions	Technical skills	F2 B1d – produce the accounting entries, in accordance with international accounting standards
	Advise on operational and ethical aspects of management of trading relationship	Leadership skills and People skills	P2 B1b – prepare reports to inform decisions and E2 C1c – discuss the effectiveness of handling relationships between the finance function and external experts and stakeholders

Comments on performance

Task 1

In general, candidates were able to give a sound explanation of accounting for transactions arising from the proposed contract. There was sufficient scope in the question to add in aspects of IAS 2 Inventories and IAS 21 The Effects of Changes in Foreign Exchange Rates in addition to or instead of the desired IAS 18/IFRS 15, but in general candidates recognised the substance of the contract; duty of care passing and no right of return as effective ownership passing on receipt. Less well-prepared candidates mentioned every conceivable standard, covering a wide range of areas from contingent liabilities to financial leases.

The second part of the task – discussion of the risks of holding the hardwood in inventory – was straightforward and well-answered, although some scripts strayed into discussion of the advantages and disadvantages of the actual contract rather than the reasons why ZX should not carry too much stock. Simple physical attributes of a natural product which may deteriorate in storage was the most frequent risk described, with insurance against fire and theft also popular. The higher-scoring candidates actually covered the aspect of tying up resource in the interim, manpower, and warehouse space but of course the capital implications were not present as the deferred payment removes much of the risk. The future 12 month deadline was correctly recognised as a major issue if the product had failed to launch and ZX were left with expensive and useless stock.

Task 2

Most candidates seemed to be aware of the advantages and disadvantages of a just-in-time system and so were able to gain credit by simply listing generic advantages and disadvantages. Candidates also had a reasonable idea of what was required in a JIT implementation but surprisingly few attempted to directly relate such implementation to ZX's operational method statement as suggested in the question, so did not score as well as they could have done.

In the second part of the task, many candidates struggled to identify the barriers to successful JIT implementation that could be created by managers. However, many of them could identify strategies for overcoming resistance to change and so gained partial credit. Most candidates identified uncertainty over job loss as a significant problem.

Task 3

The first element of this task, requiring explanation of the benefits of having a special JIT team, was one of the weakest elements in the majority of scripts. Many candidates failed to produce a reasoned response at all or merely discussed the benefits of a JIT system rather than a JIT team. Most candidates were able to state which company personnel should be in the team and what their roles should be but some chose instead to explain their knowledge of team academic theory – which was not wholly irrelevant, but not specific to the situation of a JIT implementation at ZX.

Answers to the second requirement (why and how ZX should benchmark) again showed decent awareness of basic theory but poor ability to relate it to the scenario. Many scripts failed to clearly explain why benchmarking was appropriate in the context of this case. The benchmarking types were reasonably covered but the areas requiring focus were often vaguely described and not case specific. Very few candidates explored the limitations of finding similar implementations to compare with. Nevertheless, there were some very good answers by the well-prepared candidates.

Task 4

The first requirement was well-answered. Many scripts demonstrated a sound knowledge of IAS 21 The Effects of Changes in Foreign Exchange Rates. However, the lower-scoring scripts tended to confuse the recording of overseas routine transactions with the accounting required for overseas branches/subsidiaries. Candidates with no knowledge of IAS 21 often discussed irrelevancies such as hedging techniques.

The discussion of how ZX's trading relationship with BrassN could be monitored was frequently marred by a tendency to fail to recognise the distinction between operational issues and ethical issues. The former was rather weakly covered with the majority of scripts giving little or no coverage of routine operational matters such as rejects, late deliveries or pricing. The vast majority of scripts concentrated on the ethical aspects and showed a reassuring awareness of these, even if some of the actions advocated for potential breaches of CSR policies were somewhat drastic.