

Marking guide for Role Simulation Examination March 2023

The Role Simulation exam aims to examine knowledge, skills and behaviours in roughly equal proportions. This is reflected in the marking process where the available marks for each requirement are identified as Knowledge marks (K), Skills marks (S) and Behaviour marks (B).

A set of answers is issued to markers, giving an overview of the K, S and B points that can attract marks for each requirement. The model answers are extensive and contain all the points that could have been made; candidates are not expected to produce such full answers in the exam.

Broadly speaking, the K marks are for demonstration of appropriate and accurate knowledge and understanding from the Learning Materials for the five Certificate syllabuses assessed by the Role Simulation. This knowledge can be explicit or implied (eg where the answer is developed using recognised terminology, not just common sense).

Specifically, the K marks are for knowledge related to:

- Technical
- Business awareness
- Ethics and standards
- Regulation and compliance
- Systems and processes

The S marks are for the following skills:

- Analysis
- Communication
- Leadership
- Planning and prioritisation
- Producing quality and accurate information
- Team working and collaboration
- Using systems and processes

The B marks are for the following behaviours:

- Adaptability
- Adding value
- Ethics and integrity
- Proactivity
- Professional scepticism

For example, if the requirement was to 'analyse the industry using Porter's Five Forces model' then K marks would be available for knowing the meaning of the key headings and the terminology for items commonly seen under these headings, and both S and B marks would be available for applying this knowledge to the scenario and using the information in the scenario to explain how the force works.

For written requirements where the candidate may make many equally valid points using different aspects of knowledge, skills and behaviour, more marks were identified for explanations in the mark scheme than were available in the maximum mark awarded. In these requirements, once the maximum awarded mark was achieved by a candidate, no further marks were given.

The pass mark is 70% across the paper. There is no requirement to score at least 70% in each of the K/S/B pools of marks, nor to score at least 70% in each of the two tasks.

March 2023 marking grid

	Marks identified in marks scheme				Maximum full marks	Syllabus
	K	S	B	Total		
Task 1						
1.1a	2	0	0	2	2	ACC
1.1b	6	0	0	6	6	ACC
1.2a	3	0	0	3	3	ACC
1.2b	5	13	0	18	17	ACC
1.3a	0	7	0	7	3	ASS
1.3b	4	14	2	20	11	ASS
1.3c	0	10	0	10	3	ASS
1.4a	3	7	0	10	4	BTF
1.4b	3	1	7	11	6	ASS
1.4c	0	3	3	6	3	ASS
	26	55	12	93	58	
Task 2						
2.1a	4	4	0	8	8	MI
2.1b	0	8	6	14	5	MI
2.1c	0	7	5	12	5	BTF
2.2a	10	0	10	20	8	MI / LAW
2.2b	1	1	0	2	2	LAW
2.2c	8	0	0	8	4	LAW
2.3a	0	17	0	17	6	BTF
2.3b	0	7	7	14	4	BTF
	23	44	28	95	42	
Total	49	99	40	188	100	

The marking information set out below is that used to mark the requirements in the March 2023 exam. Markers were encouraged to use discretion and generally to give the benefit of the doubt where it was evident what the candidate was trying to explain even though the explanation could have been expressed more clearly. No partial marks were awarded but the 'own figure' (OF) rule in calculations was applied.

Task 1.1
Examiner's comments
Overall performance on this sub-task was generally very good.

Task 1.1 (a)	Marks	Nature																
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="text-align: right;">£</td> <td></td> <td></td> </tr> <tr> <td>Cash proceeds</td> <td style="text-align: right;">70,000</td> <td></td> <td></td> </tr> <tr> <td>Carrying amount (160 – 96)</td> <td style="text-align: right;">64,000</td> <td style="text-align: center;">1</td> <td>K-Technical</td> </tr> <tr> <td>Profit on disposal</td> <td style="text-align: right;">6,000</td> <td style="text-align: center;">1</td> <td>K-Technical</td> </tr> </table>		£			Cash proceeds	70,000			Carrying amount (160 – 96)	64,000	1	K-Technical	Profit on disposal	6,000	1	K-Technical		
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Profit on disposal	6,000	1	K-Technical															
Examiner's comments																		
This requirement was very well answered with almost all candidates correctly calculating the profit on disposal and scoring full marks.																		
Total possible marks	2	2K																
Maximum full marks	2																	

Task 1.1 (b)	Marks	Nature																				
<u>1. Equipment</u>	1	K-Technical																				
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Dr Disposal account</td> <td style="width: 10%; text-align: right;">160</td> <td style="width: 10%;"></td> <td style="width: 20%;"></td> </tr> <tr> <td>Cr PPE cost (160 – 70 already posted)</td> <td></td> <td style="text-align: right;">90</td> <td></td> </tr> <tr> <td>Dr PPE accumulated depreciation</td> <td style="text-align: right;">96</td> <td></td> <td></td> </tr> <tr> <td>Cr Disposal account</td> <td></td> <td style="text-align: right;">96</td> <td></td> </tr> <tr> <td>Cr Disposal account (Dr Cash 70 already posted)</td> <td></td> <td style="text-align: right;">70</td> <td></td> </tr> </table>	Dr Disposal account	160			Cr PPE cost (160 – 70 already posted)		90		Dr PPE accumulated depreciation	96			Cr Disposal account		96		Cr Disposal account (Dr Cash 70 already posted)		70		1 for Dr / Cr 1 for correct amounts	K-Systems and processes
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<u>2. Electricity bill</u>	1	K-Technical																				
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<u>3. Provision</u>	1	K-Technical																				
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Examiner's comments

This requirement was generally well answered, although some candidates did appear to be confused about the disposal and did not show all the appropriate journal entries. Almost all candidates realised that the appropriate journal entry for the provision was the change of £40,000 rather than the entire amount of £280,000.		
Total possible marks	6	6K
Maximum full marks	6	

Task 1.2
Examiner's comments
Overall performance on this sub-task was generally good, with many candidates able to prepare the statement of cash flows and gain most of the marks available.

Task 1.2 (a)	Marks	Nature
Profit in draft SPOL	21,407	
(1) Profit on disposal of office equipment	6	1
(2) Electricity	(36)	1
(3) Provision	40	1
	<u>21,417</u>	

Examiner's comments		
Many candidates obtained full marks on this requirement which was designed to test understanding of the effect on profit (and therefore equity) of individual transactions.		
Total possible marks	3	3K
Maximum full marks	3	

Task 1.2 (b)	Marks	Nature
Mistral Train Operations Ltd:		
Statement of cash flows for the year ended 31 January 2022		
-		
Cash flows from operating activities		
Profit before tax	21,417	1
Profit on disposal of non-current assets	(6)	1
Finance costs	7,005	*
Depreciation and amortisation	17,970	1
Increase in inventories	(95)	1
Increase in trade and other receivables	(2,256)	1
Decrease in trade and other payables (113390 – 112810 – 36)	(544)	2
Increase in provisions	240	1
Cash generated from operations	<u>43,731</u>	
Interest paid	(7,005)	1*
Income tax paid	(4,069)	1
Net cash from operating activities	<u>32,657</u>	
Cash flows from investing activities		
Purchase of property, plant and equipment	(12,000)	1

Proceeds from disposal of property, plant and equipment	70	1	S-Quality and accurate information
Net cash used in investing activities	<u>(11,930)</u>		
Cash flows from financing activities			S-Quality and accurate information
Decrease in borrowings (132,328 + 8,334) – (125,106 + 7,428)	(8,128)	2	
Dividend paid (W1)	(9,459)	2	
Net cash used in financing activities	<u>(17,587)</u>		S-Analysis S-Analysis
Net increase in cash and cash equivalents	3,140	}	
Cash and cash equivalents at 1 February 2022	84,026	} 1	
Cash and cash equivalents at 31 January 2023	<u>87,166</u>	}	S-Quality and accurate information
Title and headings		1	K-Regulation and compliance
* 1 mark for finance costs and interest paid			
W1 Dividends:			
Retained earnings b/f	37,882		
Profit for the period (17,338 + 10 (from 1.2a))	17,348		
Dividends (bal fig)	(9,459)		
Retained earnings c/f (45,761 + 10) (from 1.2a))	<u>45,771</u>		
Examiner's comments			
Answers to this requirement were generally of good quality, with candidates showing that they could prepare an almost correct statement of cash flows. Common mistakes included:			
<ul style="list-style-type: none"> • omitting the effect of the adjustments from task 1.1; • showing an incorrect amount for the change in borrowings (candidates should have shown the decrease in both non-current and current borrowings); • incorrectly calculating or omitting the dividend payment. 			
In this question, the dividend payment was not stated, however, candidates could calculate it from opening retained earnings (shown on last year, statement of financial position in the advance information), profit for the period (candidates' own calculations), and closing retained earnings (candidates' own calculations).			
Candidates could have calculated dividends from unadjusted figures or incorrectly adjusted figures and still arrived at the correct answer, since changes in profit are reflected in closing retained earnings.			
Total possible marks		18	5K, 13S
Maximum full marks		17	

Task 1.3
Examiner's comments
Performance on this task was disappointing. Answers were variable, with some candidates, showing a lack of understanding of the activities of an internal audit function.

Task 1.3 (a)	Marks	Nature
Three internal audit activities		
Monitoring internal controls	1	S-Using systems and processes
Examining financial and operating information (for example, reviewing the accounting system and carrying out tests of detail on transactions and balances in the same way as the external auditor does)	1	S-Using systems and processes
Reviewing the economy, efficiency and effectiveness of operations (this would include looking at non-financial controls of the organisation)	1	S-Using systems and processes
Reviewing compliance with laws, regulations and other external requirements	1	S-Using systems and processes
Conducting special investigations, for instance, into suspected fraud	1	S-Using systems and processes
Identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems	1	S-Using systems and processes
Assessing the governance process (performance management and accountability, effectiveness of communication among those charged with governance, external and internal auditors, and management)	1	S-Using systems and processes
Examiner's comments		
This requirement was in general poorly answered and was the most badly attempted requirement on the paper. Many candidates were unable to state the activities that internal audit staff were likely to undertake, and showed a lack of understanding of the activities of internal auditors. Some answers to this requirement simply listed typical audit tests.		
Total possible marks	7	7S
Maximum full marks	3	

Task 1.3 (b)	Marks	Nature
<u>What the internal control environment is</u>		
The internal control environment includes the governance and management functions of Mistral	1	K-Systems and processes
and the overall attitudes and actions of the directors in relation to internal control and its importance in the entity.	1	K-Systems and processes
The internal control environment sets the tone of the company and will influence the approach of management and staff and their recognition of the importance of controls.	1	K-Systems and processes
<u>How segregation of duties affects the internal control environment</u>		

<p>Segregation of duties is the control of using a number of people in a single control system. This helps to limit the risk of the human element in internal control systems because if a lot of people are involved, there is a greater chance that people's errors or frauds, will be uncovered by the next person in the control chain.</p>	1	S-Analysis
<p>Ideally there should be segregation between the functions of authorisation, recording and custody of assets. Assuming Fiona is not involved in the recording of purchases/payments, the fact that she authorises payments is an appropriate segregation. In addition, there is dual authorisation with Karolos' involvement.</p>	1	S-Analysis
<p><u>How Mistral achieves segregation of duties</u></p>		
<p>In a (relatively) small company like Mistral, if its staff capacity is not such to ensure that lots of people are involved in the internal control system, then the control system will be weaker.</p>	1	S-Analysis
<p>Mistral addresses this potential weakness by regularly using staff (eg on a part-time basis) from Valoro's group finance department.</p>	1	S-Using systems and processes
<p>When Mistral sets up a new, smaller company to operate Project Golden Arrow services the same challenges will apply to an even greater extent.</p>	1	B-Adaptability
<p>The new company will also need resources from Mistral and/or Valoro to strengthen its internal control environment.</p>	1	B-Adding value
<p><u>Additional factors that strengthen Mistral's control environment</u></p>		
<p>Mistral's directors (and Valoro's group management) place high importance on controls</p>	1	S-Using systems and processes
<p>and communicate this to all levels of management and staff.</p>	1	S-Using systems and processes
<p>So management and staff are educated and assessed about what the controls are and why they are important.</p>	1	S-Using systems and processes
<p>Individual managers are competent in their roles and aware of their responsibilities.</p>	1	S-Using systems and processes
<p>Because directors set the tone by taking controls seriously then other staff members will be encouraged to do the same.</p>	1	S-Using systems and processes
<p>There will also be monitoring by the internal audit function.</p>	1	S-Using systems and processes
<p>Therefore the human element of risk associated with internal controls is reduced.</p>	1	S-Using systems and processes
<p>Any two factors from above, max 2 for this section</p>		
<p><u>How the external auditor's assessment of the internal control environment affects the external audit</u></p>		
<p>External auditors will evaluate the internal control environment as part of their risk assessment process. Their evaluation will influence the audit approach and the audit procedures to be undertaken.</p>	1	K-Regulation and compliance

<p>If the internal control environment is strong the risk of fraud and error is reduced. If internal controls prove to be effective, then the external auditors can rely more on the controls system and will reduce the number of tests of detail.</p>	1	S-Using systems and processes
<p>However, if the internal control environment is weak the risk of fraud and error is increased. If the external auditors are not confident that internal controls are effective, then they will rely less on the controls system and will increase the number of tests of detail.</p>	1	S-Using systems and processes
<p>Max 10 from all sections above</p>		
<p>Communication (quality of explanations to Rebecca)</p>	1	S-Communication
<p>Examiner's comments</p> <p>Performance on this task was variable, however, some candidates obtained full marks. The best answers closely followed the structure of the requirements and included clear, specific explanations to Rebecca. Weaker answers tended to be more general or to answer a different question. For example, candidates were asked to explain two factors that strengthen Mistral's internal control environment. The advance information contained details of how Mistral tried to establish a strong internal control environment. However, some candidates did not use this information and suggested possible improvements instead.</p>		
<p>Total possible marks</p>	20	4K, 14S, 2B
<p>Maximum full marks</p>	11	

Task 1.3 (c)	Marks	Nature
<p>Three tests of controls on purchases and payables</p>		
<p>Check that bank transfers are authorised and initiated by an appropriate person.</p>	1	S-Using systems and processes
<p>Check to suppliers' invoices for goods and services. Verify that supporting documents are signed as having been checked and passed for payment and have been noted as paid.</p>	1	S-Using systems and processes
<p>Check transaction amounts to suppliers' statements.</p>	1	S-Using systems and processes
<p>Check to other documentary evidence, as appropriate (agreements, authorised expense vouchers, petty cash books etc).</p>	1	S-Using systems and processes
<p>Trace transfers to other bank accounts, petty cash account or other records, as appropriate.</p>	1	S-Using systems and processes
<p>Check additions, including extensions, and balances forward at the beginning and end of the months covering the periods chosen.</p>	1	S-Using systems and processes
<p>Check postings to the nominal ledger.</p>	1	S-Using systems and processes
<p>For a period which includes a reconciliation date, reperform reconciliation.</p>	1	S-Using systems and processes
<p>Verify that reconciliations have been prepared at regular intervals throughout the year.</p>	1	S-Using systems and processes
<p>Scrutinise reconciliations for unusual items.</p>	1	S-Using systems and processes

Examiner's comments		
This was a relatively straightforward requirement which tested candidates' knowledge of tests of controls. Some candidates scored full marks. However many candidates answered this question poorly, suggesting a lack of knowledge in this area.		
Total possible marks	10	10S
Maximum full marks	3	

Task 1.4
Examiner's comments
Performance on this task was generally good, with particularly high average marks for requirements (a) and (c).

Task 1.4 (a)	Marks	Nature
Contribution of Mistral's operations to UNSDGs		
<u>Goal: Decent work and economic growth:</u>	1	K-Business awareness
Mistral provides transport which enables people to get to work (thus helping to increase employment)	1	S-Analysis
and directly provides employment for its own staff	1	S-Analysis
and indirectly promotes economic growth by improving transport.	1	S-Analysis
<u>Goal: Industry, innovation and infrastructure:</u>	1	K-Business awareness
Mistral does not build infrastructure but transporting people helps to support infrastructure	1	S-Analysis
and helps to support businesses that in turn promote innovation.	1	S-Analysis
<u>Goal: Responsible consumption and production:</u>	1	K-Business awareness
Travel by train is often less polluting and more sustainable than travel by private car or plane.	1	S-Analysis
As Mistral has an all electric fleet, its energy efficiency is likely to be better than average for train operators.	1	S-Analysis
<p>Only 2 goals are required. In each case, 1 mark for identifying goal and 1 mark for linking it to Mistral's operations. These 3 goals above are identified in the AI and illustrated in the study text. Give credit for other reasonable suggestions and reasonable illustrations of each goal if linked to Mistral.</p>		
Examiner comments		
Demonstrating compliance with the United Nations Sustainable Development Goals (UNSDGs) is increasingly important for businesses, particularly those which rely on contracts from government. Many candidates answered this requirement very well, using the advance information to identify two relevant goals from the UNSDGs and explaining how Mistral's operations could be linked to those goals.		
Total possible marks	10	3K, 7S
Maximum full marks	4	

Task 1.4 (b)	Marks	Nature
Pratap's plan indicates an attempt to publish misleading information in marketing materials and in the statement to government.	1	S-Analysis
to increase sales	1	B-Professional scepticism
And to obtain favourable reactions from government and other stakeholders such as analysts, lenders etc.	1	B-Professional scepticism
Even though there is no attempt to misstate the amounts in the financial statements.	1	B-Adaptability
If I take part in any of this activity this would go against my compliance with the following fundamental principles in the ICAEW Code of Ethics:		
The information in the marketing materials and the statement to government would potentially be misleading, which threatens objectivity.	1	K-Ethics and standards
I would be complicit in this, which threatens my integrity.	1	K-Ethics and standards
I would be undertaking a course of action which could bring the profession into disrepute, threatening the principle of professional behaviour.	1	K-Ethics and standards
Pratap is senior to me, so there may be an intimidation threat.	1	B-Ethics and integrity
If I am tempted to cooperate to make progress at work this could be a self-interest threat.	1	B-Ethics and integrity
Federigo implicitly recognises that Pratap's actions are problematic.	1	B-Professional scepticism
But is reluctant to intervene.	1	B-Professional scepticism
Examiner comments		
This requirement was typical of a question focusing on threats to ethical principles, and similar questions appear in most role simulations. It was surprising therefore that it had one of the lowest average marks. It is disappointing that many candidates scored low marks here; many answers were simply too brief or too generic or both. Candidates need to be able to identify and respond to ethical challenges. Candidates should remember that the mark allocation for a requirement is a clear indication of how much they are expected to write.		
Total possible marks	11	3K, 1S, 7B
Maximum full marks	6	

Task 1.4 (c)	Marks	Nature
I should not comply with any request from Pratap to produce misleading information.	1	B-Ethics and integrity
1 for stating this, max 2 for any other points.		
I should discuss this more fully with Pratap to explain my concerns.	1	S-Team working and collaboration

If that does not resolve the issue I could discuss my concerns with my line manager, John, although this may not be effective as he is junior to Pratap.	1	S-Team working and collaboration
Since John is junior to Pratap I might subsequently raise the issue with Melissa (at the same level as Pratap) and / or Diane (senior to Pratap).	1	S-Team working and collaboration
I could also call the ICAEW Helpline in confidence for further advice.	1	B-Ethics and integrity
I should document my concerns and the actions taken.	1	B-Proactivity
Examiner comments		
This requirement was reasonably well answered. To obtain full marks, candidates needed to state clearly that they should not comply with Pratap's request.		
They should also make realistic suggestions of what to do next, rather than relying on a textbook list of generic responses. For example, raising concerns with their line manager, John, may not be effective since John is junior to Pratap, and therefore they should consider raising the issue with someone more senior. Reporting Pratap to the ICAEW is unlikely to achieve anything since he is not a chartered accountant. However, it would be appropriate to suggest calling the ICAEW Helpline for advice.		
Total possible marks	6	3S, 3B
Maximum full marks	3	

Task 2.1
Examiner's comments
This task was generally well answered with many candidates, preparing completely correct calculations for variance analysis. In general candidates scored higher marks on the calculations than on the explanations.

Task 2.1 (a)				Marks	Nature
Item	rolls	granola pots	fruit salads		
Budget volume (units per week)	4,800	2,400	2,000		
Budget volume (total units)	19,200	9,600	8,000		
Actual volume (total units)	19,160	10,960	7,880		
Budget price	4.95	3.55	3.20		
Actual price	4.95	3.55	3.55		
Variable cost	1.20	0.90	0.75		
Standard contribution	3.75	2.65	2.45		
Actual contribution	3.75	2.65	2.80		
Difference in volume	(40)	1,360	(120)		
Sales volume variance	(150)	3,604	(294)		
Difference in selling price	-	-	0.35		
Sales price variance	-	-	2,758		
1 x 3 for actual volume less budgeted volume (Award 2 out of 3 if correct figures but wrong direction)				3	K-Technical

1 x 3 for difference x standard contribution per unit (OF) used in calculation (Award 2 out of 3 if actual contribution per unit)	3	S-Analysis
1 for actual selling price less budgeted selling price used in calculation	1	K-Technical
1 for difference x actual sales volume	1	S-Analysis
Examiner's comments		
Many candidates scored completely full marks on this requirement and most answers presented the calculations very clearly.		
Total possible marks	8	4K, 4S
Maximum full marks	8	

Task 2.1 (b)	Marks	Nature
The <u>adverse sales volume variance for ham and cheese rolls</u> is much smaller than the quantity of rolls that could not be supplied. So the most likely reason for this variance is the failed delivery.	1	S-Analysis
If it had not been for the undelivered products, the variance for ham and cheese rolls would probably have been favourable and this should be considered before taking any action.	1	B-Adding value
<u>An otherwise higher than budgeted sales volume for ham and cheese rolls, and the favourable sales volume variance for granola pots:</u> <ul style="list-style-type: none"> could indicate that the potential market was larger than expected / that the original budgeted sales were overly pessimistic could simply reflect the success of the catering improvements as customers increase purchases on board and are willing to make repeat purchases could reflect a motivated and/or efficient sales staff on board. 	1	S-Analysis
An <u>adverse sales volume variance for fruit salads</u> could indicate that the potential market was smaller than expected / that the original budgeted sales were overly optimistic.	1	S-Analysis
This is possibly because a cold fruit salad is less attractive than other options in the middle of winter on early morning trains.	1	B-Adding value
A <u>favourable sales price variance for fruit salads</u> reflects a late decision by Mistral to increase the selling price of fruit salads (since selling prices are set centrally rather than by on board staff).	1	S-Analysis
<u>Interdependence of variances:</u> There may be some interdependence between the variances, particularly as the products are related.	1	B-Adding value
The lack of availability of rolls may have pushed customers towards purchasing other products eg granola pots instead.	1	B-Proactivity
The sales price of the fruit salads may have been set too high and the increase may have further reduced demand.	1	B-Proactivity
However, the favourable sales price variance outweighs the adverse sales volume variance for fruit salads.	1	S-Analysis
<u>Overall success:</u>		
Total sales for the three items were higher than budget;	1	S-Analysis
And the overall effect of the variances is positive ie the favourable variances outweigh the adverse variances, even after adjusting for the supplier failure.	1	B-Adding value

Because these items are all new it is unlikely that accurate forecasts could be produced in advance.	1	S-Planning and prioritisation
Mistral can use information on actual sales to produce better quality forecasts in future.	1	S-Planning and prioritisation
Examiner's comments		
<p>This requirement was reasonably well done by the majority of candidates. There were many points which candidates could have made in suggesting possible reasons for the variances and evaluating the success of the new breakfast items. Many candidates scored high marks on this requirement; the best answers showed an understanding of the likely reasons for variances, and an understanding that variances are often interdependent (for example, that the increase in the price of the fruit salads may have reduced demand, but the favourable sales price variance outweighs the adverse sales volume variance).</p> <p>Weaker answers simply restated the variance in words without providing any possible causes.</p> <p>A key point in the analysis is that the adverse sales volume variance for ham and cheese rolls is smaller than the quantity of rolls that could not be supplied. So the most likely reason for this variance is the failed delivery, rather than any poor performance, or poor forecasting.</p> <p>The best answers were able to identify that total sales for the three items were higher than budget, and the overall effect of the variances was positive.</p>		
Total possible marks Maximum full marks	14 5	8S, 6B

Task 2.1 (c)	Marks	Nature
<p>EMAIL: From: Federigo Benigno To: Diane Bullard Subject: On-board catering and IT investment</p> <p>Dear Diane</p> <p>I have set out below an explanation of how technology might improve our profitability and a summary of possible responses to variation in demand for catering items, in particular our new breakfast items.</p> <p><u>Technology:</u></p> <p>Electronic data interchange (EDI) allows documents such as purchase orders to be sent to suppliers electronically, often without human involvement,</p> <p>for example sending a new purchase order to suppliers automatically when inventory levels are low.</p> <p>Cloud-based technology can support EDI because it would make it easier for Mistral to connect its systems with those of its suppliers.</p> <p>Big data capabilities can automatically monitor and analyse sales and procurement to identify possible savings or improvements.</p> <p>Big data can be streamed into the business at high speed, so data about sales, and inventory is available effectively in real time.</p>	<p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p>	<p>S-Communication</p> <p>S-Using systems and processes</p> <p>S-Using systems and processes</p> <p>S-Using systems and processes</p> <p>S-Using systems and processes</p> <p>S-Using systems and processes</p>

<p>Currently, Mistral is relying on periodic, summarised reports, but real-time data could be made available for each train, even during its journey, to allow restocking at intermediate stations or at turnaround locations.</p> <p>max 3</p> <p><u>Responding to high variation in passenger demand:</u></p> <p>We can try to anticipate variations in demand and alter capacity accordingly, for example:</p> <ul style="list-style-type: none"> • increasing stock on trains forecast to be busy • increasing stock on trains where there is less opportunity for passengers to purchase items at stations • increasing stock on trains where historic data shows high demand (eg business travellers able to reclaim the cost of food items) • changing the numbers of individual items stocked according to predicted demand based on eg time of year or weather forecast • promoting items not selling, eg by using planned price reductions for less popular products or on the spot reductions to sell stock which would otherwise be wasted. <p>max 2</p> <p>Kind regards,</p> <p>Federigo Benigno Train Operations Director</p> <p>Award credit for appropriate suggestions.</p>	<p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p>	<p>S-Using systems and processes</p> <p>B-Adding value</p> <p>B-Adding value</p> <p>B-Adding value</p> <p>B-Adding value</p> <p>B-Adding value</p>
<p>Examiner's comments</p> <p>Answers to this requirement were varied. The best answers included specific suggestions for how to deal with high variation in passenger demand, whereas weaker answers made generic suggestions about how to increase sales.</p>		
<p>Total possible marks Maximum full marks</p>	<p>12 5</p>	<p>7S, 5B</p>

Task 2.2
Examiner's comments
Overall, this task was poorly answered, with many candidates showing a lack of technical law knowledge as well as an inability to identify relevant commercial factors.

Task 2.2 (a)	Marks	Nature
<u>Legal factors:</u>		
A standalone company (ie not part of Mistral) might be necessary to comply with government regulations on national rail contracts which state that expenses and income associated with NRC operations must be separately identifiable, so Mistral may have almost no choice.	1 1	K-Regulation and compliance B-Proactivity
It would be easier and clearer for the new company to enter into contracts as it would have its own legal personality, counterparties could see exactly who they were dealing with and assets, liabilities, income and expenses would be more easily identified.	1 1	K-Regulation and compliance B-Proactivity
Liabilities for any losses made by Project Golden Arrow would be ringfenced within the new company and so would not affect the other operations of Mistral – therefore this would significantly reduce the risk of failure to Mistral	1 1	K-Regulation and compliance B-Proactivity
Mistral will need to formally set up the company so will need to go through the legal processes of doing so - the administrative cost and practical challenge of setting up a new company may be significant.	1 1	K-Regulation and compliance B-Proactivity
And the new company will subsequently need its own directors, articles of association, annual accounts etc, all of which will impose an ongoing cost.	1 1	K-Regulation and compliance B-Proactivity
<u>Business factors:</u>		
Mistral may decide to use its own brand, especially if it thinks that the brand has positive connotations and target customers are likely to already recognise the brand and thus be more inclined to try the new service. This could also reduce overall marketing costs.	1 1	K-Business awareness B-Proactivity
A standalone company will allow better / easier access to information for management and control, both for Mistral's existing and new operations, when assessing performance using indicators such as profitability.	1 1	K-Business awareness B-Proactivity
Managers would have more decision-making power eg over financing, price setting and they could be assessed on their performance more easily and transparently.	1 1	K-Business awareness B-Proactivity
Financing eg leasing may be easier since the new company will have its own assets, cashflows etc and providers of finance will have a clear understanding of the company's activities.	1 1	K-Business awareness B-Proactivity
Setting up a separate company would make it easier to divest operations in the future, for example, in the context of a potential sale or takeover of Project Golden Arrow operations or if Mistral's NRC is not renewed but Project Golden Arrow operation continues.	1 1	K-Business awareness B-Proactivity
Max 4 factors, 1 + 1 for each if fully explained and applied to Mistral. Answers should include commercial and legal factors – at least one factor should be commercial and at least one factor should be legal.		

Examiner's comments

Some candidates scored full marks on this requirement, by explaining commercial and legal factors to consider in the decision. Weaker answers tended to list generic legal points without explanation and omitted the rather obvious point that a separate company would make it much easier to identify the income and expenses of the new service, a key requirement of Mistral's licence explained in the advance information. Candidates should expect to use relevant points from the advance information in constructing their answers.		
Total possible marks Maximum full marks	20 8	9K, 9B

Task 2.2 (b)	Marks	Nature																
<p>Micro, small and medium companies are private companies which comply with at least two out of the three requirements of revenue / turnover, total equity (net assets) and number of employees, as in the table below:</p> <table border="1"> <thead> <tr> <th></th> <th>Micro</th> <th>Small</th> <th>Medium</th> </tr> </thead> <tbody> <tr> <td>Turnover</td> <td>≤ £632k</td> <td>≤ £10.2m</td> <td>≤ £36m</td> </tr> <tr> <td>Balance sheet</td> <td>≤ £316k</td> <td>≤ £5.1m</td> <td>≤ £18m</td> </tr> <tr> <td>Employees</td> <td>≤ 10</td> <td>≤ 50</td> <td>≤ 250</td> </tr> </tbody> </table> <p>The new company would have revenue of £8m and 20 employees so would be small.</p>		Micro	Small	Medium	Turnover	≤ £632k	≤ £10.2m	≤ £36m	Balance sheet	≤ £316k	≤ £5.1m	≤ £18m	Employees	≤ 10	≤ 50	≤ 250	1 1	S-Analysis K-Regulation and compliance
	Micro	Small	Medium															
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Balance sheet	≤ £316k	≤ £5.1m	≤ £18m															
Employees	≤ 10	≤ 50	≤ 250															
Examiner's comments																		
This requirement was surprisingly poorly answered, even though the relevant data was included in the advance information. Some candidates correctly stated that the company would be small but did not provide any explanation.																		
Total possible marks Maximum full marks	2 2	1K, 1S																

Task 2.2 (c)	Marks	Nature
<p><u>Advantages of off-the-shelf company:</u></p> <p>It is a very quick way of having a company set up and ready to go.</p> <p>It avoids using management time and therefore saves cost in setting up the company and eg dealing with Companies House</p> <p>It avoids any potential liability arising from pre-incorporation contracts as the company already exists.</p> <p>Managers may not have the legal and regulatory knowledge needed to set up a company and so may need to use external advisors / suppliers in any case.</p> <p><u>Disadvantages of off-the-shelf company:</u></p> <p>The company's name will need to change.</p> <p>Possibly Mistral / Valoro will need to rewrite the articles of association.</p>	1 1 1 1 1 1	K-Business awareness K-Business awareness K-Regulation and compliance K-Business awareness K-Regulation and compliance K-Regulation and compliance

The shares will need to be transferred.	1	K-Regulation and compliance
The company will need to change directors and company secretary	1	K-Regulation and compliance
Examiner's comments		
This requirement was generally very well answered with many candidates, scoring full marks. Generally candidates had good technical knowledge and could identify the advantages and disadvantages of purchasing an off-the-shelf company rather than expecting Mistral's or Valoro's managers to form a new company.		
Total possible marks	8	8K
Maximum full marks	4	

Task 2.3
Examiner's comments
Overall this task was reasonably attempted. As might be expected, most candidates could identify sensible points using the PESTEL framework and answers to the first requirement were generally good; answers to the second requirement were more mixed. A significant proportion of answers were quite short, suggesting that candidates had mismanaged their time towards the end of the role simulation.

Task 2.3 (a)	Marks	Nature
Political:		
Government may increase the extent of its intervention in the industry.	1	S-Analysis
Government may, for political reasons, move to limit open access operations in the industry.	1	S-Analysis
Economic:		
Analysis shows that the service is likely to be profitable.	1	S-Analysis
Business cycle / economic growth or downturn may affect:		
• overall demand for travel	1	S-Analysis
• propensity to pay for premium products (eg first class tickets)	1	S-Analysis
• ability of Mistral to raise prices.	1	S-Analysis
Costs eg energy prices are likely to keep rising and reduce profitability.	1	S-Analysis
Energy costs will also be affected by global factors, exchange rates.	1	S-Analysis
Other costs eg staff costs are also likely to increase in periods of high inflation (there is already a shortage of drivers).	1	S-Analysis
Social:		
Changing population may affect demand for travel eg more retired people travelling for leisure.	1	S-Analysis
Increasing tendency to work from home may reduce demand for travel in the long term.	1	S-Analysis
Technological:		

Improvements in tech may facilitate more remote working / work from home / videoconferencing and less travel.	1	S-Analysis
Improvements in tech may improve information available to Mistral eg big data being used to forecast sales, manage catering profitability.	1	S-Analysis
Environmental:		
Travel by train has less of an environmental impact than some other modes of travel such as cars, and Mistral can use electric trains on the line.	1	S-Analysis
Environmental concerns may increase people travelling by train rather than plane and Mistral will benefit directly from increased passenger numbers as it keeps revenue from ticket sales.	1	S-Analysis
Legal:		
Government may move to limit or remove open access operations or subject them to further regulation.	1	S-Analysis
Requirement to set up separate companies for developments like Project Golden Arrow may limit profitability by increasing costs / regulatory burden.	1	S-Analysis
<p>Max 1 mark for one point under each heading. Allow reasonable points to be made under different headings but only give the mark once for each point (eg the effect of limits on open access operations could be made under Political or Legal but not both).</p>		
Examiner's comments		
<p>Most candidates could apply the PESTEL framework and suggested some appropriate points. Better answers identified specifically how PESTEL factors might affect the success of Project Golden Arrow, whereas weaker answers included more generic points.</p>		
Total possible marks	17	17S
Maximum full marks	6	

Task 2.3 (b)	Marks	Nature
Actions to maximise profitability of Golden Arrow:		
Additional advertising / marketing activity could generate additional sales.	1	S-Analysis
Additional sales revenue will contribute to higher profits. Costs are unlikely to increase significantly since the marginal cost of carrying extra passengers on trains running anyway would be low; most operating costs will be fixed or stepped in the short-term.	1	B-Adding value
Mistral could reduce prices to encourage demand and this would increase overall revenue.	1	S-Analysis
If demand is sufficiently price elastic than reducing prices will increase demand and generate higher revenue. As noted above, most operating costs will be fixed or stepped in the short-term, and so overall profits would increase.	1	B-Adding value
Mistral could use market segmentation to charge different prices to different customer groups.	1	S-Analysis
For example segmenting between peak and off peak travel, tickets purchased in advance vs tickets purchased on the day.	1	B-Adding value
Mistral could introduce new classes of service at a higher price.	1	S-Analysis

For example intermediate class between standard and first or super-premium class above first targeted at passengers prepared to pay a premium over and above the existing price. (Typically the price premium for such products exceeds the marginal cost of providing the service.)	1	B-Adding value
Offer new additional services to generate auxiliary revenue.	1	S-Analysis
For example more catering, luggage transfers, reserved seats, access to lounges at stations etc; selling to existing customers is a relatively easy way to generate additional revenue.	1	B-Adding value
Increase tickets sold directly rather than via third parties (eg Trainline).	1	S-Analysis
This would directly reduce distribution costs since selling directly would remove the cost of paying sales agents.	1	B-Adding value
Focus on cost control such as reducing energy consumption, generating operational efficiencies (eg by using EDI), limiting wage rises for staff, etc.	1	S-Analysis
But some short-term cost saving measures may be difficult or counterproductive eg if limiting wages creates staff demotivation or contributes to staff shortages; it is already difficult to recruit drivers.	1	B-Adding value
Examiner's comments		
Answers to this requirement were mixed. Many candidates scored full marks. Candidates that lost marks tended not to explain their points in enough detail, or relate them to Project Golden Arrow.		
Total possible marks	14	7S, 7B
Maximum full marks	4	