Marking guide for Role Simulation Examination March 2020

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:

- Accounting
- 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 2020 marking grid

	Marks identified in marks scheme				Maximum marks awarded
	K	**S**	**B**	**Total**	
Task 1					
1.1a	6	3		9	5
1.1b	3	3		6	6
1.1c	1			1	1
1.2	2	14		16	14
1.3a	3	4	2	9	5
1.3b	2			2	2
1.3c		16		16	4
1.3d	7	5	2	14	8
1.4a	2	3	11	16	6
1.4b		1	4	5	3
	26	**49**	**19**	**94**	**54**
Task 2					
2.1a	2	10		12	11
2.1b		2		2	2
2.2a	4	10	2	16	8
2.2b	4	4	1	9	5
2.2c	2			2	2
2.3a		6		6	5
2.3b		9		9	4
2.3c	1			1	1
2.3d		12	8	20	8
	13	**53**	**11**	**77**	**46**
Overall total	**39**	**102**	**30**	**171**	**100**

The marking information set out below is that used to mark the requirements in the March 2020 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.

Examiner comments

The scenario was based on Horace and Doris plc (HD), a UK manufacturer of premium pet food. The candidate's role was an Assistant Accountant working for HD.

The AI gave candidates the following information:

- Background information about the industry.
- HD was founded in 2005 by two university friends – who named the company after the pets which they owned at the time.
- The company was listed on the Alternative Investment Market (AIM) in 2015.
- HD has not made any significant changes to its structure since it was founded but the directors are now considering changing from a functional structure to a divisional structure based on product types.
- It has a number of challenges relating to corporate governance and control: James is the Chairman and CEO; the company needs new non-executive directors; there have been examples of poor financial control and a recent case of fraud.
- HD also needs to improve its IT capability and launch new product lines.

Appendices to the AI contained:

- financial statements for the year ended 31 December 2019;
- extracts from the Accounting Handbook;
- extracts from the company's Mission and Values Statement and Finance function's Staff Code of Conduct;
- information about the external audit;
- cost and revenue information about new products;
- an email from a shareholder challenging profit growth and dividend policy;
- extracts from minutes of a recent board meeting including details current problems and recent developments.
- key performance indicators

The exam paper contained the requirements and provided candidates with additional information on the scenario, in some cases updating or changing the AI.

The exam paper contained two tasks, each divided into several subtasks. Task 1 (54 marks) focused primarily on the Accounting and Assurance syllabuses, and ethics. Task 2 (46 marks) focused primarily on the Management Information, Business Finance and Technology and Law syllabuses.

General comments on March 2020 candidate performance

The average mark for this sitting of the Role Simulation was 84.6%. The overall pass rate was 96.8%.

The pass rate, the average mark and the distribution of marks within sub-tasks all indicate that candidates were, in general, very well-prepared for the nature and content of this paper and most candidates made a good attempt at most elements. There was no evidence of undue time pressure except among the weakest candidates. Candidates were able to demonstrate good skills and behaviours in addition to technical knowledge and skills required to evaluate the information provided and produce generally good answers. The high distinction rate demonstrates that several candidates produced an excellent performance and used exam technique to manage their time effectively.

Task 1.1 Examiner comments

Candidates were presented with the draft statement of profit or loss and some additional information about errors. Overall this sub-task was well-answered.

Task 1.1 (a)	Marks	Nature
When the initial sale is made it will be recorded in HD's accounting system on the assumption that the cash will be collected.	1	K-Technical
Now HD has concluded that debt will not be paid, the whole amount of the receivable in question is 'written off'.	1	S-Analysis
The value of the receivable as a current asset is zero. It is no longer recognised as an asset because the business is unlikely to generate any benefits from it.	1	K-Technical
The associated expense is shown as an administrative expense.	1	K-Technical
The original accounting entries are not reversed:	1	K-Technical
Revenue is initially recorded in the statement of profit or loss at the amount expected to be received from the customer, which in most cases is the invoice amount. The sale has been made, an expense has been incurred in making that sale and the gross profit should be recognised. The subsequent failure to collect the debt is a separate administrative matter.	1	K-Technical
The impairment should have been recognised in November, six months after the sale, in line with the policy in the Accounting Handbook.	1	S-Analysis
Dr Irrecoverable debts expense / 355,000 Administrative expense	1 Correct Accounts	K-Technical
Cr Trade receivables 355,000	1 Dr/Cr	S-Analysis
Max 3 for explanations, max 2 for journal entries		
Examiner comments		
Candidates generally answered this requirement well and showed an ability to explain the reporting of the event as well as knowledge of the journal entries required.		
Total possible marks Maximum full marks	9 5	6K, 3S

Task 1.1 (b)			Marks	Nature
(1) Trade discount to Bravo				
Dr Sales revenue (225,000 x 8%)	18,000		1 Dr/Cr	K-Technical
Cr Trade receivables		18,000	1 amount	S-Analysis
Being the recording of a trade discount				
Note: Allow 'discounts allowed' instead of 'sales revenue'				
(2) Insurance costs				
Dr Prepayments	195,000		1 Dr/Cr	K-Technical
Cr Insurance expense / Administrative expense		195,000	1 amount	S-Analysis
Being the prepayment of insurance costs for January to March 2020				
Narratives/explanation for both journals			1	K-Technical
Layout as journal (not T accounts) for both journals			1	S-Quality and accurate information
Examiner comments				
Candidates generally answered this requirement well and most candidates correctly identified the accounting treatment required for both events.				
Total possible marks			6	3K, 3S
Maximum full marks			6	

Task 1.1 (c)	Marks	Nature
B Current assets decrease	1	K-Technical
Examiner comments		
A significant number of candidates answered incorrectly, suggesting a lack of understanding of how accounting for an impaired receivable reduces the value of assets and has no impact on liabilities.		
Total possible marks	1	1K
Maximum full marks	1	

Task 1.2 Examiner comments

In this task candidates were asked to prepare the statement of profit or loss, incorporating some adjustments from the previous task and from new information in this task.

Task 1.2		Marks	Nature
Statement of profit or loss for the year ended 31 December 2019			
Revenue (W1)	38,677	(W)	
Cost of sales (W3)	(23,747)	(W)	
	14,930		
Administrative expenses (W4)	(12,420)	(W)	
Profit from operations	2,510		
Finance income	107		
Finance expense	(276)		
Profit before tax	2,341		
Tax expense	(568)		
Profit for the year	1,873	1 OF	K-Regulation and compliance
(W1) Revenue			
Per draft accounts	38,695	1	S-Analysis
Discount (8% x 225)	(18)	1	S-Analysis
	38,677		
(W2) Depreciation			
Buildings (4,220 – (4,220 x 20%) x 1/40	84	1	S-Analysis
Equipment (7,156 x 1/10) + (400 x 1/10 x 6/12)	736	2	S-Analysis
	820		
Apportioned to			
- cost of sales (50% x 820)	410	} 1	S-Analysis
- administrative expense (50% x 820)	410		
(W3) Cost of sales:			
Per draft accounts	23,192	1	S-Analysis
Depreciation (W4):	410	1 (OF)	S-Analysis
Effect of inventory write-down	145	1	S-Analysis
	23,747		
(W4) Administrative expenses:			
Per draft accounts	11,850	1	S-Analysis
depreciation	410	1 (OF)	S-Analysis
insurance	(195)	1 (OF)	S-Analysis
receivable	355	1	S-Analysis
	12,420		
Layout / presentation		1	S-Quality and accurate information
Headings		1	K-Regulation and compliance

Examiner comments

Overall this sub-task was very well-answered with a high average mark. Many candidates obtained full marks and those that did not, usually made only one or two minor errors. The most common mistakes were in calculating the depreciation expense (omitting existing property, plant and equipment), failing to adjust the value of accounting inventory and not accounting for the bad debt expense.

Total possible marks	16	2K, 14S
Maximum full marks	14	

Task 1.3 Examiner comments

Candidates were told in the AI that the receivables system had been identified as an area of high audit risk. Candidates were given information about preparations for the audit and some additional information about errors that HD had made during the year. Candidates were also told that James (CEO and Chairman) was concerned about the references to fraud in Frome's engagement letter. Candidates had the opportunity to obtain marks for recognising and responding to James's concerns and explaining that the reference was part of standard wording in an engagement letter. Performance on the different requirements of this assurance-focussed sub-task was varied.

Task 1.3 (a)	Marks	Nature
Audit risk – the overall risk that the auditor will express an inappropriate opinion when the financial statements are materially misstated – is a function of the risks of material misstatement and detection risk.	1	K-Systems and processes
The risks of material misstatement are a function of inherent risk – the risk of misstatement of an item due a characteristics of that item, eg a balance that contains estimates – and control risk – the risk that a misstatement would not be prevented or detected by the control systems.	1	K-Technical
Inherent risk (and therefore the risk of material misstatement) may <u>increase</u> with a new or temporary member of staff	1	S-Analysis
if they are less experienced or less competent or have less knowledge of HD.	1	S-Using systems and processes
However, a new member of staff will be less experienced in HD but may have relevant professional experience from elsewhere,	1	B-Adaptability
and a temporary member of staff who has been working for HD for some time will not necessarily be less experienced or less competent than other staff.	1	B-Adaptability
Control risk will be unaffected.	1	S-Using systems and processes
Detection risk is the risk that the procedures performed by the auditor will not detect a misstatement that exists. The auditor will manage detection risk so that overall audit risk is at an acceptably low level.	1	K-Technical
As inherent/control risk increase, detection risk will be lowered by use of: • larger samples • more experienced staff • lower materiality thresholds	1	S-Using systems and processes

Examiner comments

This requirement had the lowest average mark of all requirements on the paper. Many candidates struggled to explain risk and how it would be affected, and many explanations lacked detail. A common error was to assume that detection risk referred to HD's staff, rather than the auditor, detecting problems. However, most candidates understood the basic point that employing new or temporary members of staff would increase the risk of misstatement. Fewer candidates could then explain that the auditor would need to manage detection risk so that overall audit risk was at an acceptably low level.

Total possible marks	9	3K, 4S, 2B
Maximum full marks	5	

Task 1.3 (b)	Marks	Nature
A B	2	K-Systems and processes
Examiner comments		
Many candidates scored full marks on this OT requirement.		
Total possible marks Maximum full marks	2 2	2K

Task 1.3 (c)	Marks	Nature
Mark first two procedures only, 1 for identifying procedure, 1 for explaining objective in each case Check subsequent receipt of cash	1	S-Using systems and processes
- To support recoverability of debt	1	S-Using systems and processes
Perform cut-off procedures (select despatch notes pre and post year end and match with invoice entries in the sales ledger)	1	S-Using systems and processes
- To ensure transactions accounted for in the correct period	1	S-Using systems and processes
Examine the account to see if the balance outstanding represents specific invoices and confirm their validity to despatch notes	1	S-Using systems and processes
- To ensure that invoices / despatches relate to genuine orders	1	S-Using systems and processes
Inspect aged receivables analysis; obtain explanations for invoices remaining unpaid after expected payment date / after subsequent ones have been paid	1	S-Using systems and processes
- To identify old outstanding amounts and discuss recoverability with management / compare receivables days with previous year and investigate differences / check if the balance on the account is growing, and if so, investigate why	1	S-Using systems and processes
Investigate post year-end credit notes	1	S-Using systems and processes
- To ascertain if they relate to current year	1	S-Using systems and processes
Investigate any credit balances	1	S-Using systems and processes
- To ensure appropriate accounting treatment (ie credit balances to be treated as payables	1	S-Using systems and processes
Inspect customer/legal correspondence	1	S-Using systems and processes
- To look for evidence of disputes	1	S-Using systems and processes

	Marks	Nature
Total possible marks	16	16S
Maximum full marks	4	

Task 1.3 (d)	Marks	Nature
Email **From: Nathalie Mercier** **To: James Holloway** **Subject: Fraud and error** Dear James, Here are some explanatory notes about fraud and error in the context of Frome's letter to us.		
Communication - Award mark for email format and appropriate language.	1	S-Communication
Frome's letter to us uses standard wording commonly found in letters from auditors to clients and summarises the respective responsibilities of management and auditors. In other words, they are explaining the nature and extent of their work. Their letter does not imply that they think any fraud is taking place.	1	B-Proactivity
Award mark for addressing James' concern about perceived accusation of fraud Fraud and error		
Fraud is an intentional act by one or more individuals among management or employees (or third parties) involving the use of deception to obtain an unjust or illegal advantage.	1	K-Technical
For example the sales manager was falsifying sales orders to try to achieve a sales target and benefit from the associated reward ie the bonus payment.	1	S-Analysis
An error is an unintentional misstatement in financial statements.	1	K-Technical
If a genuine sale is incorrectly recorded (eg with the wrong amount) this is an error. For example, the temporary member of staff appeared to be unaware of the discount, or unaware of how to account for it.	1	S-Analysis
Max 4 for explanations of fraud and error		
Responsibilities of management and Frome	1	K-Regulation and compliance
HD's management is responsible for preventing and detecting fraud.	1	K-Regulation and compliance
They do this by putting in place a system of internal control over the company's transactions and exercising oversight of this system, and by creating a culture of honesty and ethical behaviour.	1	K-Regulation and compliance
Frome is responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, including when that misstatement is caused by fraud; …	1	K-Regulation and compliance
… but is not responsible for preventing or detecting fraud.	1	K-Regulation and compliance

They do this by planning and performing the audit in such a way as to respond appropriately to the risk identified.	1	S-Using systems and processes
For example, if the fake sales referred to above resulted in a material misstatement then the auditor should detect that.	1	B-Proactivity
Frome may also have a responsibility to report a fraud to an external, relevant authority.	1	S-Using systems and processes
Material misstatements from fraud are at greater risk of not being detected during the audit than material misstatements from error, as steps may have been taken to conceal the fraud. Best wishes, Natalie **Max 4 for explanations of responsibilities**		

Examiner comments

Most candidates scored very well on this question, explaining the difference between fraud and error and correctly distinguishing between the responsibilities of auditors and management. The best answers used the examples of events that took place within HD's finance function during the year to illustrate fraud and error.

Total possible marks Maximum full marks	14 8	7K, 5S, 2B

Task 1.4 (a)	Marks	Nature
Issues for HD: HD is vocal in promoting ethical business practices. The incident that has come to light is a supplier potentially using illegal workers, which contradicts these values as published in HD's Mission and Values Statement.	1	B Ethics and integrity
Gavin's request to conceal events is also unethical. This is unacceptable to HD because of HD's ethical stance and Gavin's behaviour goes against HD's Mission and Values.	1	S-Analysis
Gavin implicitly recognises this because he is trying to conceal it from James.	1	B Professional scepticism
If HD requests or accepts a new invoice from the supplier under a different name this may be fraudulent.	1	B Ethics and integrity
And it could be argued that the discount is conditional upon future orders and so should not be recognised by HD in full at this point in time.	1	S Analysis
HD has an ethical responsibility to address the issue with their supplier, and, possibly, to not use the inventory and to consider a product recall.	1	B Ethics and integrity
In addition, and irrespective of HD's decision whether to use the inventory or issue a product recall, HD should inform customers, in the interests of transparency. These courses of action would be in line with the company's Mission and Values Statement.	1	B Proactivity
Issues for me: If I agree to Gavin's request to in some way hide the nature and amount of the invoice this would show a lack of objectivity because the information would arguably be misleading.	1	B Ethics and Integrity
What he is requesting from me, would go against my compliance with the fundamental principles in the ICAEW's Code of Ethics and the Finance function Code of Conduct, as well as the principles in HD's Mission and Values Statement.	1	K Ethical standards
It would show a lack of integrity since attempting to mislead the CEO (and presumably the shareholders and customers) is dishonest;	1	B Ethics and Integrity
It shows a lack of professional behaviour since I would be undertaking a course of action which could bring the profession into disrepute.	1	B Ethics and integrity

There is an implied intimidation threat from Gavin because he is at a more senior level in the company than me.	1	S Analysis
So I may be also facing a self-interest threat.	1	K Ethical standards
If I am tempted to cooperate in providing false information in order to make progress at work.	1	B Ethics and integrity
Gavin's request appears to be motivated by a desire to avoid conflict and minimise inconvenience to himself. He shows no concern for the employees.	1	B-Professional scepticism
There is also the question of potentially illegal activity by EcoAgri and its agent and we should consider what assurances we need for ongoing business.	1	B Proactivity

Examiner comments

The strongest answers tended to be well structured and successfully identified the ethical challenges for the company and for the candidate, referring to the ICAEW Code of Ethics. Weaker answers tended to be vaguer and less structured. A small number of candidates treated the situation as a business problem rather than an ethical challenge and identified loss of sales as the major issue.

Total possible marks	16	2K, 3S, 11B
Maximum full marks	6	

Task 1.4 (b)	Marks	Nature
I should not comply with Gavin's request.	1	B Ethics and integrity
Maximum 2 marks for any other relevant points.		
I should discuss his request with my line manager, Serena, as specified in the Finance function Code of Conduct	1	S Team working and collaboration
If that does not resolve the issue I should discuss with Serena's line manager, Nathalie.	1	B Proactivity
I could call the Staff Helpline and/or the ICAEW Helpline in confidence for further advice.	1	B Proactivity
I may also consider reporting my suspicions of criminal activity to the appropriate authority (eg the police) although it appears that the incident is now public knowledge.	1	B Ethics and integrity

Examiner comments

Most candidates successfully identified the possible responses in line with the policy in the Finance function Code of Conduct. However, disappointingly, a significant number of candidates failed to state explicitly that they would not follow Gavin's instructions. This is the most important point in any response and it is essential to state this to avoid any ambiguity.

Total possible marks	5	1S, 4B
Maximum full marks	3	

Task 2.1 (a)					Marks	Nature
		Collars	**Tags**	**Total**		
Price	£	15.00	10.00		}1	S-Analysis
Purchase cost	£	10.40	3.10		}	
Machine cost	£	0.90	2.25		}	
Distribution cost	£	0.80	0.80		1	S-Analysis
Variable cost/unit	£	12.10	6.15			
Contribution / unit	£	2.90	3.85		1	S-Analysis
mh / unit	h	0.10	0.25		1	S-Analysis
Contribution / mh	£	29.00	15.40		1	S-Analysis
Ranking		1	2		1	K-Technical
Use of mh	h	1,200	600	1,800	1	S-Analysis
Production	units	12,000	2,400		1	S-Analysis
Contribution	£	34,800	9,240	44,040	2	S-Analysis
For excluding fixed overhead costs					1	K-Technical
Presentation / layout					1	S-Quality and accurate information

Examiner comments

Performance on this requirement was generally very good and many candidates produced completely correct answers. The most common mistakes here were to omit variable distribution costs or to include fixed overheads costs in the calculation of contribution.

	Marks	Nature
Total possible marks	12	2K, 10S
Maximum full marks	11	

Task 2.1 (b)	Marks	Nature
Shortfall in production of name tags: 8,000 – 2,400 = 5,600 units	1	S-Analysis
Additional production hours needed: 5,600 units x 0.25h per unit = 1,400h	1	S-Analysis

Examiner comments

Many candidates correctly calculated the shortfall in hours and scored full marks.

	Marks	Nature
Total possible marks	2	2S
Maximum full marks	2	

Task 2.2 Examiner comments

The AI included the information that:

- HD's chairman had recently stepped down;
- James was going to temporarily take on the role of Chairman as well as that of CEO;
- there was a need for additional non-executive directors (NEDs).

In the question, candidates were then given information about two possible new NEDs, both of whom had relationships with the company that may or may not prevent them from being considered independent. Candidates therefore had to deal with an element of intentional ambiguity and uncertainty and marks were available for responding to this.

Task 2.2 (a)	Marks	Nature
James		
The Code states that a company should seek to improve corporate governance by ensuring that the chairman and chief executive are different individuals.	1	K-Regulation and compliance
This prevents one person from having unfettered powers of decision-making. (Principle A2 - Leadership: division of responsibilities)	1	K-Regulation and compliance
However, HD can be flexible in how it applies the UK Corporate Governance Code because it is outside the FTSE 350. It may depart from the main principles provided that non-compliance is explained.	1	S-Analysis
So James can be chairman and chief executive.	1	S-Analysis
In this case James is only fulfilling the two roles on a temporary basis.	1	S-Analysis
Max: 2, must state whether or not James can be Chairman and CEO, otherwise max 1		
Kevin and Raheem		
The board should determine whether the (proposed) non-executive director is independent in character and judgement or whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.	1	K-Regulation and compliance
Kevin would almost certainly not be independent	1	S-Analysis
because of the close family ties he has with Danielle, one of HD's directors.	1	S-Analysis
Raheem might not be independent	1	S-Analysis
Since it appears he had a material business relationship with the company less than three years ago and received remuneration for the work he did on the website	1	S-Analysis
If Raheem was an employee during this time that would also indicate a lack of independence.	1	S-Analysis
Raheem might also be reluctant to take an impartial view of issues arising from website problems.	1	S-Analysis
However, both directors might still be independent, despite the relationships with HD which appear relevant, because of the following:	1	S Analysis

The Board of Directors might be satisfied that Kevin's relationship with Danielle will not necessarily affect his independence	1	B-Adaptability
and that Raheem may be independent if he has done no further work for HD.	1	B-Adaptability
The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant. **Max: 6**	1	K-Regulation and compliance

Examiner comments

Answers to this requirement varied in quality and the average mark was one of the lowest. While the Corporate Governance Code states that the chairman and chief executive should be different individuals, HD can be flexible in how it applies the UK Corporate Governance Code because it is outside the FTSE 350 and it may depart from the main principles provided that non-compliance is explained. Therefore James *can* be chairman and chief executive, and many candidates failed to explain this. Many candidates prepared good explanations of whether the two individuals were likely to be considered independent. Weaker answers tended to simply state a conclusion; stronger answers tended to include more detailed analysis and recognised the ambiguity inherent in interpreting the extent of an individual's independence.

Total possible marks Maximum full marks	16 8	4K, 10S, 2B

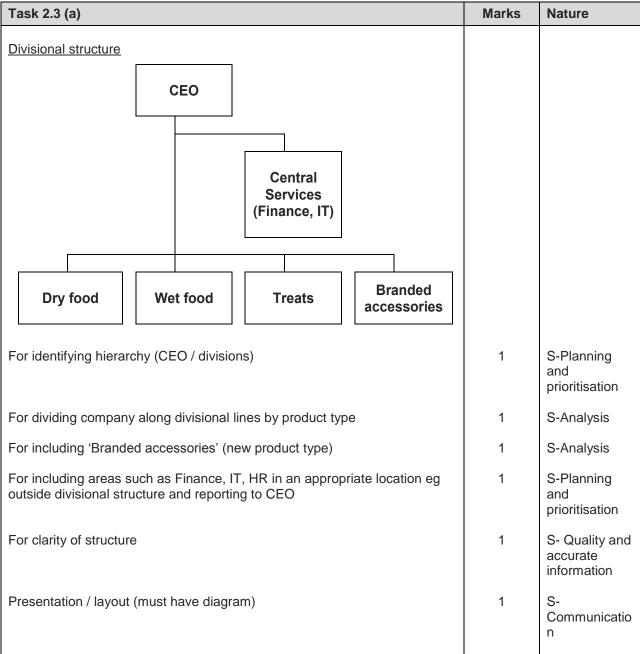| Task 2.2 (b)	Marks	Nature
Dividends		
The basic rule is that a shareholder (ordinary or preference) is not automatically entitled to any dividend.	1	K-Regulation and compliance
The directors may decide to recommend a dividend, for subsequent approval at an AGM, subject to availability of cash and distributable reserves. They cannot be compelled to recommend a dividend.	1	K-Regulation and compliance
Therefore Jana cannot insist on receiving a higher dividend, or indeed any dividend.	1	S-Analysis
However, as she notes in her email, she could vote against the dividend at the AGM,	1	S-Analysis
although she does not own enough shares or voting rights on her own to force a change.	1	S-Analysis
Shares		
Ordinary shares are not redeemable and a shareholder cannot require a company to repurchase shares,	1	K-Regulation and compliance
although a company <u>may</u> repurchase its own shares, in certain circumstances.	1	K-Regulation and compliance
Therefore Jana cannot require HD to repurchase her shares.	1	S-Analysis
However, as HD is AIM listed, Jana could easily sell some or all of her shares on the market.	1	B-Adding value
Max 3 for dividends, 3 for shares, 5 overall		

Examiner comments

This requirement also had one of the lowest average marks. Most candidates correctly stated that a shareholder cannot compel a company to pay dividends or repurchase shares but many candidates failed to provide detailed explanations. Some weaker answers stated, incorrectly, that a company could be compelled to repurchase shares from a shareholder. However, a number of stronger scripts made the valid point that although Jana could not compel HD to purchase her shares, because HD was listed she could easily sell them.

Total possible marks	9	4K, 4S, 1B
Maximum full marks	5	

Task 2.2 (c)	Marks	Nature
Share premium: non-distributable	1	K-Regulation and compliance
Revaluation reserve: non-distributable	1	K-Regulation and compliance
Examiner comments		
Most candidates scored full marks on this requirement, identifying both reserves as non-distributable.		
Total possible marks	2	2K
Maximum full marks	2	

Task 2.3 Examiner comments

There was extensive information in the AI about factors affecting the industry and HD, including HD's plans to change its functional structure and consider outsourcing its IT. More information was included in the exam paper, including details of a recent market research report. Requirement (a) asked candidates to produce a diagram of the new organisational structure and in general candidates responded well to this requirement. As is usual, the requirement to produce a SWOT (requirement (d)) specified that candidates *must* respond to the new information in the exam paper by including this new information in at least **one** item per heading. Answers to this sub-task were generally good.

Task 2.3 (a)	Marks	Nature
Divisional structure 		
For identifying hierarchy (CEO / divisions)	1	S-Planning and prioritisation
For dividing company along divisional lines by product type	1	S-Analysis
For including 'Branded accessories' (new product type)	1	S-Analysis
For including areas such as Finance, IT, HR in an appropriate location eg outside divisional structure and reporting to CEO	1	S-Planning and prioritisation
For clarity of structure	1	S- Quality and accurate information
Presentation / layout (must have diagram)	1	S-Communication

Examiner comments

In general candidates responded well to this requirement. The best answers were well presented and included 'Branded accessories' (a new product type) as a division and also included areas such as Finance, IT, HR in an appropriate location eg outside divisional structure and reporting to the CEO. Some poor answers showed that the candidate had failed to understand the difference between a functional structure and a divisional structure. Presentation standards varied with the best answers clearly identifying the relationship between different divisions, though a small number of answers were poorly presented.

	Marks	Nature
Total possible marks	6	6S
Maximum full marks	5	

Task 2.3 (b)	Marks	Nature
Advantages		
Allows HD to focus on its core activities	1	S-Analysis
Allows HD to obtain better IT functions and service than that which might be achievable using its own resources	1	S-Analysis
May bring cost advantages / avoid need for upfront investment	1	S-Analysis
An outsourced IT provider may be better at managing risk and compliance	1	S-Analysis
Disadvantages		
Increased formality in the provision of the IT function and requirement to eg set and judge service levels	1	S-Analysis
Possible loss of control	1	S-Analysis
Loss of in-house expertise (and missing opportunity to develop such expertise)	1	S-Analysis
Possible additional risks associated with using a third party eg transferring personal data	1	S-Analysis
HD still needs a disaster recovery plan	1	S-Analysis
Award credit for reasonable points. Mark first 2 advantages and disadvantages, max 4		

Examiner comments		
This requirement was generally well answered and credit was given for sensible suggestions.		
Total possible marks	9	9S
Maximum full marks	4	

Task 2.3 (c)	Marks	Nature
D	1	K-Technical
In cloud computing, the software is stored in the cloud and accessed by the user through the internet. Security, including file backups, is provided by the service provider.		

Examiner comments		
Almost all candidates answered this OT requirement correctly.		
Total possible marks	1	1K
Maximum full marks	1	

Task 2.3 (d)	Marks	Nature
Strengths		
Listed on AIM so can raise finance easily (A)	1	S-Analysis
Directors' knowledge and experience of the company and industry so they are able to make good strategic decisions(A)	1	S-Analysis
Extensive / diversified product range which reduces risk (A)	1	S-Analysis
Brand recognition which will support sales growth (Q)	1	B-Adaptability
Ability to develop new branded accessories product type to generate new sales (Q)	1	B-Adaptability
Weaknesses		
Lack of experience of online sales so this area may prove more difficult / less successful (A)	1	S-Analysis
Lack of breadth of experience among / not enough NEDs which may limit the expertise available to HD thus reducing quality of decision-making (A)	1	S-Analysis
Limited factory capacity reduces ability to expand (machine hours limiting production of new products) (A)	1	S-Analysis
Original functional structure may no longer be fit for purpose so may be hampering decision making(A)	1	S-Analysis
Aspects of poor financial control eg fraud in 2018 increase risk and costs (A)	1	S-Analysis
Further aspects of poor financial control eg poor receivables collection in 2019, errors in not awarding trade discounts further increases risk and costs (Q)	1	B-Adaptability
Poor website visibility / user experience may limit online sales growth (Q)	1	B-Adaptability
Perception of products being expensive may limit sales growth and/or lead to necessary price reductions, thus reducing revenue (Q)	1	B-Adaptability
Opportunities		
Premiumisation of market fits well with HD's position so HD is in a good position to benefit from this trend (A)	1	S-Analysis
Development of profitable new product lines eg accessories will increase revenue and profits (A)	1	S-Analysis
Profitability of new product lines eg accessories suggests potential for increased sales and profits (Q)	1	B-Adaptability
Possibility of new online sales eg medicine (Q) suggests potential for increased sales and profits	1	B-Adaptability
Threats		
Risk of lower profitability if customers with poor credit ratings cannot pay (A)	1	S-Analysis
Increased threat of IT-related disruption (eg from cyber-attacks) leading to higher costs and potentially lost sales (A)	1	S-Analysis

Threat to reputation and business from poor behaviour by suppliers / outsourced providers over whom HD has limited control eg Ecoagri (Q) **Award marks for reasonable points, subject to requirement to obtain 1 out of 2 marks in each section from new information provided in the exam paper.**	1	B-Adaptability
Examiner comments Many candidates produced a good quality SWOT and made use of the new information in the exam paper. Common shortcomings included a tendency to categorise weaknesses as threats or to express opportunities and threats in very general terms rather than specifically identifying opportunities and threats relevant to HD.		
Total possible marks Maximum full marks	20 8	12S, 8B