T4 – May 2013 – Post Examination Guidance report

General Overview

The main object of this report is to give help to candidates who were not successful in the May 2013 examination relating to the BVS – Fleet maintenance case. It is also intended to provide guidance to prospective candidates who plan to take future T4 Part B case study examinations. This report explains the basic rationale behind the case and the suggested approach to each of the assessment criteria. It also provides a brief marking guide, general comments on the candidates' scripts and a statement of common errors, including omissions, which were made by candidates.

This case related to BVS – a fleet maintenance company originally established in a European country in April 2010 following a management buy-out. The pre-seen material provided much information regarding the characteristics of the fleet maintenance industry in Europe and distinguished it from fleet management. It made clear that most companies choose to outsource their fleet maintenance requirements to specialised fleet maintenance companies which are able to offer a one-stop service to meet their needs principally relating to routine servicing of vehicles, mechanical repairs and tyre replacement.

A formerly state-owned telecoms company, which was privatised in 1994, which managed its own in-house fleet established a fleet maintenance subsidiary and operated a large number of workshops throughout its home European country and also outsourced a small part of its maintenance to smaller workshops. Just before the management buy-out, the subsidiary employed almost 1,500 staff at its head office and in its 260 workshops. It maintained 47,500 vehicles on behalf of its parent company and also other outsourced customers.

The Managing Director was able to persuade a private equity investor to take a 60% stake in the new company which enabled the MBO to take place and BVS was formed. The net valuation of BVS included 120 specified workshops that were transferred and managed by BVS, liabilities for 860 employees and an inventory of materials and spare parts.

The business plan was to grow the existing vehicle fleet maintenance business and to expand the geographical coverage of maintenance workshops to two neighbouring European countries. One of the first tasks of the new company was to select and implement new IT systems for BVS. The new IT systems included a multi-currency nominal ledger including integrated sales and purchase ledgers and a fixed asset register, a fleet maintenance system called FLIS and a cash forecast modelling system.

BVS was a private limited company and was not listed. It had 400,000 shares in issue, each of €0.50 par-value. At its establishment, a share premium of €4.50 was agreed. At the date the MBO took place, the four executive directors had equity to the value of €0.8 million, private equity provided €1.2 million and there was also bank loan financing in place to the value of €1.4 million. In the year ended 31 March 2012, BVS achieved an operating profit of €4.4 million and profit for the period of €2.9 million. The forecast operating profit for the year ended 31 March 2013 was €6.6 million compared with a planned operating profit of €5.1 million. The forecast average number of vehicles maintained by BVS was 69,000 compared with a plan for 57,600. The forecast utilisation level of its workshops was 91.5% compared with a plan for 91%. The outsourced vehicle hours was forecast to be 851,000 compared with a plan for 516,000.

The unseen material required candidates to:

(a) Prepare a report that prioritised, analysed and evaluated the issues facing BVS and make appropriate recommendations, and
(b) In addition to the analysis in the report in part (a), prepare a presentation to the Board on the range of share prices possible for BVS when the company planned to become listed during 2015/16. The presentation had to contain no more than five bullet points, including a recommendation and a graph which could be a column, bar or line chart. The graph was to show four alternative share prices which were the original share price in April 2011, the alternative share prices based on two different P/E ratios and the share price if a government contract (which BVS had secured) were to be terminated.

The T4 assessment matrix has nine criteria, each of which carries between 5 and 30 marks. It should be noted that the Logic criterion has 30 marks associated with it, 20 marks for recommendations given in the answer to part (a) and 10 marks for the answer to part (b). It is important that the candidate earns high marks in the Judgement and Logic criteria as each of these carry 20 marks within part (a). It is also important that the candidate undertakes sufficient analysis to provide a sound base for discussion of the issues from which appropriate and logical recommendations can be made. The analysis should include appropriate financial and numerical calculations, particularly those which are discernable from the unseen examination material which is rewarded within the Application criterion.

The main issues contained in the unseen material were considered to be:

1. **Top priority – Tender for contract for Government vehicles**

   This was regarded as the main issue as the loss of this contract would have had long-term implications for BVS on its workshop utilisation levels, the costs it would incur in outsourcing and also the effect on its share price when it became listed. The profitability of the contract needed to be considered carefully as a significant reduction in price charged by BVS was required to win the re-tender for the contract.

2. **Second priority – Customer profitability analysis**

   BVS needed to ensure that all categories of customer were profitable and that some should not be subsidising others. This was considered to be key to BVS's long-term success. It was important that BVS's overhead costs were controlled and accurately charged to customers to ensure that its prices reflected the cost of servicing different categories of customers.

3. **Third priority – Tyre pressure checking service**

   This was the proposal to launch a new tyre pressure checking service to customers which would have required an additional 110 employees to be recruited in the first year and would be risky if the take-up of the service did not achieve the forecast number of customers. The new service would have enabled the customers who selected it to reduce their vehicles' fuel consumption and carbon emissions.

4. **Fourth priority- Flotation plans for BVS**

   BVS planned to become listed in 2015/16. This was a strategic issue as the actions taken before that would affect its share price at flotation. It was important that board members who were also shareholders understood this.

**Format of answers**

The format of candidates' answers to part (a) was generally good. Candidates usually began with an introduction leading to very brief terms of reference, prioritisation of issues, followed by discussion of those issues. Ethical issues were discussed and advice given on how to resolve them and then recommendations were made on the issues which had been prioritised. This is the standard way of approaching the examination and generally leads to a logical way of presenting the report.
While the suggested format of recommendation, justification and actions to be taken was again applied when candidates prepared their recommendations, candidates should not just repeat in their recommendations what they have stated in their discussion earlier in the report. In the discussion section, the candidate should consider alternative approaches to resolving any particular issue which is raised. In the recommendations section the candidate should select the approach which he or she wishes to recommend, justifying why this has been selected from the range of alternatives and then explain the follow-on actions which are necessary to implement the recommendation successfully. Low marks will be awarded in the recommendations section for simply repeating what has already been said earlier in the discussion as these marks will have already been awarded within the Judgement criterion.

Finally, most candidates provided a brief conclusion. The appendices were usually contained in an Excel file or in a separate answer book. Part (b) was often included as an appendix to the report, or as an Excel file which is acceptable.

Once again, some candidates failed to address part (b) at all. Others missed the key points of identifying the four alternative share prices. Some candidates failed to show a chart at all and others did not explain the potential effect on share price if the government contract was lost. Once again, many candidates failed to provide a recommendation despite being asked to do so. Part (b) is worth 10% of the marks and an important part of the examination which should not be ignored. Candidates are reminded that guidance exists on the CIMA website relating to the format of the part (b) assessment which will be required. See:


**T4 Assessment Criteria**

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**Strategic Choices (35 marks)**

| Focus                        | 5       |
| Prioritisation               | 5       |
| Judgement                    | 20      |
| Ethics                       | 5       |

**Recommendations (40 marks)**

| Logic                        | 30      |
| Integration                  | 5       |
| Ethics                       | 5       |

**Analysis of issues**

**PART (a):**

**Technical:**

Rationale:

The purpose of this criterion is to assess the use of relevant theoretical techniques and frameworks to aid the analysis of the case material.

Suggested Approach:
It is recommended that candidates present their technical knowledge either in the form of appendices to the main report, at the end of the answer book, or separate answer book, in an Excel spread-sheet where appropriate, or the relevant theories could be discussed within the report itself. It is usually better to present the technical knowledge within the report where possible as it is then applied to the subject matter of the case material.

**Marking Guide:**

Marks are awarded for technical models and theories which are relevant to the case. It is usually appropriate to limit the technical knowledge displayed to five separate items.

**Commentary:**

Most candidates were able to display technical knowledge principally comprising a SWOT analysis, Johnson, Scholes and Whittington’s Suitability Acceptability Feasibility (SAF) framework, Mendelow’s stakeholder matrix, Ansoff’s Growth Vector matrix, Porter’s 5 Forces and generic strategies models. As usual, most candidates performed satisfactorily under this criterion. It is noted again that many candidates limited their use of theory and models to a few which were relevant to the case. This is welcomed and encouraged.

It is often better for candidates to use the technical knowledge as an illustration within the actual report itself, rather than as an appendix. Many candidates applied the Johnson, Scholes and Whittington SAF model or Mendelow’s stakeholder analysis within their actual discussion of the issues contained in the case, rather than as an appendix.

It is always appropriate to produce a SWOT analysis. It would be expected that the main issues from the unseen material which are discussed in part (a) of the answer will feature somewhere within the SWOT analysis, along with those ascertained from the pre-seen material. The SWOT should not be too long but should contain the main issues affecting the case organisation.

**Common errors:**

Any model or theory used must be applied to the content of the case material. Some candidates do “name drop” that is, produce a model or refer to one without using it in context. This gains no marks and wastes time. There are occasionally some candidates who do not produce a SWOT analysis at all and others who present it with some elements missing. Candidates’ must ensure that all four elements of the SWOT analysis are completed. There will always be something to include within the four quadrants of the SWOT analysis.

**Application:**

**Rationale:**

The point of the Application criterion is to assess how well candidates use the techniques, frameworks and calculations to support their analysis of the issues in the unseen material and to form a sound basis for their subsequent recommendations.

**Suggested approach:**

Candidates are advised to ensure that they apply relevant models, techniques and frameworks correctly, given the unseen case material. It is important that rather than just stating the model or framework, it is presented in such a way that it provides information which is relevant to the case, enabling candidates to use the information as part of their analysis of the issues. This also applies in respect of calculations, which should be relevant to the information given in the particular case. There was plenty of scope for relevant calculations to be made in this examination.

**Marking guide:**
Marks are available for the relevant application of techniques, models, frameworks and supporting calculations but only if the candidate applies them to the specific case. These were principally an evaluation of the government contract, carrying out customer profitability analysis for BVS, an evaluation of the tyre pressure check proposal and the determination of the various potential share prices at flotation.

Commentary:

Most candidates provided a SWOT analysis. It is essential that candidates take full account of the information contained within the unseen material and incorporate this into their SWOT analysis. Candidates are reminded that it is mainly the unseen material on which they should base their answers and should ensure that all the prioritised issues are included in the appropriate quadrant of the SWOT. Items contained in the pre-seen material are likely to be developed within the unseen material. It is necessary for candidates to update their pre-conceptions of the SWOT analysis in the light of the unseen material. SWOT analyses should not be too long but should concentrate on the essential issues which affect the case company. Most candidates managed to provide some additional theoretical analysis by using appropriate models.

Common errors:

There were very few errors relating to the non-financial area. Most candidates recognised the potential loss of the government contract as a threat. A common error was the omission as a weakness that BVS had not previously identified customer profitability by customer category.

There were many errors in the calculations.

Once again, candidates are reminded that they must expect to be confronted with some issues which require analysis using management accounting or financial management calculations. Candidates also must be prepared to systematically work through the information contained in the unseen case material to produce appropriate calculations which will inform and support their analysis and recommendations. The calculations required in this examination should be well within the scope of well-prepared candidates.

The following errors relate to the numerical and financial calculations.

Evaluation of the tender for contract for Government vehicles:

- Failure to accurately determine the revenue reduction impact at the relevant price reduction levels, in particular believing a 5% price reduction required the forecast revenue to be divided by 1.05 instead of multiplied by 0.95.
- Failure to accurately work out the tender prices at the relevant price reduction levels
- Failure to accurately work out the operating profit at the relevant price reduction levels in particular, applying the price reductions to the forecast operating profit levels rather than just the revenue. It was a price reduction that was required. Forecast costs were not affected.
- Failure to accurately work out what the operating profit percentage would be at the relevant price reduction levels
- Failure to accurately work out the impact on BVS’s operating profit if it did not re-tender for this contract and many candidates omitted the loss of the value of the operating profit from the existing contract and referred only to the marginal increase in cost which would be charged by outsourced workshops
- Failure to accurately work out the impact on the utilisation levels if BVS lost or did not re-tender for this contract or no attempt made at this calculation at all
- Failure to accurately work out the operating profit and operating profit margin percentage on the current contract, in particular the profitability of the components which showed that the government vehicle servicing element only provided a 3.9% margin therefore any price reduction below 3.9% rendered this element as loss making
• Failure to consider what the impact of the additional outsourcing costs would be on BVS if the contract was lost

Customer profitability analysis:
• Failure to accurately work out the correct contribution percentage for each type of customer
• Clearly not understanding what the term “contribution” meant
• Failure to accurately deduct the relevant cost items from the contribution levels
• Failure to accurately work out the average net profit for each type of customer
• Failure to accurately work out the average net profit percentage for each type of customer
• Inability to accurately work out the impact of the cost of finance on large and small fleet customers, or simply ignoring this altogether

Evaluation of the proposed tyre pressure checking service:
• Failure to accurately work out the revenue for each year of the proposal
• Failure to accurately work out the manpower and travel costs for each year of the proposal or not including travel costs in the calculation
• Failure to apply the discount rate correctly or carelessness in picking up the incorrect discount factor
• Not applying a discount factor at all, simply arriving at an undiscounted total and declaring that this was the NPV
• An amazing level of carelessness with numerous candidates not able to accurately arrive at the net cash flows in each of the years
• Failure to accurately work out the NPV of the proposal
• Failure to attempt to work out the break-even point in terms of the required number of vehicles for the proposal
• Wrongly including non-relevant costs in the NPV such as the value of customers’ fuel savings and the revenues generated from the sale of telematics devices

Calculation of the alternative share prices at flotation:
• Failure to accurately work-out the revised post-tax profit with the government contract taking account of the reduction in the government tender contract price
• Failure to accurately work out the revised post-tax profit without the government contract with the increased cost of outsourcing
• Failure to accurately apply the P/E ratios of 4 and 5 to the revised post-tax profit levels both with and without the government contract
• Mis-reading of the case not understanding that the €2.3m was the after tax value of the government contract before a price reduction, not the profit after tax if the government contract was lost. The word “before” was even underlined in the unseen case material.

Candidates must be ready to prepare accurate calculations in this examination. It is a test of professional competence and inaccuracy in calculations speaks for itself and incorrect calculations render the discussion and recommendations as lacking credibility. These were not difficult calculations and candidates must surely have come across similar ones in their previous studies. It is essential to read the information contained in the unseen material carefully and think about what it means. Before making another attempt at the examination, candidates who failed this examination are strongly advised to ensure that their knowledge and understanding of the fundamental principles of management accounting and financial management is sound.

Diversity:

Rationale:
This criterion seeks to assess knowledge and understanding of relevant real life situations in the same or similar context as that in which the case is set. It also assesses the recognition of commercial or organisational issues relevant to the case material irrespective of whether or not they occur within the same industry.

**Suggested approach:**

Candidates should seek to introduce relevant examples at the point where they discuss the issue in their answer. Typically, this may occur in the introduction, the prioritisation section, discussion of the issues, ethics or within the recommendations. The main point is that a candidate should seek to bring in the relevant example at the point which enables him or her to elaborate or emphasise the commentary in the answer.

**Marking guide:**

Essentially, there is one mark available for each relevant example given, providing it is clearly stated why it is relevant. Note, a maximum of one mark is awarded for a single example or a range of general examples given in the introduction. Marks are not awarded for repeated examples unless they definitely relate to different points being made. Additionally, general discussion of many real life companies in the introduction will not attract more than one mark, as they have not been related to the issues raised in the unseen material. Candidates need to explain why the example is relevant to the point being made.

**Commentary:**

This was generally satisfactory with many good examples of fleet maintenance companies.

**Common errors:**

Some candidates gave few or no examples in their answers or only gave general examples in the introduction.

**Strategic choices**

**Focus:**

**Rationale:**

This criterion requires candidates to select the business issues that are regarded as the most important and which will be discussed further within the answer.

**Suggested approach:**

This is not a section of the report as such. Marks are awarded based on the issues which are contained and discussed within the report.

**Marking guide:**

There are five marks available for this criterion even if there are not five separate issues contained in the unseen material. It is for the candidate to determine the most relevant issues in the case that should be discussed. As it happened, there were four main issues, excluding the ethical issues, in the unseen material.

**Commentary:**

Most candidates were able to identify appropriate issues in the case and therefore gained marks under this criterion.
There were four main business issues in this case, being the contract for government vehicles, the customer profitability analysis, proposal for the tyre pressure checking service and the flotation plans for BVS. Candidates were awarded marks in Focus, as well as Judgment and Logic, based upon the comments made, irrespective of the specific heading within their report under which each of the issues had been discussed.

Common errors:

Candidates should be aware that if an issue is prioritised (see next section) and then not actually discussed within the report, or simply provided with a heading but with no discussion, then the focus mark for that particular issue will not be awarded.

Prioritisation:

Rationale:

Under this criterion, candidates are required to rank the issues and to state clearly and concisely the justification for that ranking. The ranking should reflect the impact of the issues on the particular organisation, which may include its urgency.

Suggested approach:

The priorities should be presented early in the candidate’s report under their own heading. The priorities should be set out with the issues ranked as either 1st, 2nd, 3rd etc. Each should be justified with a concise explanation of why it has been ranked in such a position.

Marking guide:

High marks are awarded if the candidate presents the most important issues with a good rationale as to why they are ranked as main priorities. It should be noted that markers do award marks to candidates who persuasively make a case for prioritising issues differently from those contained in the suggested answer.

Commentary:

On the whole, candidates are accustomed to producing their rankings and generally present their prioritised issues in an appropriate form. The SWOT analysis, if carefully carried out, should help to clarify which are the most important issues to be addressed. Most candidates identified the potential loss of the government contract as the top issue.

Common errors:

Some candidates only prioritised three issues and others failed to persuade the marker that their prioritisation was sufficiently strong, by downgrading the potential loss of the government contract to lower down in their priority list of issues to be discussed. Even where the government contract was identified as the top priority, some candidates provided weak rationales and did not justify why it was the top priority. A good rationale should have included the impact on BVS’s profit and utilisation levels as well as the urgency for the tender.

Judgement:

Rationale:

This criterion assesses the candidates’ exercise of commercial and professional judgement in discussing the key issues which were prioritised.

Suggested approach:
It is important that candidates discuss the impact the prioritised issues have on the organisation and what alternative actions, with reasons, could be taken to address them. This should include discussion of the relevant supporting analysis drawn from the Application criterion. If calculations are made within an appendix, for example the NPV of the proposed tyre pressure checking service, it should be used in support of the points made under that relevant heading within that section of the report. The purpose of undertaking the analysis by using appropriate planning models and relevant numerical and financial analysis is so that the findings can then be used to support discussion of the issues.

Marking guide:

Marks are awarded for discussing the different aspects of an issue and its impact on the company and also for providing appropriate alternative approaches to resolving it. The alternative approaches will receive higher marks if they are accompanied by a valid rationale as to why they are being put forward and consideration given to their advantages and disadvantages. Candidates will receive reward for an in-depth analysis of the issues raised, including incorporating the results of accurate numerical and financial analysis. Consideration of alternative approaches to resolving the issue is an essential element of the analysis. Simply repeating approaches to resolving the issue is an essential element of the analysis. Simply repeating the facts of the case is not helpful to the reader of the report.

Commentary:

The Judgement criterion is extremely important as it provides the facility for candidates to express their full analysis of the issues contained in the case. It is essential that sufficient time and effort is put into carrying out this critical analysis. It is not sufficient for a candidate to simply repeat the facts of the case and regard that solely as his or her analysis or to only explain the impact of the issue and not what alternative action could be taken. It can be assumed that the reader of the report is already familiar with the facts contained in the case. Similarly, it is not enough for a candidate to simply suggest possible alternatives to resolving the issue without carrying out a proper evaluation of the suggestions being made. The alternatives need to be analysed in depth. The facts of the case, together with their supporting calculations, should be used as evidence to support the discussion as part of candidates’ analysis of the issues. It is essential that candidates state the impact and discuss the accurate financial implications of alternative actions for the case company for each particular issue, providing evidence where appropriate.

Once the impact has been stated then the candidate should consider the alternative actions which could be taken by the organisation and bring in relevant analysis in support of each alternative discussed. Candidates must consider each issue from the wider perspective of the impact it has, or potentially will have, on the case organisation, using the facts as evidence in support of the arguments being presented.

Common errors:

These common errors are repeated from previous PEGs as they continue to appear in candidates’ answers:

- Simple repetition of the case material without any additional analysis. Candidates must be prepared to analyse the information given in the unseen material.
- Failure to discuss all the issues prioritised. This often contributes to a candidate failing the examination. It is essential that candidates manage their time effectively.
- Serious lack of analysis of the issues including not discussing the numerical or financial implications which might have been reasonably accurately calculated. This implies that the candidate may actually be able to undertake a reasonably accurate calculation but is unable to interpret what it means. That is of limited use to an employer and indicates the inability of the candidate to explain what his or her calculations mean in practical terms for the case company.
- Discussing issues without preparing the relevant numerical or financial calculations.
• Brief discussion of alternative actions and little comparison of the overall advantages and disadvantages of each of the alternatives, i.e. with no support analysis to back-up the suggestion being made.
• Failure to distinguish between business and ethical considerations relating to an issue. Marks will be awarded irrespective of where the candidate discusses the point but candidates should be able to make this distinction.
• Constant belief by too many candidates that a positive NPV = profit. This is totally wrong. The NPV relates to cash not profit. Any Finance Director reading a report by one of his or her staff that stated that a positive NPV means that the proposal was expected to be profitable would have to question the suitability of the staff member for the role he or she occupies. This is a fundamental mistake and should not be being made by candidates at this level.
• Another mistake is the belief that after flotation, strategies would need to be agreed with a “large number of shareholders”. This is not so. Whilst the directors will maintain links with the major shareholders, it is the board’s responsibility to develop and implement strategy. Board members do not seek the views of all the shareholders in advance.

In addition, the following main errors were made in respect of this particular examination:

• Generally weak discussion and not recognising the urgency of BVS maintaining growth to satisfy its private equity investor.
• Failure to consider the suitability of the cost drivers in respect of the customer account profitability issue.
• Failure to recognise that the “small fleet customers” were being shown as loss making according to the customer account profitability analysis usually as a result of the candidate failing to undertake the Customer account profitability calculation.
• Failure to take account of the customers’ view of the tyre pressure checking proposal. Failure to identify that it was essential that sufficient customers took up this service if it was to be financially viable as often the candidate omitted to prepare any sensitivity analysis.
• Failure to take account of the break-even point for the number of vehicles required for the tyre pressure checking proposal.
• Mis-understanding the telematics devices for the tyre pressure checking service. These did not count as revenue to BVS as assumed by some candidates.
• Failure to accurately calculate and discuss the wide ranging potential share prices depending on whether the government contract was retained or lost.

It is very important that candidates concentrate on the issues contained in the actual case and on the unseen material. If the issues in the unseen material are fully considered, with good numerical and financial analysis where appropriate, then alternative approaches which might be adopted by the organisation in the case will usually flow from this and can be proposed with the benefits and disadvantages of each set out. Time must be allowed to carry out this analysis effectively. Analysing the issues in this way will lead to the candidate producing a rationale for his or her recommendations later in the report.

There is no single right answer to the issues posed in the examination and credit is given for candidates’ analysis even if this does not correspond with the suggested answer. It is the lack of in-depth and accurate analysis which causes most candidates to fail the examination.

Ethics – Strategic choices:

Rationale:

Candidates are required to use judgement to identify and analyse the ethical issues and state why these issues have ethical implications.

Suggested approach:
This section is normally coupled with the recommendations on how to resolve the ethical issues. It is acceptable to provide the answer in one section or it could be split over two as presented in the Assessment Criteria. The reason it is split in the Assessment Criteria is because the business issues usually have an ethical dimension associated with them.

**Marking guide:**

Marks are awarded for recognising each of the ethical issues and then it is crucial to explain why it is considered that the issue displays weak ethical values.

**Commentary:**

On the whole, candidates were able to identify the main ethical issues. These were the receipt by the Finance Director of information from a person working in the government procurement department about possible competitors’ tender prices. The ethical issue was whether or not this information should be used by BVS in re-tendering for the government contract. The second ethical issue was the unauthorised use of workshop space and the harsh response of the Operations Director to the seven workshop managers as well as the fact that employees were abusing the use of facilities.

**Common errors:**

Generally, the ethical issues were reasonably well handled, although, again, there were some candidates who did not discuss ethics at all. This is a very dangerous strategy as the Ethics criterion is worth 10% of the marks for the examination. Candidates were mostly able to identify the ethical issues and provide a reasonable explanation of why the issue might be considered to be ethical. Many candidates however failed to explain how the ethical issue impacted on BVS or its individual employees.

Some issues raised by candidates were spurious and although given credit within Judgement and Logic, were not considered in themselves to be ethical issues. For example, the expectation that a customer would need to install a telematics device for the tyre checking service was not of itself an ethical issue although some candidates raised it. This was a necessary pre-condition to taking up the service.

A recurring error in each examination is the belief that the adverse impact on the case company’s reputation is in itself an ethical issue. Once again, for the avoidance of doubt, **reputation is not an ethical issue.** It is a business issue and is not an ethical justification for not proceeding with a proposal. This point has been made repeatedly in PEGs but still it comes forward from candidates in each exam session. Impact on reputation may be stated as a potential consequence of an unethical activity taking place, but, in itself, it is not the ethical concern. The activity itself is the ethical issue and candidates must explain why there is an ethical dilemma posed by the issue.

Once again, many candidates only discussed one ethical issue. This limits the marks which can be awarded. There are always at least two ethical issues in each unseen part of the case study.

**Recommendations**

**Logic:**

**Rationale:**

This criterion tests whether candidates are able to make well-justified, commercially sound recommendations for each of the prioritised issues.
Suggested approach:

It is important that candidates ensure that there are strong reasons provided for the recommended course of action. The recommendations should follow on from the weight of arguments and choices of possible actions in a logical manner. It is expected that candidates will present their recommendations, provide a justification of why these courses of action are being recommended and then state what should be the follow-on actions. It is essential that each recommendation is commercially sensible and realistic.

Marking guide:

Marks are awarded not just for the recommendations themselves but also, crucially, for the rationale and strength of argument supporting them, drawing from the earlier analysis of the issues and for explaining what the organisation should do next to make the recommendations happen. It must be stressed that marks will not be awarded to candidates for recommendations which merely repeat what has been said earlier in their discussion of the issues.

The recommendations section must be used to provide very clear recommendations drawn from the analysis and discussion earlier in the report. The candidate should have produced a range of alternative approaches to resolving an issue in the analysis and discussion. Recommendations should be clear, concise, justified and then lead to relevant follow-on actions. Candidates should select their recommended action from the options discussed earlier in their report. Often candidates are vague in their advice or recommendations are presented with no justification which is no help whatsoever to the report reader.

Recommendations such as 'monitor customer profitability closely', 'do something about', 'more controls are needed', 'the Board should meet to discuss', 'the Board should review', 'appoint a consultant to review', lack clarity, are evasive and therefore are not acceptable. It is very important that the report makes appropriate clear recommendations and does not leave any of the issues undecided. It is for candidates to present all the arguments for and against a course of action and to assess each carefully to reach well considered recommendations. It is the depth of discussion and the strength of arguments and the justification behind the recommendations that earn marks. Ill-thought through analysis and poor recommendations are not rewarded.

Commentary:

Recommendations will be given credit even if they are not consistent with those in the suggested answer. There is often no single correct answer to the issues presented in the case. It is the rationale for the recommendation which is important. The follow-on actions must be consistent with the recommendations. Further, candidates should understand that recommendations must be consistent with each other and with advice on ethical issues where appropriate. Any recommendation provided should explain why a particular course of action is recommended, rather than simply what should be done and how. To re-iterate, recommendations should not simply repeat what has already been discussed earlier in the report. Candidates must be prepared to make concise, firm recommendations, drawn from their earlier discussion with very clear reasons showing the rationale for the selection made. The follow-on actions should logically follow and, if appropriate, provide a timescale for implementation.

Candidates are referred to the suggested answer to see clearly how recommendations should be presented. It is recognised that the suggested answers are far more thorough than would be expected from a candidate’s script in the examination as it is intended to be a teaching document as well as an answer to the particular case study.

The recommendations should follow the analysis and discussion and therefore sufficient time should be allowed for the recommendations to be prepared. Some candidates rush their recommendations because they have not left sufficient time to present them fully or in some
cases do not present any recommendations at all for one or more issues. Marks cannot be awarded if there is nothing presented.

Common errors:

Many of these common errors are regularly presented within the PEG and once again were evident in this examination:

- Time management issues with some recommendations being very short.
- Straight repetition of what had been said in the earlier discussion without sufficient amplification of why a course of action is being recommended. The candidate should distil the comments made in the discussion to provide a succinct rationale for a proposed course of action.
- Some candidates produced a weak rationale, or no rationale at all, for their recommendations which did not address the issue. It is essential that candidates explain the reasons for their recommendations. No employer is likely to accept recommendations without a clear explanation of the reasons for them.
- Failure to provide recommendations on all the prioritised issues. This may be due to time constraints and is therefore a feature of poor time management.
- Recommendations which did not follow on logically from the earlier discussion within the report.
- Making recommendations without undertaking any numerical or financial analysis at all where it was clear that such analysis was essential.
- Recommendations which are inconsistent with the advice given under the Ethics criterion.

The following points are made with specific reference to this examination:

- Recommending that the government contract not be re-tendered for and then proposing that BVS should still aim for flotation without recognising the serious impact the loss of the government contract would have on the potential share price.
- Failing to provide a proposal for a definite percentage price reduction but simply stating “re-tender for the government contract”.
- Not considering potential negotiation with the government for a specified clear period for the duration of the contract.
- Believing that the contract could be won on the quality of the workmanship which had been acknowledged by the government when the unseen material clearly states that the “government department will accept the lowest price submitted.”
- Tendering with a price increase, rather than a reduction.
- Asking the government to cancel the tender and negotiate with BVS on quality grounds.
- Not renew the contracts of the small fleet customers without reviewing the validity of the cost drivers.
- Recommending that prices for small fleet customers were increased without review of the cost drivers.
- Failing to suggest that it might be appropriate for BVS to carry out a wider ranging and thorough trial of the tyre pressure checking service before fully committing to it, especially as there had been some concerns expressed by the Finance Director on the sensitivity of the proposal.
- Failure to recognise that the impact of BVS not being awarded the government tender on the flotation.

The recommendations are an essential part of the answer and candidates should allow sufficient time to address them fully. Candidates should also think about what they are actually writing and ask themselves the simple question, “Does this actually make sense and is it consistent with my earlier analysis?”

Integration:
Rationale:

The marks are all available for the overall functionality and quality of the report in part (a).

Suggested approach:

This is not a section of the report, but considers the report as a whole. As a guide therefore it is important that candidates present a report which is clear, sectionalised, addresses the main issues with good analysis and discussion and makes suitable recommendations based on the weight of evidence presented.

Marking guide:

Reports are deemed to be highly professional, sound, satisfactory, inadequate or poor. The whole 5 marks are available for a highly professional report and 0 or 1 mark for a poor report.

Commentary:

Good answers tend to divide the report into the following distinct parts:

- Table of contents
- Brief terms of reference
- A brief introduction
- Prioritisation of the key strategic issues
- A detailed analysis of the issues
- Ethical issues (which may be in one section or split across the detailed analysis and the recommendations)
- Recommendations
- Appendices including part (b).

It is important to effectively integrate the different parts of the report. So, for example, the recommendations should include the evidence base supporting them by reference to the earlier analysis (including financial and numerical analysis and discussion of the alternative actions) which may be drawn from the main body of the report and the appendices.

A low mark will be awarded in Integration if the key issues were not properly addressed, or indeed were not discussed at all and the report was left incomplete. Further, a low mark is applied in Integration if analysis is not sufficiently carried out, for example, the discussion of the issues was vague and generally superficial in nature and did not specifically relate to the unseen case material, numerical analysis was weak or contained errors of principle or was not undertaken at all. In particular, errors in calculations or, not attempting the calculations at all, would be likely to result in a low integration mark.

Common errors:

Reports which do not address the main issue satisfactorily or provide sufficient depth of analysis or reasoning behind the recommendations will not be rewarded with a high mark under this criterion. Vague recommendations or the candidate not committing to a particular course of action will not be rewarded because this is not helpful to the reader. Candidates should be prepared to present their recommendations with confidence and support them with rational argument as to why they are being made. Incomplete reports with not all of the prioritised issues discussed or some recommendations omitted.

Ethics - Recommendations:

Rationale:

This criterion judges candidates on their recommendations and reasoning for each of the ethical issues identified.

Suggested approach:
This section follows on from the identification and explanation of the ethical issues. It may either be contained in one complete section or split over two as presented in the Assessment Criteria.

Marking guide:

Marks are awarded for the quality and depth of the advice given and the rationale for the advice offered for each of the ethical issues discussed.

Commentary:

Candidates tended to give sensible advice on the issues raised in the report although this sometimes lacked depth.

Common errors:

The main common error once again, was that some candidates failed to provide any advice on the ethical issue raised or that the advice offered was vague and as such unhelpful or was itself unethical. For example, using the inside information in submitting the bid for the government contract because BVS “has an ethical duty to secure the tender by any means” or that the Finance Director should notify BVS’s competitors that the information has been leaked to ensure “a level playing field.” While the ethical sentiments for this is understood, it is naïve in the extreme to expect this to happen and it is also impractical, especially when the information, which may not have been accurate, could be ignored and the bid made on purely business grounds. The advice itself must be ethical and, usually, will become clear when the ethical dilemma is understood.

Candidates need to ensure that their advice is consistent with their recommendations for the main business issues they have provided within Logic. The advice itself needs to be sound and logical.

Candidates could increase their marks under this criterion by explaining the rationale for their advice.

PART (b):

Rationale:

The purpose of part (b) is to test candidates’ ability to communicate in a competent professional way their analysis, findings and the financial implications relating to a particular issue contained in the unseen material.

Suggested approach:

Candidates should consider carefully the actual requirement, the purpose of the communication, for whom it is intended and the salient points that he or she wishes to communicate. This means that the candidate needs to think carefully about the major points which need to be included in the communication. Thought also needs to go into the effectiveness of the communication which means that it should have clarity, be to the point and not be ambiguous or verbose. Candidates should follow the instructions or requirement for part (b). In this case, the candidate was asked to prepare a presentation to the Board on the range of share prices possible for BVS when the company plans to become listed during 2015/16. The presentation had to contain no more than five bullet points, including a recommendation and a graph which could be a column, bar or line chart. The graph was to show four alternative share prices which were the original share price in April 2011, the
alternative share prices based on two different P/E ratios and the share price if a government contract (which BVS had secured) were to be terminated.

Marking guide:

Marks are awarded on the strength of the communication provided. There are marks available for commentary on the strategic importance of an issue, the inclusion of relevant financial or numerical information, the benefits and disadvantages of a particular course of action and a recommendation where appropriate as well of course for the graph produced.

Commentary:

Once again some candidates chose not to attempt part (b) at all. It is dangerous not to attempt this part as it is worth 10% of the total marks available and time should be set aside to complete it.

Common errors:

The common errors were:

- Failure to do part (b) at all.
- Failure to restrict the sentences to 5.
- Failure to provide short sentences.
- Failure to draw a graph.
- Producing the wrong chart, i.e. one which did not depict potential share prices.
- Poor presentation of charts; no heading and inadequate description of the axes.
- Lack of labelling of columns or points on the chart.
- Insufficient information contained in the chart.
- Charts which failed to convey to the reader what was meant and failure to provide any clarification in the discussion.
- Failure to include any financial information in the discussion relating to the chart.
- Failure to provide a recommendation.
- Some nonsensical share prices proposed such as €40,000.

To re-iterate what has been stated before in previous Post Examination Guidance reports, it should be understood that employers have made it clear to CIMA that they seek candidates who are not only competent in management accountancy but are also able to communicate effectively. This is the main reason why part (b) exists in the T4 case study examination.