

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

**General comments**

This paper was based on a pre-seen scenario which described Grapple, a soft drink company. Grapple offers different flavours of drinks and was not quoted on any stock exchange. The scenario was made available in advance and five exam variants were set, each presenting additional scenario-based information and setting four tasks to be completed. Each task was split into either two or three specific elements. The industry is interesting and is accessible to candidates from all countries. Information on this industry is widely available.

Overall, the standard of answers presented was poor with candidates struggling to give good answers to the questions. Many candidates gave very generic answers which did not fully answer what was asked. The financial reporting answers were very weak which contributed to the poor marks some candidates achieved.

As with all the case studies, the strongest answers were applied well to the case study. There were unfortunately some very weak answers, these tended to be very short and not well applied to the case study. The general performance was disappointing, given that the pre-seen material had been available for several weeks prior to the exam. Some candidates did not respond to questions completely many parts of the question was missed out.

Some candidates demonstrated a poor understanding of several syllabus areas, including material that is clearly ‘core’, such as all technical areas of financial reporting and some of the more technical areas of management accounting such as project appraisal and performance measurement. This was very disappointing. Many candidates seemed confident in the E pillar tasks but were very weak in the F pillar tasks, this needs to be addressed by candidates.

The layout and logical manner in which answers were presented was reasonable.

**Summary**

The standard of scripts was poorer than usual. Some very poor scripts where candidates did not answer what was asked and missed out parts of questions. The technical knowledge of financial reporting was disappointing in many cases. It is essential that candidates study all the parts of the syllabus including financial reporting and all areas of the management accounting syllabus. There were some good scripts, submitted by candidates who had clearly prepared well, made good use of the pre-seen material and were technically competent, those were in the minority.

It should be clear that candidates must have a good knowledge of the preseen material before sitting the case study. This time it appeared that many candidates had not taken sufficient time to understand the company.

## Variant 1

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
<b>Section 1</b>	Review and evaluate investment appraisal	Technical and leadership skills	P2 D1a - apply sensitivity analysis
	Evaluate methods of financing	Business and leadership skills	F2 A1a/b - discuss characteristics of long term debt and equity finance/markets for and methods of raising long term finance
<b>Section 2</b>	Map risks and suggest responses	Technical and business skills	P2D2a - discuss risk management
	Discuss effect of fair value adjustments on financial statements	Technical skills	F2B1a - Consolidated statement of financial position
<b>Section 3</b>	Suggest approach to managing staff redundancy	Leadership and people skills	E2B1b - discuss HRM approaches towards individual performance;
	Discuss measurement of divisional performance	Business and people skills	P2B3a - discuss behavioural consequences of performance measurement
<b>Section 4</b>	Discuss project appraisal	Technical skills	P2C1c- evaluate investment appraisal techniques and explain results;
	Discuss project management	Technical skills, Leadership skills and People skills	E2D2b/c-apply tools and techniques for project managers/discuss management and leadership in projects

## Comments on performance

### Section 1

The first requirement was done fairly well with many candidates producing discussions on the rate of return, WACC and sensitivity analysis. These issues were discussed in the question and it should have been clear that these issues were what should have been discussed. A surprising number of candidates went down different routes but where the answers were relevant marks were awarded. Most candidates concluded that the project was worthwhile but many other issues should be considered before a final decision is made.

In the second requirement many candidates described debt and rights issues well and many also discussed a few factors such as gearing and covenants, a surprising number of candidates did not realise that Grapple was unquoted so the take up of the rights issue could be problematic.

Very few candidates discussed other methods of raising finance and when they did, their suggestions were very weak. Many candidates thought that getting a huge uptake for the rights issue would solve the issue and they would not need further finance, many more said just issue more shares which would be difficult in an unquoted company. It was disappointing that candidates did not seem to have many ideas, some suggested venture capitalists but very few suggested using the companies own cash which was surprising.

Financial reporting requires revision before any future attempt.

### Section 2

In this first requirement many candidates did not discuss risk maps in their answer. These marks should have been very straightforward but many scored zero for this part.

Candidates should then have applied the principles to each of the two risks in the question and justified their answers. The candidates did discuss the first risk but did not justify their answer.

Very few candidates answered the part on interest rate risk and therefore marks were very low for this requirement.

While in the Second requirement the candidates should have explained fair value adjustments unfortunately very few candidates did this and many simply discussed goodwill. A number of candidates missed this requirement out and most others gave very brief answers which were either about the calculation of goodwill or completely incorrect. Very few candidates attempted to apply the fair value question to Grapple and just gave general answers which were often incorrect.

This was question on financial reporting where the candidates had very little knowledge of the subject matter.

### **Section 3**

In the first requirement candidates could have considered some of the following issues - compliance with law, how to select people and what payment terms would be. This part was done reasonably well by many candidates, although there was a tendency to list lots of stages in the process and not relating any of them to Grapple.

The next part of the answer should have been on minimising employees' resistance and discussions on communication, transparency and fairness should have been part of a good answer. This part was missed out by a number of candidates but when candidates answered the discussions were usually reasonable.

In the second requirement candidates should have considered a variety of behavioural effects, discussing both the likelihood and effect of each effect. Many candidates did not seem understand this question and gave very short responses. Few candidates mentioned internal competition, internal trading and transfer pricing, controllability or performance measurement/management, all of which are in the suggested solution. Where candidates mentioned any of these they did not go on and refer to Grapple's circumstances. There were a number of issues they could have discussed, such as the relative size of the proposed divisions, the operational methods within those divisions or the use of residual products from the fruit juices division in other division products (transfer pricing).

Marks were quite low for this requirement.

### **Section 4**

In the first requirement candidates could have opened this answer by explaining why straightforward NPV would not be an appropriate selection method. They should have discussed capital rationing and equivalent annual cost.

This was an area of weakness for most candidates as many had no idea about annual equivalent cost. Candidates showed a very poor grasp of technical management accounting. The better candidates made a small calculation and went on to explain it often quite badly. Others just missed this part out.

Overall this requirement was not done well.

The second requirement had a variety of project management tools could have been described in this requirement. To be a valid response, they should each have a role to play in project planning. The question specifically asks for tools rather than documentation

and many candidates did not discuss tools, however they did manage to explain some of the documents used in project planning and if they did this well and said how they assisted planning they were awarded marks. This requirement had a reasonable response from a number of candidates. The poorest answers just gave general answers on project management, some gave very long answers which just listed everything they knew about project management which did not gain many marks.

In the third requirement, candidates should have discussed both leaderships issues expected to occur, as well as how each issue should be dealt with. Good responses should have referred to some of the following; conflict, selection of team members and allocation of roles, motivation and decision making. The candidates should then have discussed the method of dealing with the issues. Candidates did quite well in this requirement with many candidates giving good answers. The poor answers were generally where candidates chose a model such as Tuckman and just discussed the theory with no application to Grapple. Some candidates missed out the discussion on methods of dealing with the issue and others just gave generic answers on leadership.

On the whole this was answered better than many of the other requirements in this variant.

## Variant 2

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
<b>Section 1</b>	Discuss effect of joint venture on financial statements	Technical skills	F2B1a - Consolidated statement of financial position
	Evaluate investment appraisal techniques	Business skills	P2C1c - evaluate investment appraisal techniques
<b>Section 2</b>	Discuss team management	People and leadership skills	E2C1a - building effective and high-performing teams
	Discuss learning curves	Technical skills	P2A1d - Apply learning curves;
<b>Section 3</b>	Discuss transfer pricing	Technical skills	P2B3b/c - discuss and evaluate transfer pricing systems
	Discuss negotiation	People skills	E2C2a - discuss the role of negotiation in the management process
	Discuss controllable and non-controllable costs	People and leadership skills	P2B1b - Performance reports recognising issues of controllable and uncontrollable costs
<b>Section 4</b>	Discuss financial performance	Technical and leadership skills	F2C1c - advice on action to improve an entity's performance;
	Discuss competitor analysis	Business skills	E2A2b - analysing and interpreting competitor data

## Comments on performance

### Variant 2

#### Section 1

A good answer would explain that Grapple would have joint control of Company X, and that therefore this would be a joint venture in accordance with IFRS11 Joint Arrangements. It would have been appropriate to explain the impact of this on the statement of financial position and statement of profit or loss.

Overall this was the least well attempted section of the variant. Many candidates stated that Grapple would have control of the new company and explained the process of consolidation.

The second requirement in this section was to explain alternative investment appraisal methods and also explain the information needed for any necessary computations for the Company X project. Accounting rate of return, payback and internal rate of return would have been appropriate methods to explore. Better candidates produced good answers to this although many did not address the requirement to explain the information requirements. However, weaker answers were often very poor and showed a lack of knowledge of this subject area, for example suggesting that appropriate alternative appraisal methods would be marginal and absorption costing.

#### Section 2

A good answer here would focus on the characteristics of a high performing team and how this could be achieved in the context of the new process. Candidates generally performed well in this section, although many responses lacked structure. Many candidates ignored the instruction to omit discussion of the stages of team development and based their response on this.

In the second part of this task the candidates were asked to explain the use of learning curves in budgeting and costing, illustrating their answer with the numbers provided. They were also asked whether the assumption of a 95% learning curve was valid. Again, this section was generally well attempted although many candidates did not use the information provided and discussion of the effect on budgeting and costing was often omitted, with answers lacking depth and detail.

### **Section 3**

The candidates were asked to explain the disadvantages of using market based and cost-based approaches, and the advantages of a negotiated approach. They were also asked to explain the negotiation process to be followed and give details of how it could be applied. The final requirement was to explain controllable and uncontrollable costs and the issues for performance measurement they present.

A good answer here would not only explain the features of a well thought out transfer pricing system but also relate it to the specific scenario presented by the case study. Although this section was generally reasonably well attempted many candidates omitted discussion of the negotiation process. Explaining the four stages of negotiation, preparation, opening, bargaining and closing would have been appropriate.

Discussion of controllable and uncontrollable costs was often too scant and lacked detail.

### **Section 4**

In the final task the candidates were provided with some figures from the first two years trading results of Fizzcap. They were asked to draft a report commenting on the financial performance and position to date and suggesting what the future could hold for Fizzcap.

The first part of this task was generally attempted reasonably well, but many candidates omitted discussion of the future of Fizzcap.

Again, attempts at the second part of this requirement were often incomplete, with many candidates discussing competitor analysis but not potential competitor responses. A good answer to the issue of competitor analysis would discuss the issues in the context of the case study scenario. Answers were often very general, with many using Porter as a basis for their discussion

**Variant 3**

	<b>Designed to test ability to:</b>	<b>Competency being tested:</b>	<b>Syllabus lead learning outcome:</b>
<b>Section 1</b>	Discuss the financial reporting implications: provisions	Technical skills	F2B1c - Provisions in accordance with IAS37
	Discuss risk management	Business skills	P2D2a - discuss risk management
<b>Section 2</b>	Discuss disciplinary procedures	Leadership and people skills	E2B1b - disciplinary and grievance procedures for resolving poor performance
	Analyse financial reports	Technical skills	F2C1b - Evaluate financial performance and position
<b>Section 3</b>	Discuss TQM	Technical and people skills	P2A1b - evaluate TQM techniques
	Discuss strategic management	Business and leadership skills	E2A1b - Compare and contrast alternative approaches to strategy development
<b>Section 4</b>	Evaluate long-term investments	Technical skills	P2C1b - Discuss the financial consequences in dealing with long-run projects
	Describe how non-financial factors affect decisions	Business skills	P2C1a - analyse information for long-term decision making
	Discuss project management	Leadership and people skills	E2D2a - discuss the characteristics of different phases of a project

## Comments on performance

### Section 1

The first part of this question dealt with the financial reporting implications of a claim against the company in respect of alleged negligence. Most candidates were aware of the need to apply IAS 37 to determine whether there was a need to reflect the compensation claim in the financial statements, but the arguments offered were frequently confused. A large number of candidates correctly stated the recognition criteria, but there was a slight naivety in their application. In particular, the fact that the customer's claim for loss of earnings amounted to almost 1% of the company's annual revenue (along with a hint in the question itself that the claim seemed "high") should have been enough to confirm that there was insufficient information available to make a realistic provision for compensation.

Many candidates focussed on the question of the compensation claim itself. Some wrote about the wider implications of the event, such as the possible need to account for the inventory recall. Some of the arguments offered simply repeated facts from the scenario without any real elaboration or explanation. For example, the fact that the accounts had not yet been audited was frequently cited as a relevant fact. Those candidates were generally hinting at the application of IAS 10, which makes no direct reference to the completion of the external audit.

The second requirement asked candidates to identify long-term risks and suggest responses for their treatment. Many candidates identified several risks and offered potentially relevant suggestions as to how they might be addressed. Weaker answers tended to repeat the same argument with only small variations. For example, some candidates suggested a public apology to be issued and then listed the different media through which an apology might be transmitted.

### Section 2

The first requirement sought guidelines on the disciplinary actions that might be taken and the consequences associated with getting them wrong. Most candidates addressed the "guidelines" part of the requirements with either a very generic answer that described disciplinary procedures in general or they gave very specific advice on the action that might be taken against the two individuals. Very few candidates made it clear that the two employees' cases appear very different, with Mark making what might be a simple mistake and Jan committing a gross breach of procedure. That was a concern because it suggested a lack of real understanding of what disciplinary procedures might actually entail.

The requirement asked about implications of the incorrect application of disciplinary procedures. Most candidates were aware of those consequences and generally wrote about them in some detail. This part of the requirement was answered well.

The second requirement offered a table of accounting ratios and asked whether those ratios might have been affected by the product recall. Many candidates simply interpreted the ratios by offering a suggestion as to whether the figures had improved or deteriorated, with no attempt to address the requirement. Very few candidates took account of the fact that the two return on capital employed ratios were for a three-month period and twelve-month period respectively and so required some adjustment to make them comparable.

The second requirement left some scope for assumptions regarding the extent to which the contamination might have affected sales revenue in the quarter ended 30 September. Very few candidates made use of the opportunity that stating such assumptions might have for developing their answers.

### **Section 3**

The first requirement asked for an explanation of TQM and whether it might be beneficial for the company. Most candidates were able to offer clear explanations of TQM and to list the different costs of quality. Candidates were generally weaker on the question of whether TQM would be beneficial in this case. Generally, application consisted of classifying the costs listed in the reference materials in terms of the descriptive headings offered in response to the first part of the requirement.

The second requirement was a request for an analysis of the company's approach to strategic management. It asked whether Grapple's approach could be defined as opportunistic and for a discussion of the potential benefits of alternative approaches to setting strategy. Candidates were generally able to describe approaches to strategic management, but were not particularly clear in their arguments as to whether they were relevant to Grapple.

### **Section 4**

The first requirement asked about financial considerations and methods that might be used to evaluate an investment project. That offered considerable scope for different approaches and many candidates wrote at length and were well rewarded in the process.

The second requirement asked about non-financial factors. Again, that offered a great deal of scope and many candidates benefitted, but a significant number of answers offered random suggestions, some of which were more financial than non-financial. For example, customer demand is essentially measured in terms of sales revenue.

The third requirement asked for an explanation of project planning. Most candidates wrote at length about the approach to project planning and generally scored well in the process.

## Variant 4

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
<b>Section 1</b>	Discuss key generic strategies	Business and leadership skills	E2A1c - Explain the approaches to achieving sustainable competitive advantage
	Explain target costing in relation to a new product	Technical skills	P2A1c - Discuss techniques for enhancing long-term profits
	Explain the business risks associated with product development	Business and technical skills	P2D2a - Discuss risk management
<b>Section 2</b>	Explain the accounting treatment of related parties	Technical skills	F2B3a - Discuss the need for and nature of disclosure of transactions between related parties
	Describe alternative pricing strategies	People and leadership skills	P2C2a - Discuss pricing strategies and their consequences
<b>Section 3</b>	Analyse financial performance and position	Technical and business skills	F2C1b - evaluate financial performance and position
	Describe the usefulness of competitor data	Technical and business skills	E2A2b - approaches to collecting competitor information
<b>Section 4</b>	Discuss behavioural consequences of performance measurement	Business and people skills	P2B3a - discuss the likely behavioural consequences of performance measurement
	Discuss conflict management	Leadership and people skills	E2C2a/b - discuss the roles of negotiation in the management process / discuss approaches to managing conflict

## **Comments on performance**

### **Variant 4**

#### **Section 1**

In the first requirement most candidates did not understand what the generic strategies were so they just wrote about Grapple producing quality products and how the new sports product would fit in with that.

Where candidates did know what the generic strategies were the good answers not only included details of the three strategies but they also matched Grapple, Party Pops and Carnival to the correct strategies too. If candidates did not provide a full answer here it was either because they didn't discuss "focus" or they only talked about Grapple and their differentiation strategy without bringing in other strategies or the competition.

Candidates were unsure about what to write for the launch and most answers were very weak.

In the requirement there was a lack of knowledge here for many candidates who discussed cost plus instead of target costing.

Where candidates did know what target costing was, they often only gave the brief description of the mechanics of how it worked. This was not enough for the available marks, they needed to talk in more detail about how the selling price would be determined, maybe comparing margins to the pre-seen info. Not many candidates mentioned that it was a pull-system or that cost reductions would result, or ownership.

In requirement 3, many candidates could list business risks and this was answered fairly well with risks such as customers not liking the taste, possible sugar tax issues, competition beating them to the launch, production/capacity issues all being fairly common.

What candidates didn't do very well was to evaluate the risks. This may be as it wasn't specifically asked for, sometimes candidates discussed how the risks could be mitigated, but they didn't usually do this for all the risks identified. Some just listed TARA and gave theory without applying it to the scenario at all.

#### **Section 2**

Requirement one, was answered very poorly, as candidates did not seem to understand the requirement. Candidates were expected to discuss related party transactions and many did not do this. This meant for many candidates that they could not achieve any marks at all.

Candidates not picking up the related party issue thought that there must be a special way of reporting the discount so tried to discuss revenue recognition, or provisions

Where candidates were aware there was a related party the answers were often reasonable. Some candidates included subsidiaries/joint ventures here when there was no need as it clearly wasn't relevant to the situation so just used up time.

The candidates' knowledge of financial reporting was weak.

In requirement two, as the pricing headings were provided to the candidates, they found this straightforward as most could give a basic definition of each of them. Most candidates found it difficult to provide anything other than a very basic definition of each of the strategies which limited the marks.

Most candidates did not discuss the suitability of each of the four pricing suggestions. Many only gave an overall conclusion and picked one strategy. That choice was often price skimming as they felt that Grapple's quality product could achieve a high price without appreciating that this was not really an industry suited to price skimming. Marks were also poor for this requirement.

### **Section 3**

In requirement one, the commentary on the financial performance was often very weak. Many candidates believed that the growth of 15% in revenue meant that revenue had decreased as this was lower than the 61% growth of the previous year ie they didn't appreciate that this was still good it was the rate of growth that was slowing.

Many candidates only restated the figures provided and said that one figure was higher/lower than the other. This is not enough.

There were a few candidates who decided to discuss other ratios (from the pre-seen) but they hadn't been asked for so marks could not be credited for these. Candidates need to make sure they are not wasting time answering questions that have not been asked.

Most candidates ignored the request to state further information needed and many candidates scored zero for that.

Second requirement, was a very broad and candidates seemed to not really know how to answer the question. Some just discussed big data, the three Vs and how the data could help.

If candidates were on the right lines they tended to discuss pricing strategies, target markets, countries sold to so were mainly revenue based and relevant but narrow answers.

Overall candidates didn't provide enough detail about the additional information and most failed to consider the usefulness aspect of the question in any detail.

#### **Section 4**

For requirement one, most candidates did agree that the sales manager had been disadvantaged and stuck to that line. They usually picked up that he had no control over the margins/agreement and that he was a high performing salesman concluding that something needed to be done to make the bonus fairer.

For fair performance the answers were often weak. Many candidates decided they wanted to discuss the balanced scorecard instead and gave far too much detail on this describing lots of KPIs where only minimum marks could be awarded as the answer was too narrow for the question.

In requirement two, candidates did not seem to realise they needed to talk generally about conflicts therefore it was very rare to see any candidates mentioning vertical or horizontal conflicts. Instead they launched straight into resolution.

For the resolution this was usually reasonable as most candidates discussed the need for communication all round, including bringing in HR or one of the directors, and the possibility of increasing the manager's bonus.

This question was not done very well, candidates seemed to be ill prepared in all areas.

## Variant 5

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
<b>Section 1</b>	Discuss capital rationing	Business and leadership skills	P2C1c - Prioritisation of projects that are mutually exclusive and subject to single-period capital rationing
	Explain WACC	Technical skills	F2A2c - WACC and its use
<b>Section 2</b>	Describe the stages of project management	Technical skills	E2D2b - Apply tools and techniques for project managers
	Describe the risks associated with Big Data	Business skills	P2D2b - discuss the risks associated with the collections and use of information
<b>Section 3</b>	Describe the balanced scorecard approach	Leadership skills	P2B2a - prepare performance reports for the evaluation of projected and actual performance
	Describe an effective appraisal system	People skills	E2B2a - discuss the behavioural aspects of management control;
	Describe competitive benchmarking	Business and people skills	P2B2b - discuss traditional and non-traditional approaches to performance measurement
<b>Section 4</b>	Explain the earnings per share ratio	Technical skills	F2B4a - Produce the disclosures for EPS
	Explain the external parties for the listed entity	People and leadership skills	E2C1c - discuss the effectiveness of handling relationships between the finance function and external parties

## **Comments on performance**

### **Section 1**

In the first requirement the majority of candidates managed to discuss capital rationing with the better ones recognising the value of looking at the non-financial aspects in parallel with the analysis of the figures presented. Some candidates also considered the potential for setting up other projects in anticipation of more capital becoming available. In all this was a very straightforward question yet the weaker ones often failed to even recognise the basics.

The second requirement of the first section was weak. Some candidates were aware that equity would be more expensive than debt so WACC would increase as more equity is being issued and that it therefore made more sense to recalculate WACC post flotation and with the particular large projects in mind. On the whole, most candidates offered very limited answers for this half of the question beyond WACC being a better measure, usually stated simply and without reasons.

### **Section 2**

Requirement one was about project management, however the question caused the candidates difficulty as they did not seem to understand what was required. Candidates seemed unsure whether they should be answering specifically with the Big Data implementation project in mind.

Some good scripts gave good structured coverage to project management stages covering the complete lifecycle and indicating the necessary access to skills within the PM team. However most simply wrote everything they knew relating to project management, often without structure or demonstrating any understanding of purpose or the grouping of activities under the stages. This did not gain high marks.

In requirement two candidates were asked to consider risks associated with Big Data and how to overcome them, most candidates answered from a very restricted IT viewpoint, focusing on physical risks; hacking, data confidentiality and compliance without even considering the commercial business fit, applicability, outcomes or basic ability to create improvements in the business decision making process. This general IT approach gained few marks.

### **Section 3**

In requirement one, most candidates dealt adequately with the use of Balanced Scorecard for performance appraisal. Few candidates tied their answer back to the material presented in the case study and in most cases a rather loosely defined generic appraisal process was as good as it got. There was little evidence of structure or ongoing development and only the best candidates tied this into overall company ethos and direction.

In requirement two, the candidates did not understand competitive benchmarking nor the specific aspects of Grapple's business that it could be used for.

Significant time was wasted discussing other forms of bench marking with at best a brief definition of and reasons for competitive bench marking. Marks were very poor.

#### **Section 4**

Very few candidates did well in first requirement of section 4. The candidate's knowledge of EPS was almost non-existent. Candidates were very weak in this section, largely due to poor knowledge demonstration on either EPS or especially on diluted EPS. Very few candidates gave a good answer on the long-term effect or treatment of the employee share option scheme. There were a few who managed basic answers on the definition of EPS with fewer actually defining or explaining what a rising EPS from the previous period meant. Candidates performed very badly in this financial reporting question.

Requirement two was a little better, with average candidates able to at least list and describe the main stake holders although with very limited comment on the underlying nature of the relationship with the company. There was limited coverage given to any reasons why these stakeholders need to be supplied with quality data, at best the average to good student listed compliance with stock market rules and a need to supply details to the providers of debt finance, otherwise these answers were largely weak.