

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

**General comments**

The CGMA Management case study (MCS) examinations for February 2020 were based on the company Trevel Records (“Trevel”). Trevel is a quoted company that creates and sells music to a global market. Trevel is based in Capital City in Fortuna.

Most of its citizens have sufficient disposable income to be able to afford regular spending on entertainment, whether that be for music, books, cinema or theatre.

Fortuna is one of the top six countries globally for music sales. Collectively, these six countries account for more than 70% of revenues from the sale of recorded music. English-language recorded music sells well in all of those countries, even though they do not all have English as their first languages.

For this exam session, three variants based on Trevel were set. The focus for each variant was as follows:

- Variant 1: the company proposes the release of its back catalogue of recordings on vinyl.
- Variant 2: whether the back catalogue should be promoted more heavily and the strategy, price and business model changed.
- Variant 3: this variant was all about a claim from a third party that its copyright had been breached by the inclusion of a music “sample” drawn from an album and used in a successful recording issued by Trevel.

This case study was the first one to be based on the new 2019 syllabus. As such, it complied with the published blueprint and covered the core activities in the prescribed weightings. Each variant consisted of four tasks and each task was further subdivided into separate sub-tasks. The weighting attached to each sub-task was stated and candidates were advised to allocate the time available for each sub-task on the basis of those weightings. Markers were instructed to adopt a holistic approach to marking, which meant that the answer to each sub-task was read and judged on its merits. Markers were provided with specific guidance as to the characteristics of level 1, level 2 and level 3 answers for each separate sub-task.

As always, the key to achieving a passing mark or better was to answer the question as set. Higher marks were awarded to fuller answers that were relevant and correct.

To achieve a level 3 in most traits it was expected that a candidate would demonstrate good technical understanding of the topic being tested through clear and comprehensive discussion and, where asked, justify their answer. Also, the answer should of course be applied to Trevel and the particular scenario within the task. If a candidate scored at a level 1 on a trait it is likely that they did one or all of the following:

- failed to answer the question that was being asked,
- demonstrated limited technical ability, possibly with gaps in knowledge or understanding,
- provided insufficient justification for arguments,
- failed to reflect the scenario or the specifics of Trelvel in their answer.

Candidates generally demonstrated a good technical grasp of the syllabus content that was being examined across the three variants. Candidates were clearly familiar with content such as balanced scorecards, big data analytics and project management. It is encouraging that candidates appear to be familiar with the technical issues required by the syllabus.

Candidates tended to demonstrate a lesser technical understanding of financial reporting, including the preparation and interpretation of financial statements. The case study format of the examination focuses on application rather than recall of technical content. Candidates who do not understand syllabus material risk producing answers that are technically incorrect. Sometimes candidates attempt to compensate for a lack of knowledge in one area by offering extensive summaries of related material. For example, some candidates who seemed to be unclear about the valuation of goodwill on acquisition, attempted to compensate by offering a general description of the consolidation process instead. All answers are marked on their own merits, but material that is correct but nevertheless largely irrelevant, will not score well.

It should be stressed that the Management Case Study continues to be a test of candidates' ability to deal with work-based tasks and challenges. Candidates should expect to be asked to apply their technical understanding to the scenario. Candidates who simply summarise the technical content relating to a task are likely to score a level 1 mark or, at best, a level 2 mark. For example, a task could ask about the usefulness of a balanced scorecard in a specific situation. The marking scheme will generally allow some credit for a description of balanced scorecards so that candidates can state the aspects that make them either suitable or unsuitable for the proposed task. However, most marks will be allocated to the application of that technical understanding to the scenario. Indeed, a well-justified argument for or against applying the balanced scorecard approach to that scenario, will provide all the assurance that is necessary that the candidate understands the underlying technical content.

Candidates were generally stronger in core activities A (evaluate opportunities to add value) and C (manage performance and costs to aid value creation) and weaker in core activity E (manage internal and external stakeholders). Performance generally varied in terms of ability to apply the technical material to the scenario.

## **Variant 1**

### **Task 1**

This task was about the proposal to release its back catalogue of recordings on vinyl.

There were two sub-tasks here, the first one asked how the decision would affect the company's value chain. This tested core activity C.

On the whole, the answers to this sub-task were reasonably good. Most level 3 answers had a clear and comprehensive discussion of the impacts of the value chain applied clearly to the business of Trevel.

Candidates who received a level 1 mark often demonstrated little knowledge or understanding of the value chain and did not apply their answer to the situation in Trevel. The main issue was a lack of technical knowledge of the value chain. Unless candidates related their answer on the elements of the value chain to the proposal for Trevel they would not score more than level 1.

To gain a level 3 mark a candidate had to apply their understanding of the value chain to Trevel and have a comprehensive, clear discussion on the issues.

The second sub-task asked what the commercial implications of returning to the sale of bulky and fragile vinyl recordings in place of digital downloads would be. This tested core activity A.

This sub-task was done quite well. Most candidates realised that vinyl was a growing market and that consumers were interested in the feel of vinyl and the sound quality. Many candidates discussed price here too and the fact that people were willing to spend money on music. The best answers discussed the negatives of the falling market for CDs against the increasing interest in vinyl. This gave a very good structure to the answer. If only one was discussed, such as the advantages of vinyl, it was unlikely to get more than a level 2 mark.

Many candidates scored a level 2 mark and just needed a little more in-depth discussion to get to a level 3.

### **Task 2**

This task was about the Board's discussion on the decision to release the back catalogue on vinyl.

The first sub-task asked what five external factors are likely to determine whether this will be a success. This tested core activity D.

The sub-task mentioned five external factors – that is what candidates should think of – the most important five external factors. Not eight or nine bullet points on external factors but five well-discussed factors. These should be relevant to the situation mentioned in the scenario. Recommending five good factors would gain 5 marks but justifying and discussing those five factors would gain a level 3 mark. Many candidates achieved a level 2 mark for this sub-task and with a little more discussion could have gained a level 3.

The second sub-task asked what the key project management issues associated with the implementation of this proposal are. This tested core activity B.

There were many high level 2 and 3 answers to this question.

Many candidates had good knowledge of this topic and applied it to Trevel. Level 1 answers were generic on implementation of a proposal and therefore did not score highly. Candidates must think about what they know about Trevel and make sure they apply their knowledge to the case.

Simply generally and briefly discussing project plans, putting together a team and milestones, for example, was not enough to gain a high mark.

Candidates should have discussed project initiation, selecting teams and who to include, thoughts on the project plan, how to execute the project and how to control it – a comprehensive discussion on most of these topics would have achieved a level 3 mark.

### **Task 3**

This task was about the decision to launch the back catalogue of recordings.

The first sub-task asked what pricing strategy the company should pursue. This tested core activity A.

This sub-task was answered reasonably well. Most candidates discussed premium pricing in some depth. Apart from that answers tended to be rather brief. Candidates did have some knowledge of the topic which was good and many managed to apply their knowledge to the question and successfully relate it to Trevel's situation. Candidates should have discussed the market for the product, the importance of getting the price level correct and competition. There were many other possible areas for discussion and all reasonable discussion was awarded marks.

If candidates discussed more than just premium pricing, they tended to get a level 2 mark.

The second sub-task asked how this new venture will affect the ratios that will be calculated from the company's financial statements. This tested core activity D.

This sub-task which was for the F pillar was not answered very well. Many candidates either talked about profitability ratios or about working capital ratios rather than discussing them both. Some candidates merely produced a bullet point list of ratios with the increase or decrease beside each one.

Level 1 answers only made statements such as the gross profit ratio would increase, the ROCE would increase.

To gain a level 3 mark, candidates had to discuss both sets of ratios well. That means each ratio should be discussed with some justification for each statement. There was plenty of information in the question to allow for a reasonably long answer to be written. Answers which only focused on profitability or working capital usually achieved a level 2 mark.

#### **Task 4**

This task was about a company that has been identified for acquisition in order to provide the Group with the necessary manufacturing capacity.

The first sub-task asked about the challenges that this will create for the determination of goodwill on acquisition. This tested core activity E.

This sub-task was not done well by many candidates. Many achieved a level 1 mark as they described how goodwill is calculated which was not what was asked.

Candidates must answer the question being asked – the answer should have been about the problems of establishing fair values for some of the assets and liabilities. There were specialised plant and machinery, patents and liabilities which should all have been discussed as they all present challenges. Very few candidates even mentioned the liability.

To achieve a level 3 answer, candidates should have comprehensively discussed the valuation of the specific assets and liabilities involved in the goodwill calculation. Candidates should make sure they understand the F pillar topics, without the knowledge of the topic, application is impossible.

The second sub-task asked how the new subsidiary should be established as a responsibility centre. This tested core activity C.

This sub-task was answered quite badly by many candidates. Many candidates only achieved a level 1 mark as they only described different types of responsibility centre. Some candidates went on to try and link this to the investment centre suggested in the question but did not link it to Trevel's situation. Some candidates went on to suggest it should be a profit centre or a cost centre and explained why again this was not required.

To achieve a level 3 mark, candidates should have discussed in-depth the idea of an investment centre including motivation and control issues.

## **Variant 2**

### **Task 1**

This task began by explaining that there was conflict between managers about the business strategy and whether resources should be focused on developing new acts or marketing the back catalogue. Candidates were asked whether it is inappropriate for senior managers to be in conflict about the business model. This tested core activity A.

A level 3 response to this would have been to explore the potential upside to conflict, for example, that disagreement could lead to an improvement in the business model, and also to focus on the potential damage that conflict could cause, for example, lack of coordination, lack of clarity of direction and poor use of time.

Many candidates did not directly address the question asked, providing a critique of the business model rather than a discussion of the impact of conflict, or explaining in general terms how the conflict should be managed. Candidates who did answer the requirement generally produced good answers.

The second requirement was to explain whether a balanced scorecard for Marketing and Business Development would help to optimise the marketing spend. This tested core activity C.

A level 3 answer would explain how a balanced scorecard would have some advantages, such as encouraging a longer-term perspective on managing the marketing spend, but also some drawbacks, for example leading to a lack of focus on costs. Whilst some candidates attempted this section well, many gave textbook explanations of what a balanced scorecard is, without application to the scenario provided. Many also did not mention budgeting despite it being referred to in the scenario text.

### **Task 2**

The second task explained that Trevel intends to purchase Belboa Music, which has an extensive back catalogue. Candidates were first asked how the back catalogue will be accounted for at the date of acquisition and subsequently. This tested core activity E.

Some achieved level 2 or 3 marks by correctly identifying that the assets would need to be valued in accordance with IFRS 3, with an initial valuation based on the fair value of the tracks, and that the back catalogue should be included in group intangible assets at cost on the acquisition and amortised over the expected useful life of the tracks. Whilst some candidates answered this well, responses often lacked detailed explanation. Some did not demonstrate the technical knowledge required to achieve a high-level score. Some candidates explained how the process of consolidation is carried out rather than addressing the requirement and focusing on the back catalogue.

The second requirement was to explain the impact of the back-catalogue valuation on the interpretation of the group financial statements. This tested core activity D.

Level 3 answers recognised the impact of the impairment charge on profits and profitability ratios. Weaker scripts did not explore ratios at all.

The final sub-task of this task was to explain the challenges in using product life cycle in deciding how to promote the recordings in the back catalogue. This tested core activity C.

A level 3 answer here would have recognised the variability in the pieces of music, some of which might have a long life cycle and others a very brief one. It would also have been appropriate to explore the way in which a piece of music can suddenly have its profitability restored by being used in a film or a television advert. Low-scoring answers lacked application to the scenario and just explained what a product life cycle is, often focusing on life cycle costing.

### **Task 3**

This task began by explaining that the acquisition of Trevel has gone ahead. The first requirement was to explain how the project to relaunch the recently acquired back catalogue should be structured. This tested core activity B.

A level 3 answer would have included a clear explanation that the objectives of the project need to be defined, a project team established, deadlines agreed and progress monitored to achieve the objectives so that the relaunch could be completed. This task was generally well attempted with many candidates scoring well, although some provided too narrow a discussion focusing only on the composition of the project team.

For the second sub-task, candidates were asked how big data analytics and other digital sources could be used to determine which back catalogue albums to invest time and money on promoting. This tested core activity A.

Many candidates did this very well, achieving level 3 answers by recommending an appropriate approach to data analytics and clearly justifying their recommendation. For example, using the frequency of requests for the name of a piece of music used in a television advert to support a decision to promote that music and achieve higher sales. Level 1 answers didn't provide application, taking a scattergun approach and just giving a very general description of what big data analytics are and how they can be used.

The third sub-task of this task asked what challenges are associated with setting transfer prices for the use of Belboa's back catalogue by Trevel's streaming services. This tested core activity E.

To achieve a level 3, candidates needed to consider challenges such as the lack of opportunity costs associated with internal transfers. Level 1 answers often lacked detail, and many candidates provided a very narrow discussion focusing only on tax issues and the associated ethics with little consideration of other issues.

#### **Task 4**

The final task explained that Trevel had attempted to launch a range of improved digital copies of music from their back catalogue and the back catalogue acquired with Belboa. The results of the launch were disappointing, leading to the need to consider an impairment adjustment to Trevel's intangible assets. The candidate was asked how the impairment adjustment would affect Trevel's return on capital employed and gearing ratios in the short and long term. This tested core activity D.

In order to achieve a level 3, candidates needed to realise that it would be appropriate to recognise that the impairment adjustment would reduce operating profits and also group equity. Many candidates incorrectly considered that there would be no impact on operating profits and consequently not many achieved level three scores for this section.

The second sub-task of this task asked how the decision to recognise an impairment loss on the back catalogue should be communicated to the artists. This tested core activity E.

In order to achieve a level 3 score, candidates needed to recognise that it would be advisable to speak to the artists' agents, and also that the impairment is an accounting entry which does not directly affect the artists. Artists should therefore not be unduly concerned about the impairment. Many candidates incorrectly considered that the impairment would cost the artists money, with some suggesting that Trevel should offer them financial compensation for this.

The final sub-task asked candidates to explain whether the disappointing results suggest that Trevel should not undertake further back catalogue promotions. This tested core activity B.

It would have been appropriate to have explored whether Trevel might have chosen the wrong music to promote or has not promoted effectively. On the other hand, changes in the way in which music is listened to might have altered the potential to earn from the back catalogue. Some candidates answered this well and scored a level 2 or level 3 but many responses were too scant to score highly.



### **Variant 3**

#### **Task 1**

This task comprised three sub-tasks, all linked to a claim from a third party that its copyright had been breached by the inclusion of a music “sample” drawn from an album and used in a successful recording issued by Trevel. These sub-tasks were equally weighted.

The first sub-task asked about the difficulties associated with negotiating a settlement with the owners of the music that had been sampled. This tested core activity E.

Many candidates answered this requirement well and gained level 2 or 3 scores, offering logical concerns that would be capable of complicating this negotiation. For example, the damage suffered by the copyright owners would be difficult to measure and that was explained in several ways. Some candidates pointed out that the publicity arising from this case and from being associated with a successful release by a leading star, could have benefitted the copyright owners. Such arguments demonstrated a good understanding of the issues, although some candidates failed to make use of the obvious points that could have been made about the fact that the negotiation is adversarial in this case because one side wishes to pay as little as possible while the other sides wish to receive as much as possible.

Level 1 and level 2 answers offered a summary of textbook material, such as describing the stages in a negotiation or set out very generic arguments such as the desirability of achieving a win–win outcome. Not only did this lack application to the scenario, it also ignored the requirement and so failed to answer the question.

The second sub-task dealt with the need to create a provision for the cost of settling this claim. This tested core activity D.

Most candidates correctly identified the criteria that had to be met in order to justify a claim, but the discussion of those criteria varied significantly in terms of quality of the application. Many candidates failed to identify the fact that there is no way to reach a realistic estimate of the amount that will be paid to resolve this concern. This was disappointing because the previous requirement had highlighted the fact that the settlement is still under negotiation and so cannot be determined with any certainty.

The third sub-task dealt with the question of which department to hold responsible for the cost of settling this claim. This tested core activity C.

Many candidates offered credible arguments for the charge to be made against A&R’s budget and some argued for the contrary position of charging Legal. It made little difference whether the arguments were directed at one department or another because marks were awarded based on the quality of the support that was provided for that opinion. Answers that scored few marks generally asserted for one department rather than the other, or proposed an equal split, with little real justification.

## Task 2

This task comprised two sub-tasks that dealt with the implications of a software package that can analyse music, identifying breaches of copyright and adapting tracks. Both sub-tasks were equally weighted.

The first sub-task asked for the advantages and disadvantages of using this software and, as a separate issue, the challenges associated with determining the NPV of investing in it. This tested core activity A.

Candidates offered a wide range of arguments for the advantages and disadvantages of the software and generally offered good support for those arguments. Unfortunately, the second part of the requirement was often overlooked, with little or no justification, so were low-scoring answers. Candidates whose answers were higher scoring, used their discussion of the advantages to identify issues associated with measuring NPV. For example, the software would reduce the risk of Trevel unwittingly breaching copyright in future releases, but that raises challenges such as estimating the value of those savings.

The second sub-task dealt with the relevance of the software to Trevel's business model. This tested core activity D.

The quality of the arguments offered varied according to the extent to which candidates related their arguments to the company's business model. There were two common approaches to doing so that tended to score good marks. The first approach generally started by working through the elements of the business model that had been provided in the pre-seen. That provided candidates with up to four specific issues that they could write about. The second approach was to offer a specific discussion of the business model, as understood by the candidate. Many candidates identified the key features of the business model as they understood it and discussed the impact that the capabilities of the software would have on that model.

Level 1 answers to the second sub-task tended to repeat points made in the previous one, with no real attempt to describe or relate to the business model itself.

### Task 3

The third task comprised three sub-tasks that related to the acquisition of a new subsidiary, a company called Softsono that was to be acquired as a going concern. The three sub-tasks were equally weighted.

The first sub-task asked about the challenges of determining the goodwill associated with this acquisition. This tested core activity E.

Answers were generally disappointing, with very few candidates focusing on the need to identify the specific assets being acquired and to attach a fair value to them. This is a software company whose most significant asset is in the form of the intellectual property that it owns. Valuing such assets is complicated by the fact that there is no liquid market on which to observe prices. Many candidates focused entirely on the company's property, plant and equipment. Those assets did not raise much in the way of challenges, as required by the question.

The second sub-task asked how the interpretation of the Group financial statements would be affected by the use of debt rather than equity to fund the acquisition. This tested core activity B.

Better candidates approached this from the perspective of accounting ratios that would be affected by the funding decision. That was a sensible starting point, although it did require some understanding of the calculation and interpretation of ratios. For example, return on capital employed is generally the most important performance ratio, although it is of limited relevance in this case because it divides the total for long-term funding into the total earned for the providers of long-term funding. That means that the numerator and denominator will be the same regardless of the funding decision. Level 3 answers focused on return on equity, which would be affected by the decision. Stronger candidates also saw that gearing would be affected and that related ratios, such as interest cover, would also change. Level 3 answers also made a realistic argument concerning the direction in which ratios would move.

The third sub-task asked about the challenges of managing the costs of operating the new subsidiary. This tested core activity C.

The quality of the answers varied. Better candidates addressed the fact that Softsono was established in order to create a software package and that it operated for some time with significant outgoings, particularly for staffing, and with no immediate revenue. The culture in the subsidiary is, therefore, one in which costs can be justified even when recovery will not occur in the foreseeable future. There is a further challenge arising from the fact that Trevel's Board cannot necessarily know how many programming staff will be required for the ongoing management of the company's operations.

#### **Task 4**

The final task dealt with the management of a new software package that will enable consumers to develop personalised ring tones and other snippets of music. It comprised three sub-tasks, all of which were equally weighted.

The first sub-task asked about pricing sales of this new service. This tested core activity A.

This requirement was generally answered well, with many candidates offering an argument for a specific model and, importantly, justifying the recommended approach. Level 1 arguments tended to consist of an assertion that a particular pricing approach was the best, with little or no justification for that strategy. Level 2 and 3 arguments went beyond the initial purchase and pointed out that customers might wish to refresh their tune and that they may be prepared to pay heavily for the privilege of doing so.

The second sub-task asked about the departments who should be represented on the project team to develop this product. This tested core activity B.

Answers varied in quality, with stronger candidates answering the question by addressing the requirements. There was no single correct answer to this task and better candidates focused on the justification of their recommendations. Weaker candidates simply identified the nature of teamwork, identifying roles rather than discussing the need to engage particular departments.

The third sub-task required a discussion of transfer pricing, with subsidiaries making resources available for Softsono to use in the operation of its software and in the creation of a sellable product. This tested core activity E.

Level 2 and 3 answers identified the problems arising in this case, such as the fact that using a particular recording by Softsono does not “consume” a resource and the fact that there is unlikely to be an observable market against which to determine transfer prices. Level 1 answers simply described transfer pricing and discussed the features of different transfer pricing models.

### Tips for future candidates

Good answers require:

- relevance to the requirement,
- the necessary technical knowledge of the syllabus content,
- the ability to apply that knowledge to a specific scenario, as specified in the case,
- well-structured answers, with good use of paragraphs to clarify the development of an explanation,
- justification of the arguments made in the answer.

This can be achieved as follows.

Before the exam:

- Revise study materials thoroughly. Candidates should study all areas of the syllabus and ensure that all three pillars are covered. It is risky to skip topics, even if you find them difficult.
- Read the pre-seen material carefully and think about it. Think about the industry and the entity. That is important because the tasks are all about application to the scenario, which could mean that the technical issues have to be applied in a particular way. For example, many candidates pointed out that accidentally infringing the copyright of a relatively unknown recording artist might have benefitted the artist by providing a huge publicity boost. That argument would not necessarily apply to different contents and different industries.
- Practise tasks from past case studies and reflect on whether your answers are full and relevant. Take the time to type or write full answers. You need not necessarily do so under exam conditions at first because part of the value of this exercise is to ensure that you can interpret and answer questions correctly. As you progress in your studies, you may attempt some requirements against the clock.

During the exam:

- Plan your answers during the exam and pay close attention to timings. It is very helpful when constructing your answer that it has a logical structure. The Management Case Study often asks you to justify your answer. Typing an outline answer plan at the start of each task or sub-task will help you to plan the structure and reduce the risk of forgetting any good points.
- Commit to an argument. Some answers are weak because they seem to have been written to avoid contradicting the examiner's suggested solution. Remember that the marker is under strict instructions to mark answers on their merits. There



can sometimes be more than one correct answer in business. If you are unsure then invest some extra time in thinking and developing an argument rather than typing something vague.