

This report 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 Menta, a multinational bus company. Menta offers both local and long-distance (inter-city) bus services in several developed and developing countries. 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 good, with many excellent marks being attained by well-prepared candidates. As with all the case studies, the strongest answers were properly applied to the case study. There were some poor answers, these tended to be very short and not well applied to the case study. Given that the pre-seen material had been available for several weeks prior to the exam, this was disappointing. There were also answers which had been learned and even though the question was different just wrote a prepared answer which was not related to the unseen case.

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 transfer pricing 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. There were, however, some improvements over previous case study exams, the layout and logical manner in which answers were presented was very good.

Summary

The standard of scripts varied. 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. At the other end of the scale there were some very poor papers, where candidates had written very little and did not always demonstrate understanding of the requirements. Some weaker candidates had clearly revised specific topics and were determined to work them into their answers, despite the fact that they were really not relevant.

Variant 1

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Discuss suitability of resource-based approach for implementation of expansion strategy	Business skills	E2 A1b - compare and contrast alternative approaches to strategy development
	Discuss issues associated with performance measurement	People skills	P2 B3a - discuss the likely behavioural consequences of performance measurement within an organisation
Task 2	Identify problems associated with determining goodwill	Technical skills	F2 B2b - demonstrate the impact on the group financial statements of consolidating a foreign subsidiary
	Discuss issues associated with budgetary control	Leadership skills	P2 B2b - discuss traditional and non-traditional approaches to performance measurement
Task 3	Explain relevance of self-insurance	Technical skills	P2 D2a - discuss risk management
	Advise on approach to negotiation	People skills	E2 C2a - discuss the roles of communication, negotiation ...
Task 4	Evaluate financial implications of a project	Technical skills	P2 C1a - analyse information for use in long-term decision making
	Advise on the classification of a potential related party transaction	Business skills	F2 B3a - discuss the need for ...
	Evaluate concerns about conflict of interest	Leadership skills	E2 D2c - discuss management and leadership issues...

Comments on performance

Task 1, part 1

Candidates could have argued for, or against, the suitability of the resource-based view and could have focussed on one side of the argument only, if they so wished. Better candidates addressed the differences arising from applying the competences developed to date to the overseas environment. This question was answered well with most candidates demonstrating a good understanding of the issues in the task.

Task 1, part 2

Answers should have reflected the nature of this new department, both in terms of the work that it does and the fact that it will be led by a member of Menta's board. Candidates were awarded marks for explaining and/or clarifying their answers, explaining how Menta were going to address specific issues. The question of evaluating the new department and so many candidates suggested good performance measurements that could be used and discussed them well. Some candidates took a different approach and discussed the problems associated with evaluating corporate acquisitions in general terms, with less reference made to the discussion paper. Candidates following this and other valid alternative approaches were not penalised for doing so and in many cases scored highly for this section.

Task 2, part 1

Generally, answers to this task were weak. Candidates were free to address any issues relating to this particular acquisition, although the expectation was that they would focus on the specifics of the assets listed in the target company's statement of financial position. They should have addressed the specific problems associated with each category of asset and the problems associated with determining fair values. Many candidates did not tackle this well, focussing on the goodwill calculation and describing it in detail, which did not gain many marks. Discussions on how to arrive at fair values for bus routes and other assets needed to be discussed in detail.

Task 2, part 2

Candidates should have acknowledged the dilemma raised by the specified situation. The newly-acquired subsidiary board lacked confidence in the budget that has been imposed by Menta. Menta needed to integrate the subsidiary into the group and help it to adapt to the Menta business model. Answers should have focussed on ideas that were supportive and helpful to Delfin.

Menta imposed a budget on Delfin and now needs to convince them that it is possible to achieve, perhaps by entering into negotiation. This should have been the focus of a good answer. Many candidates just wrote very general answers about the benefits of budgeting.

Task 3, part 1

The TARA framework was applied in a very simplistic manner. The question of self-insurance requires some thought about the logic of transferring risk when there are so many vehicles that there will be a relatively steady and predictable pattern of claims across the group. This question was not answered very well. Many candidates simply wrote about TARA and explained what each of the letters meant and did not relate it back to the question. There were a few marks available for TARA but most marks were gained for demonstrating an understanding of the risks of self-insurance in the context of the case.

Task 3, part 2

As with any negotiation scenario, it is important to aim for a win-win outcome. That required candidates to focus on the Council's interests as well as Menta's. There was no single "correct" answer to the detailed approach that should be taken to achieving an agreement, but suggestions should be realistic and practical. There were many good answers to this part with most candidates demonstrating a good understanding of the main issues. Most candidates have a good grasp of many of the E pillar topics.

Task 4, part 1

Candidates should have been able to see that exchanging a valuable plot of land for a less valuable one could have an impact on shareholder wealth, suggesting that it should be taken into account in the project appraisal. The fact that no cash changes hands is a consideration, but the exchange will mean that future cash flows will be diminished if the depot should ever be sold. This part was not done well. Few candidates discussed the exchange of plots so presumably they did not understand that this reduction in the value of the respective plots was an important consideration for shareholders wealth.

Task 4, part 2

This requirement covered two issues.

The question of this being a related party transaction is interesting because the exchange is hardly an arm's length sale, although it probably does not fall within the specifics of IFRS. Candidates should be rewarded for exploring the issues and drawing a conclusion. This part was answered badly with many candidates simply saying that they were related parties which did not gain marks. The answer should have been justified using the accounting standard. Most answers were very brief.

Candidates should recognise that the City Council has a variety of different, and possibly conflicting, interests as a stakeholder in this project. Many candidates answered this well and demonstrated understanding of the conflicts.

Variant 2

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Identify issues associated with conducting a direct customer profitability analysis	Technical skills	P2 A1a - evaluate activity-based management
	Advise on the accounting issues associated with revenue recognition	Business skills	F2 B1c - discuss the provisions of relevant international accounting standards ...
Task 2	Evaluate the usefulness of information in preparing a successful bid	Business skills	E2 A2b - discuss the approaches to competitor analysis ...
	Recommend financial and non-financial performance measures	Leadership skills	P2 B2a/b prepare performance reports ... discuss traditional and non-traditional measures ...
Task 3	Evaluate ethical implications of refusing to fit safety equipment	Technical skills	P2 D2a - discuss risk management
	Advise on implications of imposing duty on employees	People skills	E2 B1b - discuss HRM approaches ...
	Advise on implications of staff discipline	Leadership skills	E2 B1b - discuss HRM approaches ...
Task 4	Discuss need for an accounting provision	Technical skills	F2 B1c - discuss the provisions of relevant international accounting standards ...
	Advise on pricing implications of improving customer safety	People skills	E2 C1c - discuss the effectiveness of handling relationships between the financial function and ... P2 C2a - discuss pricing strategies and their consequences

Comments on performance

Task 1, part 1

A good answer would have discussed the problems associated with establishing the marginal costs and revenues of the new contract, which would be complicated because Menta would have to either divert resources from other profitable activities or undertake significant investment. Most students were able to identify relevant factors, although many focussed more on capability of servicing the contract than conducting a customer profitability analysis. A number of students began by stating that customer profitability analysis is not appropriate in this scenario and that they would prefer to discuss the alternative they recommended instead, for example net present value analysis. This is not good exam technique, the method specified in the question should have been discussed.

Task 1, part 2

The second element of this task was to discuss whether it would be acceptable to recognise the revenue from this contract annually, with a lump sum credited to revenue on 30 September. A good answer required familiarity with IAS18, and to apply the requirements of the standard to the scenario in the case study in order to provide clear advice. Some students demonstrated good financial reporting knowledge in this section, but many produced very brief responses to this requirement and stated that this method of revenue recognition was acceptable/unacceptable without any further discussion.

Task 2, part 1

A good answer would have reviewed the usefulness of the information and explained how this could assist Menta in preparing a bid. It would also identify additional information which could be independently determined. Many attempted this section reasonably well although few identified any limitations in the information provided or discussed any further data which would be useful.

Task 2, part 2

In the second part of this task candidates generally described non-financial indicators better than financial ones. Financial indicators were often rather superficial, for example profit or loss per financial mile. Weaker candidates provided a list of financial and non-financial indicators with no discussion or explanation.

Task 3, part 1

A sensible starting point here would be the CIMA Code of Ethics, there is no single right or wrong answer to this question, but candidates needed to provide some sort of ethical reasoning. Very few candidates mentioned the CIMA code and the points made about ethics were often not well argued. Whilst many students recognised that having seatbelts fitted to buses was not a legal requirement, relatively few made clear points about the ethical issues. Some discussed whether or not seatbelts should be fitted with no reference to ethical issues at all.

Task 3, part 2

A good answer in the second part of the task would realistically evaluate whether the driver should be given this responsibility. Many candidates scored well in this section by recognising the practical difficulties this may cause, such as delays to buses, and problems for drivers if passengers remove their seatbelts while the bus is moving.

Task 4, part 1

Most candidates completed the first element reasonably well, but a number performed very poorly when discussing the external auditor. Few demonstrated an understanding of the auditor's role, commenting only that the relationship with the auditor might be less friendly going forward if the provision was not made. A worrying minority of candidates commented that if the provision was not made, the auditor could retaliate by releasing confidential information on Menta to competitors or refusing to work as hard on Menta's audit. Several advised that the information regarding the incident, and the solicitor's letter, be concealed from the auditor and the problem dealt with the following year. Many were only concerned about the impact on current profit levels of a provision.

Task 4, part 2

The final element of this task was generally well addressed, many candidates discussed price elasticity and the actions of competitors.

Variant 3

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Evaluate implications of changing status of responsibility centres	Leadership skills	E2 B1a - discuss the concepts of leadership and management
	Recommend changes to internal performance reporting	Business skills	P2 B1a - discuss the information needed for decision making in different organisational structures
Task 2	Discuss usefulness of big data analytics	Technical skills	P2 D2b - discuss the risks associated with the collection and use of information
	Evaluate impact of investment in PPE on accounting ratios	Business skills	F2 C1c - advise on action that could be taken to improve an entity's financial performance ...
Task 3	Identify challenges associated with timetabling a complex project	People skills	E2 D2a - discuss the characteristics of the different phases of a project
	Discuss implementation of TQM	Technical skills	P2 A1b - evaluate TQM techniques
Task 4	Evaluate payback criterion	Technical skills	P2 C1c - evaluate investment appraisal techniques and explain their results
	Discuss competitive advantage	People skills	E2 A1c - explain the approaches to achieving sustainable competitive advantage
	Discuss implications of perceptions of board competence	Leadership skills	F2 A2c - calculate the WACC for an incorporated entity

Comments on performance

Task 1, part 1

The first part of this question dealt with the implications of changing the status of subsidiary companies from investment centres to profit centres. Many candidates submitted disappointing answers that amounted to little more than a formal definition of profit and investment centres. Better candidates recognised that the change would reduce the authority of subsidiary directors to some extent, but that they would still have some influence over investment decisions through discussion and consultation. In the same vein, the directors will have less responsibility for investment decisions, but they will remain accountable for generating an adequate return from the resources that have been entrusted to them.

Task 1, part 2

The second requirement dealt with the changes to internal reporting of performance arising from the change in status. Candidates were expected to consider the impact of downgrading the subsidiaries to profit centres for the motivation and management of subsidiary directors. Better answers tended to explain the need for change and the factors that must be incorporated into the decision to change. Such answers identified the need to report performance on the basis of controllable costs and revenues. Some candidates simply listed performance measures, with little to explain why they were relevant in the context of the changes being made at Menta.

Task 2, part 1

This task required some understanding of the business model and also the opportunities created by the availability of data from the systems on buses and from Menta's records. Answers to this requirement were generally good, with candidates demonstrating an awareness of the role that Big Data analytics can play. Many candidates had a realistic understanding of the implications of different models, with different capacities and performance. Weaker answers tended to define the characteristics of Big Data analytics without any serious attempt to link those to the requirement or the scenario.

Task 2, part 2

The second requirement asked about the impact of the investment on profitability ratios and for some advice as to how any adverse impact on that might be minimised. This required an appreciation of the implications of investing in PPE for the evaluation of performance.

Stronger answers addressed both aspects of the requirement and demonstrated some understanding of the scenario. This was encouraging because interpretation of financial statements is as much about understanding the business as it is about calculating ratios. Several approaches to managing the adverse impact were proposed and all were awarded credit as appropriate. The most effective suggestions were often the simplest. Weak answers often ignored the requirement. A significant minority of candidates discussed liquidity ratios and other measures that have little or nothing to do with profitability.

Task 3, part 1

Generally, candidates understood the issues and described the operational issues well. Such arguments were potentially sufficient to score well, although there were also behavioural issues arising from the possibility that depot managers would possibly wish to press for priority in terms of the allocation of new buses. Weak answers generally ignored the requirement and wrote about project management in general terms. Candidates should be aware that their answers are unlikely to be relevant unless they address the scenario and focus on the requirement.

Task 3, part 2

The second requirement asked about TQM. Many candidates drew upon the scenario and identified the importance of preventing breakdowns and improving the efficiency of repairs and routine maintenance. Better answers highlighted the importance of minimising or even eliminating breakdowns during the working day. Again, weaker answers offered an overview of TQM as a concept with little or no application to the scenario.

Task 4, part 1

Better answers reflected the key facts set out in the scenario and the fact that any positive NPV project is worth investing in. Stronger candidates pointed out that a project with a very short payback that would generate positive cash flows for many years into the future would probably have a positive NPV. The payback statistic is easily understood. Better answers admitted to the limitations of payback but pointed out that they probably did not apply to any great extent in this case. Weak answers tended to repeat points from the study materials without considering their relevance to the scenario. Such answers were awarded marks where appropriate, but it was disappointing that there was little application.

Task 4, part 2

The second requirement had two elements. The first part was answered well, with candidates generally recognising that the buses would have lower operating costs and slightly larger passenger capacity, so they would assist in undercutting competitors' fares. Secondly, there was the question of whether WACC might be affected by a technical error from the CEO. Many candidates identified the link between cost of equity and share price. Weaker answers tended to simply state the formula for WACC.

Variant 4

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Identify factors that drive costs	Technical skills	P2 A1a - evaluate activity-based management
	Evaluate potential source of competitive advantage	Business skills	E2 A1c - explain the approaches to achieving sustainable competitive advantage
Task 2	Recommend approach to transfer pricing	Technical skills	P2 B3b - discuss transfer pricing systems
	Advise on ethical implications of an accounting decision	People skills	F2 B1e - discuss the ethical selection and adoption of relevant accounting policies and accounting estimates
Task 3	Evaluate the risk of losing drivers	Technical skills	P2 D2a - discuss risk management
	Recommend policy for staff dismissal	People skills	E2 B1b - discuss HRM approaches for managing and controlling individuals' performance
	Recommend approach to evaluation of HR	Leadership skills	E2 B1b - discuss HRM approaches for managing and controlling individuals' performance
Task 4	Discuss factors associated with project management	Technical skills	P2 C1b - discuss the financial consequences of dealing with ...
	Evaluate performance of project management team	Leadership skills	F2 A2c - calculate the weighted average cost of capital .../ E2(D2b - apply tools and techniques for project managers)

Comments on performance

Task 1, part 1

Candidates struggled to know how to answer this part and tended to fall into two categories, they either explained how the costs were largely mandatory, with the better candidates included things like different drivers having different training requirements depending on whether they were new to driving buses or had experience or that the discretionary costs may vary depending on driver/region. Weaker candidates often just copied out the regulatory environment rules from the pre-seen together with the discussion paper on the training centre from the second task without adding anything. The remaining candidates thought this was to do with ABC and tried to explain how cost drivers could be used to allocate the costs.

Task 1, part 2

This was better as most candidates chose to discuss benchmarking and gave some KPIs to demonstrate how training would give them a competitive advantage. The most common KPIs discussed were number of driver accidents and customer satisfaction. Better candidates included KPIs such as driver retention as they realised that the drivers could be motivated by the training too. Weaker candidates often stated KPIs with no explanation of how they were improved by training the drivers or showed how they would provide a competitive advantage.

Task 2, part 1

This tended to be well answered by most candidates as they showed good knowledge of transfer pricing. Most candidates went through each option (market price, cost plus etc) usually stating the theory so reasonable marks were achieved. Often candidates only gave the training centre's viewpoint of each method (or only gave the technical explanation) where better candidates also provided the subsidiaries view. Some weaker candidates thought the question was about the advantages of Menta doing its own training so they hadn't read the question carefully enough or didn't have the technical knowledge on transfer pricing to answer the question set.

Task 2, part 2

Many candidates got a little confused with this question and discussed the ethics of training drivers on old buses it was difficult to give these answers much credit, the question was clearly about conducting an impairment review. Correct answers were disappointing especially on the ethics side. Most candidates stated that the buses should be impaired with better candidates citing the correct ISA

and explained impairment. Some candidates thought this was about consolidation so went off track with their discussions. However after discussing whether or not the buses should be impaired most candidates said that it would be unethical to not impair but either stopped there or said that the buses would be overstated and went down the route of affecting performance indicators and the staff would be demotivated.

Task 3, part 1

This part was generally well answered. Most candidates either explained the risks well but then only gave a brief response (usually to increase the salaries to match competition) or just stated that it was a risk but gave a very comprehensive answer to the response with many candidates showing good knowledge of Herzberg's theory and applying it well. Many candidates also decided to apply TARA and again showed good knowledge but weaker candidates need to be able to apply the knowledge they have to the scenario that is just stating that the risk could be transferred through insurance was not appropriate for this scenario.

Task 3, part 2

Some candidates struggled with this as they decided to discuss all the items in the pie chart and explained what Menta could do about them, but discussions on people who had retired, been promoted or resigned was not relevant to the question about reducing dismissals. Many candidates also did not answer the part about evaluating HR's performance on the number of dismissals which limited the marks as they had not fully met the requirement. If candidates did look at HR evaluation they sometimes just decided to think of their own measures as well so gave a list of what they should be assessed on that was too detailed and not about dismissals. Where candidates had correctly read the question there were some good answers that linked the dismissals with Menta's reputation/need for safety and about the lack of control the HR department would have.

Task 4, part 1

Weaker candidates only discussed costs and then moved the discussion to appraisal methods describing in detail NPV, IRR etc. They didn't discuss any alternatives other than abandoning the project so the answers were very limited. Better candidates were able to think of topics other than costs and there were some very good answers that covered environmental factors, reputation, stakeholders and possibility of contracts that they couldn't get out of.

Task 4, part 2

WACC gave mixed responses there were some very good responses, and others where candidates seemed to have no knowledge of WACC at all. Simply saying that the WACC would change is not enough of an explanation. It seemed as though some candidates knew the theory but they couldn't apply it to the scenario of abandoning the project. The last part wasn't really answered with much detail. Candidates tended to just say they didn't develop a scenario at planning and they should have done. Many candidates did try to bring in PRINCE2 with some drifting away into giving an outline of project planning/project roles which was not asked for.

Variant 5

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Evaluate proposal for performance measurement	Business skills	P2 B1b - prepare reports to inform decisions
	Discuss implications of currency losses	Technical skills	F2 C1b - evaluate the financial performance ...
Task 2	Discuss implications of national culture	Leadership skills	E2 B2b - explain the importance of organisational culture
	Recommend pricing strategy	Business skills	P2 C2a - discuss pricing strategies and their consequences
Task 3	Discuss application of Porter's Five Forces Model	People skills	E2 A2a - distinguish between different aspects of the global business environment ...
	Advise on risk mitigation	Technical skills	P2 D2a - discuss risk management
Task 4	Evaluate arguments concerning transfer pricing	Technical skills	P2 B3b - discuss transfer pricing systems
	Discuss relationship between finance function and operational units	People skills	E2 C1b - discuss the effectiveness of handling relationships between the finance function ...
	Discuss the need to adjust subsidiary financial statements	Leadership skills	F2 B1d - produce the accounting entries ...

Comments on performance

Task 1, part 1

Most candidates did well in this question relating immediately to Kaplan and Norton Balanced scorecard using the non-financial measures to reflect KPIs relevant to show the underlying business trends whilst also addressing the financial measures required in BS. The better candidates suggested ways to portray both Centralia and Dorland currencies side by side in the financial aspects thus maintaining motivation whilst also measuring business trend with the non-financial elements; customer satisfaction, passenger numbers, driver safety and route reliability among other good measures. All but the very weakest candidates did reasonably in this section.

Task 1, part 2

On the whole candidates did less well in the second part of this question although many were able to highlight the need to give some clarifications to shareholders, highlighting the changes in equity and the underlying reasons why. Many answers were rather brief here giving only sympathetic support to Dorland's management but stating somewhat simplistically that results needed to be carried through to Menta Centralia's shareholders.

Task 2, part 1

There was evidence of widespread lack of detailed knowledge of Hofstede's cultural factors. Pockets of knowledge existed and these candidates made excellent interpretation of both the factors and the inevitable conflicts caused by the differences with possible remedies suggested.

Most candidates made reasonable assessments of their assumptions on power distance although some reversed the polarity of the measurement, they were often nevertheless in the right area of understanding the types of conflict which might arise. Uncertainty avoidance was somewhat less well interpreted, with many vague attempts at covering the ground with discussion of risk aversion. However the feminine, masculine orientation differentiation was widely misinterpreted even amongst more able students as being a whole gender inequality or gender treatment issue rather than displaying different cultural behavioural traits.

Task 2, part 2

There were many good answers to this question. The average candidate managed to list a number of factors that would compound the problems in the likely price setting determination. Most saw the combination of existing train and car usage as being quite a tough market to penetrate in terms of competition, with buses being middle ground in both sustainability factors and costs.

Many viewed differential pricing; discounting early bookings as the way forward rather than penetration pricing but most agreed that penetration pricing would probably be a good way forward to try and overcome the pricing barrier on fares.

Task 3, part 1

Most candidates gave a reasonable assessment of Porter's model with better answers highlighting that Porter would not have given much warning of the situation which would have likely suggested that consumer power would be won over with competitive pricing. Many of these better answers referred back into Q2 with Hofstede's cultural differences and highlighted social media pressures brought to bear by a society which doesn't simply want cheapest and where longer term views can be anticipated to include consideration of what happens after competition has been knocked out.

Task 3, part 2

Most answers correctly concluded that market research would have greatly benefited Menta prior to launching the service. Determining customer and market CSFs was more important with hindsight than pushing down prices. Considering Cultural and Satisfaction issues were generally viewed as the likely key issues with better candidates carrying this through to sensitivity analysis, use of big data across social media and passenger trend analysis along with suggestions for frequent traveller benefits, differential fare structures and luxury but environmentally friendly travel.

Task 4, part 1

On the whole this was reasonably well answered with some good discussions on the issues relating to profit share rather than set fees for consultancy services. Not many anticipated that future consultancy would not take place, but nearly all expressed the need for up front agreement on the principles to be applied in determining price rather than with hindsight as appears to be the case here. There seemed to be a good understanding of the standard issues raised by Transfer pricing with many students keen to restate the need for perceived fairness in all aspects so as to avoid resentment and dysfunctional behaviour.

Task 4, part 2

There were a minority of very good answers here with very few candidates providing full discussion of the points raised. On the whole the need for the finance department to a good working relationship with all subsidiary teams was recognised but many thought this should be in terms of passing down best practice rather than having any consulting or arbitration type role.