

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

General comments

This case study was based on a shared service centre supporting the operations of Nortan, a multinational oil company. The pre-seen material was made available in advance of the exam and five variant papers were set, each presenting additional scenario-based information and setting four tasks to be completed. Each task was split into two or three specific requirements.

Information on the oil industry is widely available and shared service centres are an increasingly common feature of many organisations. Candidates’ responses often indicated a familiarity with the shared service centre concept and overall performance showed an improvement on the previous exam session. It was encouraging to see significantly fewer very brief or otherwise poor scripts. There was also a marked improvement in the quality of answers to questions relating to the content of the F2 Advanced Financial Reporting syllabus. Candidates seem to be realising that a good case study answer requires an understanding of both the technical skills expected of an accountant and also the underlying business. It should, however, be stressed that there is still room for improvement and it would be undesirable for candidates preparing for future sessions to become complacent about this technical content.

The tendency from previous sessions of failing to relate answers to the scenario remained an issue in many weaker scripts. Some candidates still do not answer the question which is actually asked; it is essential that candidates read the questions carefully. It would be desirable to see greater use being made of the information not only in the pre-seen material but also contained within the various pieces of reference material presented in the exam.

Variant 1

	Designed to test ability to:	Competency being tested:	Syllabus learning outcome:
Task 1	Discuss aspects of the balanced scorecard	Technical skills	P2 B2b – discuss traditional and non-traditional approaches to performance measurement
	Discuss role culture vs. task culture	Leadership skills	E2 B2b – explain the importance of organisational culture
Task 2	Evaluate strategy implementation	Business skills	E2 A1b – compare and contrast alternative approaches to strategy development
	Discuss the re-engineering of contract setting	People skills	P2 A1b – evaluate TQM techniques
Task 3	Discuss technical and ethical issues associated with financial reporting	Technical skills	F2 B1a – produce primary financial statements and B1e discuss ethical selection and adoption ...
	Evaluate NPV	Business skills	P2 C1b – discuss the financial consequences of dealing with long-run projects
	Evaluate project management problems	Leadership skills	E2 D2a – discuss the characteristics of the different phases of a project
Task 4	Evaluate performance	Technical skills	F2 C1b – evaluate the financial performance ... and F2 A1b – discuss the markets for and methods of raising long-term finance
	Discuss accounting issues when subsidiaries prepare financial statements	Business skills	P2 B1a – discuss the information needed ...
	Evaluate parent reverting to preparing statements	People skills	P2 B1a – discuss the information needed ...

Comments on performance

Task 1

In the first requirement, candidates should have focussed on whether or not the green and amber gradings on the traffic lights are working properly, rather than getting too bogged down in the detail of the department's performance. For example, the training plan indicator is in the green category because more than 75% of departments have a plan, which conceals the fact that one of the departments has no plan in place. Very few candidates identified and developed the points that were hoped for. Numerous candidates wrote about the detail of the performance instead of discussing whether the scorecard worked well. It is important that candidates read the question carefully before attempting it.

Candidates were free to agree or disagree with the assertion that the FOSSC has a role culture but needed to offer a logical justification for the stance that was taken. There were some good arguments for either task or role culture put forward in this part of the question although some candidates were unclear of the difference. Weaker candidates did not make any kind of argument to support their stance and indeed many seemed unsure about what a task culture is.

Task 2

In the first part of this task, candidates were again free to argue for or against the idea that the emergent approach to strategy was appropriate for the FOSSC. This question was answered well by many candidates, with some of the strongest responses presenting both sides of the argument. Candidates who performed badly in this question simply gave extremely brief answers, which could have been improved by reference to the pre-seen material or to the information provided in the question and the unseen reference material.

In their discussions of the pros and cons of re-engineering the FOSSC's contract processes, candidates should have considered the significance of contracts and the need for them to be tailored to both the subject matter of the contract and the legal system. The process should have reflected the need to deliver a binding contract that gives Nortan a clear basis for conducting business. Again, this question was answered reasonably well, with many candidates making good suggestions on why the contracts should be re-engineered and the improvements in process that could bring. Increased efficiency was discussed in many answers, as was the need for some kind of standard contract which could be tailored to individual circumstances. Credit was given for both of these points.

Task 3

In order to achieve a high mark, the first part of this task demanded a solid discussion of both the technical and ethical issues associated with bringing financial reporting under the auspices of the FOSSC. Candidates should have thought about the process of preparing financial statements and the need for local knowledge of the entity whose accounts are being prepared. Many candidates simply did not mention ethical issues at all. However, the discussion of technical issues showed a marked improvement from previous sessions.

In the second requirement, candidates should have discussed the costs of centralising this function compared to each entity preparing its own statements, a key point being that it could be difficult to make a comparison with the present situation because it may be unclear how much the operating units will save. Candidates should also have considered the matters that will have to be resolved in order to bring the new section into operation. Proposals had to be realistic to gain marks, for example the cash flows required, the number of accountants and support staff that would be needed, training on new systems and basic issues such as work space and computers.

Task 4

The primary focus in the first requirement should have been on legitimate accounting choices regarding the treatment of the lease and the provision rather than claiming distortion due to creative accounting or falsification. Unfortunately, weaker candidates discussed creative accounting in detail and did not gain many marks for that approach. In general, however, this question was answered better than many other financial reporting questions in the past, which was good to see.

Neither of the other requirements has a single correct answer: in both cases, marks were awarded for the quality of the arguments. Many candidates made convincing and well-developed arguments which were similar to the suggested solution, which points out the concern that the subsidiaries may be keen to manipulate their financial statements, but also highlights the ways in which such manipulation could be addressed and prevented. Weaker candidates simply failed to present any plausible arguments.

Variant 2

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Evaluate the problems associated with legacy systems	Technical skills	P2 A1a – evaluate activity-based management
	Discuss the decision on transfer of personnel files	Business skills	E2 C1b – discuss the effectiveness of handling relationships between the finance function and other parts of the organisation
Task 2	Discuss the treatment of errors in consolidated financial statements	Technical skills	F2 B1a – produce primary financial statements for a group ...
	Discuss the risks associated with quick correction	People skills	P2 D2b – discuss the risks associated with the collection and use of information
	Discuss the ethical issues associated with quick correction	Leadership skills	P2 D2b – discuss the risks associated with the collection and use of information
Task 3	Discuss the impact on ROCE and WACC	Technical skills	F2 C1a - calculate ratios ... and A2c - calculate WACC
	Evaluate payback	Business skills	P2 C1c – analyse information for use in long-term decision making and E2 A1b – compare and contrast alternative approaches to strategy development
Task 4	Discuss internal benchmarking	People skills	P2 B2a – prepare performance reports ...
	Discuss project management	Leadership skills	E2 D2c – discuss management and leadership issues associated with projects

Comments on performance

Task 1

A large proportion of candidates did not read the first requirement carefully and their answers just covered the problems associated with legacy systems rather than the difficulties of measuring these problems. In terms of how to overcome the problems, most answers just mentioned upgrading to a common IT system and the costs involved. It was rare to see different ways to overcome the problems but some candidates scored well by discussing benchmarking / KPIs to monitor the transfer of data.

In the second requirement, most candidates were able to discuss the obvious factors for consideration, namely whether or not the FOSSC had staff with the relevant experience/skills (and that training would be needed at a cost), or the relevant IT capacity. Many candidates also discussed the possible effects of redundancies in the operating units. Better answers related the answer to the payroll system so discussed data security as well as differing employment legislation in different countries. Weaker candidates tended to give a bullet-pointed list of factors without providing sufficient explanation or contextualisation, which limited the marks achieved.

Task 2

In the first requirement, most candidates noted that intercompany transactions had to be eliminated but the higher-scoring candidates then explained which balances might be affected. Weaker candidates usually just focussed on revenue and profits and the answers were far too short. Weaker candidates spent too much of the answer discussing transfer pricing (as being the focus of the answer) or the effects of foreign exchange (and whether balances were translated at spot or average rate).

The risks in the second requirement were in general very well addressed, with candidates realising the financial statements would be misstated and gave the effects on shareholders, performance evaluation, auditors, tax implications and corporate reputation. The ethics component was not answered quite so well; weaker candidates did not refer to the component parts of the code of ethics, so their answers were often limited just to stating that the financial statements wouldn't give a true and fair view.

Task 3

The first requirement was generally well answered, especially the effect of the investment on the ROCE. Most candidates discussed the increasing capital employed and decreasing ROCE, coupled with possible cost savings and increased profit helping to increase the ROCE. The effect of the investment on the WACC wasn't as well addressed. The weaker candidates tended to state that the WACC

would be affected by financing through debt or equity but were unable to explain how each might affect the WACC and why, thus showing a knowledge gap. Stronger candidates used the pre-seen material to discuss the levels of debt/equity/cash available and used this to discuss all three possible effects of funding and the effect on the WACC.

In the second requirement, the suitability of payback for evaluating the investment was generally well addressed; most candidates noted that it was simple to use/understand and explained the limitations of not looking at cashflows after the payback period and not using the time value of money. Weaker candidates didn't comment on these issues or say why this made the appraisal method weak; better candidates gave good explanations.

Some candidates didn't attempt the last part about the importance of updating the IT systems at all and others gave very brief answers. However, many candidates used the pre-seen information to discuss Norton's strategy and explain how the updates would ensure that the strategy was met.

Task 4

Answers to the first requirement were often disappointing as many candidates discussed the advantages of implementing a standardised IT system without discussing benchmarking at all. For some reason many candidates suggested no disadvantages to the suggestion of benchmarking whatsoever, so low scores were common.

The second requirement was generally well-answered, with candidates discussing both advantages and disadvantages of having the FOSSC manage the project with a fairly equal weighting. The main difference between candidates was simply the quantity of points made and the detail provided, with weaker candidates giving little more than a bullet-pointed list and stronger candidates providing short paragraphs per point.

Variant 3

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Discuss the impact of issuing dashboards	People skills	P2 B2c – discuss traditional and non-traditional approaches to performance measurement
	Discuss allowance for cultural differences between countries	Leadership skills	E2 B2b – explain the importance of organisational culture
Task 2	Discuss the recognition of provisions	Technical skills	F2 B1c – discuss the provisions of relevant IAS ...
	Apply sensitivity analysis	Business skills	P2 D1a – apply sensitivity analysis
Task 3	Evaluate re-engineering project management	Technical skills	P2 A1b – evaluate TQM techniques
	Evaluate consistency with group mission	Business skills	E2 A1a – discuss the concept of strategy ...
Task 4	Evaluate impact on share price	Technical skills	F2 A1a – discuss the characteristics of ... and A1b – discuss the markets for ...
	Discuss extending authority	Leadership skills	E2 B1a – discuss the concept of leadership and management
	Evaluate operating unit managers	People skills	P2 B1b – prepare reports to inform decisions

Comments on performance

Task 1

High scoring answers to the first part of this task considered both the advantages and disadvantages of providing this feedback on operating units' performance. It could be argued that the dashboard document could encourage departments that are lagging behind but could also prove demotivating for those departments whose performance was above average or who were trailing because of matters that were outwith their control. Generally, candidates answered this requirement well. There was a reasonable range of arguments for and against the proposal.

The second part of the task was also answered quite well. Stronger answers identified the ways in which culture might affect performance and discussed the extent to which that should influence performance. Such answers were often underpinned by cultural models such as Hofstede's. The question did not directly require reference to Hofstede, but credit was of course awarded when candidates used it to good effect. A number of candidates provided weak answers to this requirement; many simply summarised textbook material on corporate culture.

Task 2

Candidates generally answered the first part of this task better than the second. Good answers to the problems in ensuring consistency tended to start by summarising the requirements of IAS 37 and then relating the issues arising from those requirements to the scenario. The basic problem is that the definition of a provision requires an interpretation of the facts in order to determine whether a payment is 'probable'. Better candidates related this definition to the scenario and highlighted the difficulties in deciding whether the accidents described would result in a successful claim. Weaker answers simply defined the word 'provision' in accordance with IAS 37 and made little attempt to relate the definition to the scenario.

The second requirement asked about the implications of this inconsistency for the consolidated financial statements. Better candidates identified the basic issue, i.e. that the consolidated statement of financial position would understate the liability for provisions if a significant number of events had been excluded from the individual subsidiary accounts. Weaker answers tended to ignore the requirement and often discussed peripheral matters such as comparisons between different subsidiary company performance figures.

Task 3

The first requirement about re-engineering Nortan's project management was generally answered well, with candidates offering sensible suggestions for the improvement of the flow of any given project through the system.

The second requirement asked for a discussion of the consistency of the proposal to re-engineer project management with the group mission statement. This yielded some very good answers that addressed the requirement in a systematic manner and identified ways in which the project management process might affect shareholder wealth.

Task 4

Answers to the first requirement varied significantly in quality. Better answers tended to focus on shareholder perceptions of future profits and/or of an increase in positive NPV projects. Weaker answers tended to ignore the impact on share prices altogether. Most candidates were able to discuss the impact of dilution arising from rights issues on share prices.

The second requirement also asked about two matters. Candidates generally offered reasonably sound arguments concerning the first matter. There are potential advantages and disadvantages to the proposal and better answers offered a brief discussion of both. Stronger answers reflected the fact that the decisions being taken involve major capital projects and so the consequences of any problems are potentially significant. Answers to the second matter were a little weaker. Better answers picked up on the fact that accountability is more difficult when responsibility for making decisions is shared.

Variant 4

	Designed to test ability to:	Competency being tested:	Syllabus learning outcome:
Task 1	Discuss KPIs	Business skills	P2 B1b – prepare reports to inform decisions
	Discuss leadership	Leadership skills	E2 B1a – discuss the concepts of leadership and management
Task 2	Explain impact on WACC	Technical skills	F2 A2c – calculate WACC
	Advise on real options	Business skills	P2 C1b – discuss the financial consequences of dealing with ...
Task 3	Advise on accounting problems	Technical skills	F2 B2a – demonstrate the impact on the group financial statements ...
	Discuss organisational changes	People skills	E2 D1b – recommend techniques to manage resistance to change
	Benchmark performance	Leadership skills	P2 B2a – prepare performance reports ...
Task 4	Advise on competitive advantage	People skills	E2 A1c – explain the approaches to achieving sustainable competitive advantage
	Discuss risks associated with investing in software	Technical skills	P2 D2b – discuss the risks associated with the collection and use of data

Comments on performance

Task 1

A good answer to the first requirement should have discussed the strengths and weaknesses of the KPIs provided. Many candidates answered this requirement well, but weaker answers were generic, explaining the importance of having KPIs in general rather than discussing the specific issues presented by the three used in the performance report. Weaker answers were often very brief with little analysis or discussion of the interpretation of the effects of the KPI in the case study setting.

The second element of this task asked whether the management team's reaction to the KPI reports indicated weak management and implied weak leadership. A good answer should have pursued arguments either for or against weak leadership. Many candidates produced much briefer answers to this than for the first requirement of this task and tended to 'sit on the fence' rather than drawing conclusions about the style of leadership.

Task 2

The second task focussed on a proposal to expand the FOSSC. A good answer to the first requirement should have addressed both the impact on the additional debt on the cost of equity and also the increased weighting of debt in the capital structure. Candidates could also have discussed the possibility that the cost of debt could change. Most candidates correctly identified the impact of the increased weighting of debt but very few recognised that the cost of equity could be impacted. Discussion was often too superficial.

In the second part of this task, candidates were asked how real options could be incorporated into the project appraisal. A good answer should have explored using real options to avoid costs unless necessary, and perhaps to make the new centre more flexible and offer scope for expansion instead. This question yielded the weakest responses in the entire variant; most candidates did not appear to know what real options are and their responses indicated insufficiently thorough preparation for the case study.

Task 3

The first requirement covered the difficulties associated with accounting for an acquisition. A good answer should have identified that the main issues are the valuation of the consideration being granted and the valuation of the separable net assets. Whilst some candidates did discuss consideration, many simply recognised that 100% of the subsidiary was acquired and ignored difficulties in

estimating goodwill, different year ends etc. Most recognised the potential foreign exchange issues, but some gave very general answers explaining the process of performing a consolidation, which is not what was asked for.

A good answer for the second requirement should have discussed the type of changes and their impact on staff. Candidates could score well by arguing for or against benchmarking, or indeed by considering both sides of the argument. Many candidates did not recognise the transformational nature of the change, but often discussed benchmarking well.

Task 4

A good answer to the first requirement about leveraging the FOSSC's data should have identified the integrated nature of Nortan's business and discussed the ways in which managers from different operating units might have struggled to have an overview when they maintained their own records. Better candidates recognised the importance of big data, but many talked around the subject in very general terms without really addressing the requirements of the task.

In the second part of this task, candidates were asked to discuss the risks associated with investing in new software. A good answer should have gone beyond merely identifying risks to explore them in more depth, for example by talking about how key risks could be mitigated. Many candidates did well at identifying appropriate risks, but discussion was often scant and lacked depth, with mitigation rarely mentioned.

Variant 5

	Designed to test ability to:	Competency being tested:	Syllabus learning outcome:
Task 1	Present change to unit managers	Business skills	E2 A1c – Explain the approaches to achieving sustainable competitive advantage
	Discuss the difficulties of measuring performance	People skills	P2 B2c – discuss the criticisms and behavioural aspects of budgeting in responsibility centres
Task 2	Discuss negotiation	People skills	E2 C2a – discuss the roles of communication, negotiation, influence and persuasion in the management process
	Discuss risks and running costs	Technical skills	P2 D2a – discuss risk management
Task 3	Discuss the accounting implications of exchange of shares for asset	Technical skills	F2 B1c – discuss the provisions of relevant international accounting standards ...
	Discuss the need for project appraisal	Leadership skills	P2 C1b – discuss the financial consequences of dealing with long-run projects
	Discuss project sponsorship	People skills	E2 D2c – discuss management and leadership issues associated with projects ...
Task 4	Advise on transfer pricing	Business skills	P2 B3b – discuss transfer pricing systems
	Discuss benefits of holding shares	Technical skills	F2 A1a – discuss the characteristics of different types of long-term debt and equity finance and F2 B1a - produce primary financial statements for a group..

Comments on performance

Task 1

The first part of this task asked how best to convince operating unit managers of the merits of the FOSSC taking control of Nortan's human resources function. Good answers were expected to consider the benefits in the context of the concerns that operating unit managers would have. Some candidates gave some detailed answers addressing manager's concerns over the proposed centralisation primarily based on describing the various change management processes and theories in detail. Others discussed the benefits of the HR centralisation usually in a very theoretical manner which did not gain many marks. The best answers considered both.

In the second part of the task candidates did not really show understanding of the complexity of defining performance measures. Few candidates recognised any areas of conflict sectors. The best examples were where candidates highlighted the subjectivity involved in the process. Very few candidates recognised the conflict between individual KPIs.

Task 2

In the first requirement regarding negotiation with the Dolrovia government, weaker candidates spent considerable time detailing the various stages of a negotiation process without necessarily linking it back to the case study or considering the characteristics of each party involved in the negotiations. There was a tendency to highlight the benefits of Dolrovia (inexpensive labour, available staff, convenient central building, etc) as a suitable host for the new HR department.

There were many good answers in the second requirement. The average candidate managed to list a number of factors that would determine the risks associated with the HR department's operating costs, although more detailed explanation was often needed. Emphasis tended to be given to business risks rather than economic risks.

Task 3

Unfortunately the first requirement (addressing the accounting implications of issuing preference shares) highlighted a very visible gap in candidates' technical knowledge of financial instruments and their valuation. Only a handful of candidates were able to describe any logic in the determination of the equity or liability question and hence the subsequent presentation. Most candidates knew that

preference shares carried priority rights in terms of dividend and capital repayment but that was all. Even where candidates did recognise the debt characteristics of preference shares, they still tended state that the shares should be included in equity in the balance sheet.

The second requirement generated much stronger answers than the first; all but the weakest candidates produced reasonable arguments in favour of producing a project appraisal. However, commentary on Amber's suitability as project sponsor was often one-sided. Very few candidates presented any arguments against Amber assuming this role.

Task 4

On the whole, the first requirement was answered well, with some good discussions on the difficulties likely to be experienced in setting transfer prices, such as the problems justifying prices to the Dolrovia government and very few recognised the difficulty in finding an appropriate open market comparison.

The second requirement generated much weaker answers, with very few candidates having much idea about the ownership arrangements required by the government of Dolrovia. Many candidates ignored the issue completely or said that the government would receive income from the arrangement.