Strategic Business Management
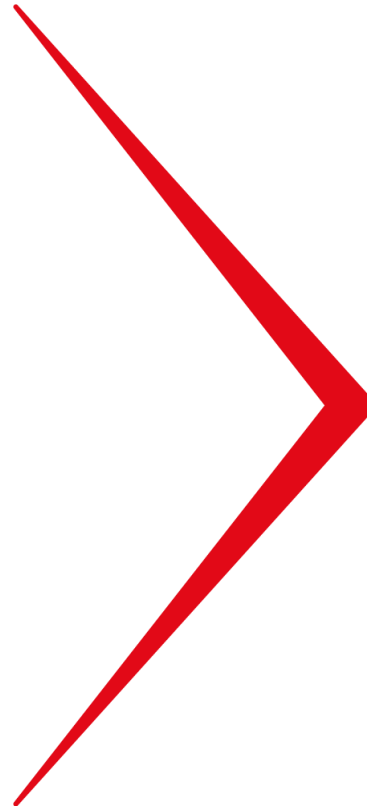# ICAEW Partner in Learning Conference

2 February 2024

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Agenda

- Progression from Certificate and Professional Levels

- Overview of SBM

- What's new for 2024?

- Sustainability

- Technology

- Data analysis and data bias

- Pre-population and spreadsheet functions

- Advice for candidates

- Candidates' weaknesses

- Candidates' performance in SBM in 2023

- November 2023 SBM exam

Progression

Progression to Strategic Business Management (SBM)

- Technical progression – new topics

- Skills progression

- Ethics

- Importance of brought forward knowledge
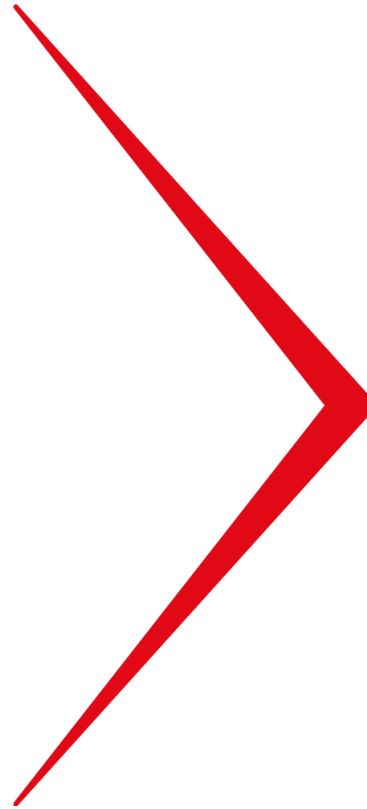
Overview of SBM

SBM – Overview

- Exam format (3½ hours)

- 2 questions (100 marks)

- Pass mark 50%

- Each exam will contain questions requiring integration of knowledge and skills, including ethics

- Pre-populated spreadsheet could be in either question

- Open book exam

Strategic Business Management– Syllabus

Topic	Weighting
Strategy	30 - 40%
Finance, financial risks, valuations for businesses and securities, investment and distribution decisions	25 - 35%
Ethics	5 - 10%
Corporate reporting issues	15 - 20%
Assurance issues	10%

Strategic Business Management

Question	Approximate* mark allocation	Description
1	60%	Mini case. Scenario based question in context of business and financing issues. Can include corporate reporting and/or assurance.
2	40%	Scenario based question in context of financing and business issues. Can include corporate reporting and/or assurance.

*Question 1 is likely to vary between low 50s to mid 60s

Ethics and pre-populated spreadsheets may feature in either question

Strategic Business Management

Main syllabus areas

Skills

Questions

| Business |
| Finance |
| FR and Assurance |
| Ethics |
| Brought forward (e.g. BS & FM) |

Assimilating and using information

Structuring problems and solutions

Applying judgement

Conclusions, recommendations and communication

Q1 – mini case

Approx. 60%

Q2

Approx. 40%

Brought forward knowledge

- Business Strategy & Technology

- Financial Management

- Financial Accounting and Reporting

- Audit and Assurance

SBM Syllabus – Business topics

- Business strategy
- Performance management and measurement
- Management information
- Strategic marketing and brand management
- Business risk management
- Corporate governance (structure & strategy)
- Data analysis I (eg Big Data; data analytics, visualisations)
- Data analysis II (spreadsheet functions & pre-population)
- Statistics - (eg probabilities, conditional probabilities, normal distribution, SD, CoV)
- Information strategy
- Technology (eg cloud computing, AI, machine learning, social media)
- HRM
- Supply chain management (upstream & downstream)
- Operations management

SBM Syllabus – Finance topics

- Business and securities valuation (equity and bonds)
- Capital structure
- Financial reconstruction and financial distress
- Equity instruments
- Fixed interest (bond pricing; bond yields, effective interest rates)
- Derivatives (forwards, futures, options, swaps)
- Financial risk management (FOREX, interest rate, commodities)
- International financial management
- Investment appraisal (including multi-currency appraisal)
- Data analysis (spreadsheet functions & pre-population)
- Leasing (ST v LT leases; sale and leaseback or buy)
- Treasury and working capital management (short-term financing)

SBM Syllabus – Financial Reporting

- FR will relate to business and financing issues

- SBM LMs are stand-alone from CR

- Brought forward knowledge relevant from FAR

- **Specific questions** (eg financial instruments; leasing; impairment, provisions, disposals (IFRS5), revenue recognition; annual report disclosures)

- **General questions** (eg CEO wants to know about all FR implications of a business or financing decision)

SBM Syllabus – *KEY Accounting Standards*

IFRS 5 – Held for sale

IFRS 9 – Financial Instruments

IFRS 15 – Revenue

IFRS 16 – Leasing

IAS 16 – PPE

IAS 36 – Impairment

IAS 37 – Provisions

IAS 38 – Intangible assets

ALSO: IAS 2; IAS 10; IAS 24; IAS 32; IAS 33; IFRS 8; IFRS 13

SBM Syllabus - Assurance

- Forward looking

- Assurance – rather than statutory audit

- Internal audit and/or internal assurance/review procedures

- Due diligence

- Forecast information

- Going concern

- Agreed upon procedures

- Quality assurance

- Assurance issue will arise from business or finance context

Ethics (SBM)

- Ethical dilemma(s) – stated or embedded

- Ethical issues for specific individuals and/or organisations

- Identify ethical issues/principles

- Identify ethical actions

- Balanced approach (conflicting issues)

- SBM – Role typically the accountant in business or assurance provider

Ethics

- Apply professional scepticism (questioning mind)
- Ethics can be embedded in scenario – but requirement will refer to ethical issues
- Use ethical language and principles (not just generalised opinions)
- Refer to ethical codes where appropriate
- Weak answers:
    - identify one issue only
    - fail to identify the perspective(s) (who?)
    - take a one-sided view (unbalanced)
    - do not use ethical framework
    - do not use ethical language/principles

Ethical principles

- *Transparency, Effect, Fairness:* is usually of limited value alone

- Other ethical principles:

  - Self interest

  - Conflict of interest

  - Self-review

  - Intimidation

  - Honesty & integrity

  - Objectivity and independence

  - Confidentiality

 - Familiarity

  - Professional conduct

Taxation - SBM

- No specific UK tax.

- Tax treatment for the jurisdiction in the scenario will be given in the question where relevant.

EXAMPLES

- Tax treatment for investment decision could be given in question for candidates to determine cash flows for investment appraisal.

- Don't invent a tax rate for calculations (the question will lead candidates if tax is a required issue)

Skills in summary

Skill	Can the candidate:
Assimilating and using information	Use information, provide analysis, appreciate its significance. eg. data analysis using spreadsheets
Structuring problems and solutions	Define the problem, develop solutions to fix it.
Applying judgement	Identify significant factors/issues, apply a sceptical and critical approach.
Drawing conclusions and making recommendations	Formulate reasoned recommendations and opinions, set out advice, options, reservations based on valid evidence.
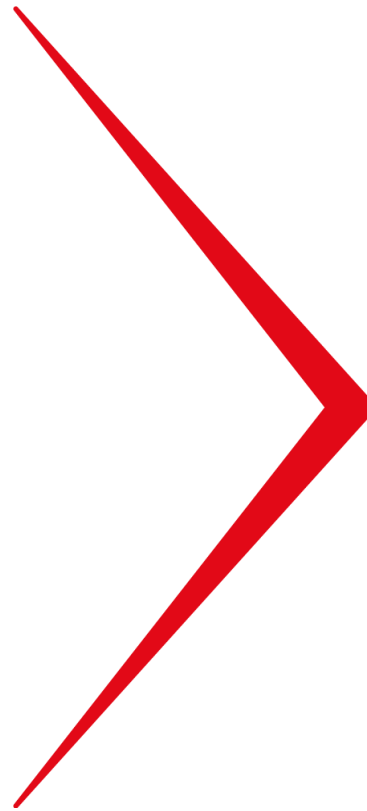
What's new for 2024?

Main additions to learning outcomes for 2024 (1)

1b analyse and evaluate, for a given scenario, the external economic, market and industry environment which may impact upon, or be impacted by, a business's performance and operations, including climate change externalities and sustainable supply chains

2a assess, advise on and propose appropriate business strategies to meet stated objectives, including sustainability targets

3c explain and evaluate the nature and methods of change management and advise on the implementation of change in complex scenarios, including climate change transition

3h Identify and explain barriers to implementation of digital strategy, including digital transformation, and make recommendations as to how they may be overcome

4c use financial and non-financial performance data from a variety of sources, including integrated reporting disclosures, to measure and monitor multiple aspects of performance at a variety of organisational levels

4e develop measures to monitor and evaluate performance in the context of social responsibility, sustainability, environmental matters, natural capital and climate change

Main additions to learning outcomes for 2024 (2)

6b advise on the risks involved in business and organisational plans and show how these risks can be managed by assurance procedures and other forms of risk mitigation, including managing the strategic, operating and financial risks arising from sustainability issues and climate change

7b assess the interests and impact of organisational stakeholders in determining strategy and the consequences of strategic choices, including responsibilities to stakeholders for sustainability and environmental, social and governance (ESG) policies

7f explain the role of boards in determining and evaluating an entity's policy for social responsibility, sustainability and environmental matters and advise on corporate reporting measurement and disclosures relating to these policies

9f demonstrate and explain how businesses capture, analyse and utilise information to develop competitive advantage and monitor the achievement of sustainability goals

10d demonstrate and explain the role and impact of human resource management in change management, including the impact on social and sustainability objectives.

11b assess and explain current and emerging issues in finance, including the role of finance in achieving sustainability goals

Main additions to learning outcomes for 2024 (3)

15d   Assess and explain the opportunities and challenges for small and medium-sized companies from implementing sustainability policies

23f evaluate and explain the ethical impact of sustainability policies, including climate change effects
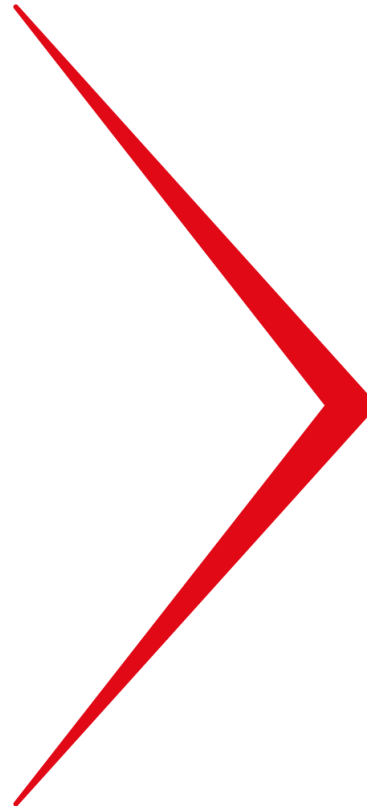
Sustainability

Examining Sustainability

- Sustainability: (i) Environmental (ii) Social (iii) Business/Economic

- Conflicts between objectives ST & LT (eg environment & business)

- Risks from climate change

- Business and financial reporting issues e.g. stranded assets, supply chain issues

- Links with other themes:
  - Ethics (eg. public interest, transparency)
  - Data analysis (eg risks & probabilities, metrics)

Sustainability

Ethics
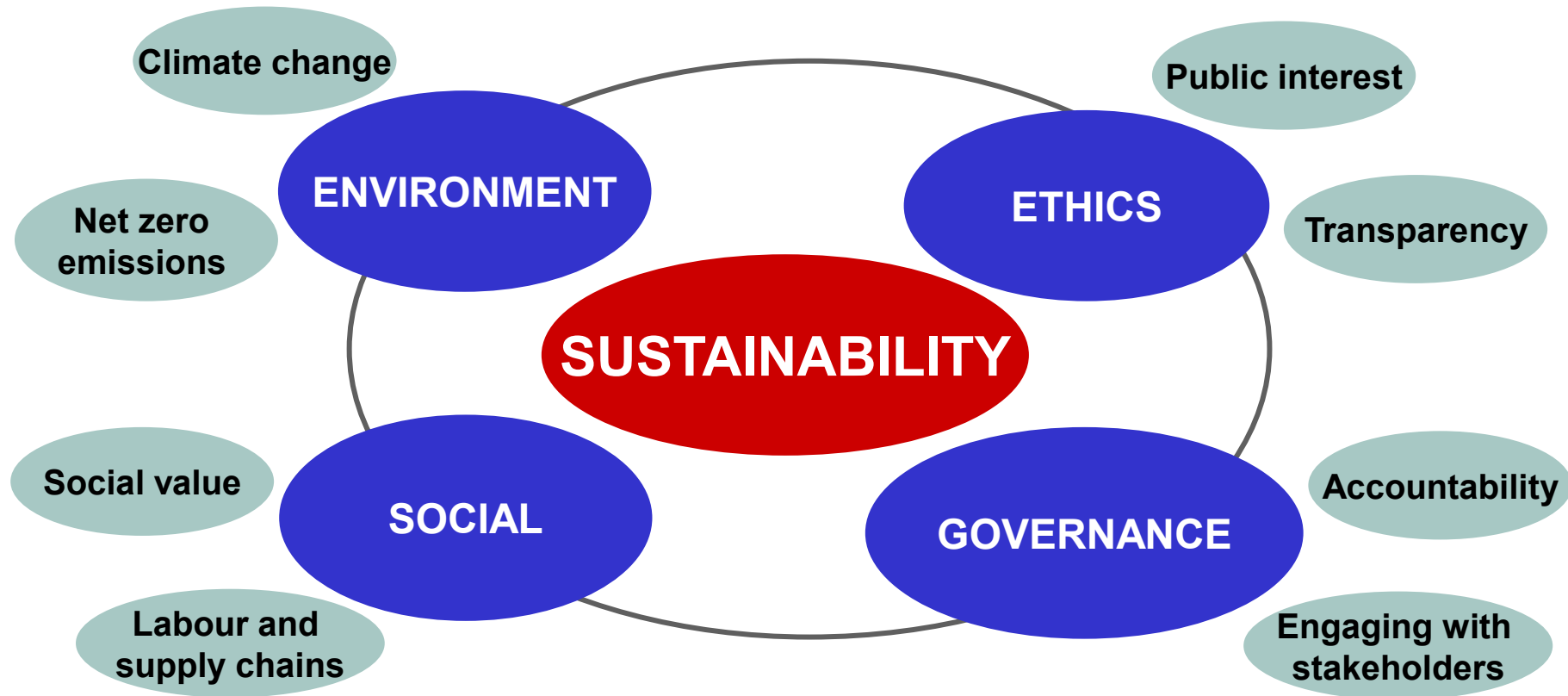
Environment

Reporting

Risk management

Assurance

Shareholders

Boards

Business partners

Governance

Operations & supply chains

Customers

ICAEW Chartered Accountant

Public & communities

Lenders

Employees

Governments

Strategy

Law & Regulation

Suppliers

Analysts/ advisers/ experts

Metrics & targets

Finance

Governance

Social

Putting sustainability at the heart of the matter

Sustainability – key activities for accountants

REPORTING (MANDATORY AND VOLUNTARY)

RISK MANAGEMENT

ASSURANCE

STRATEGY
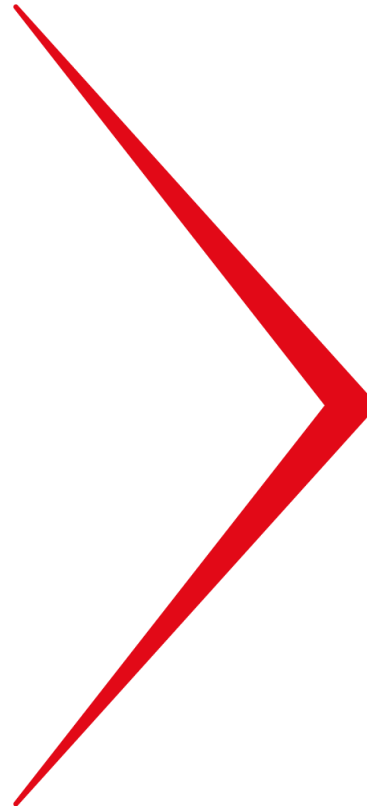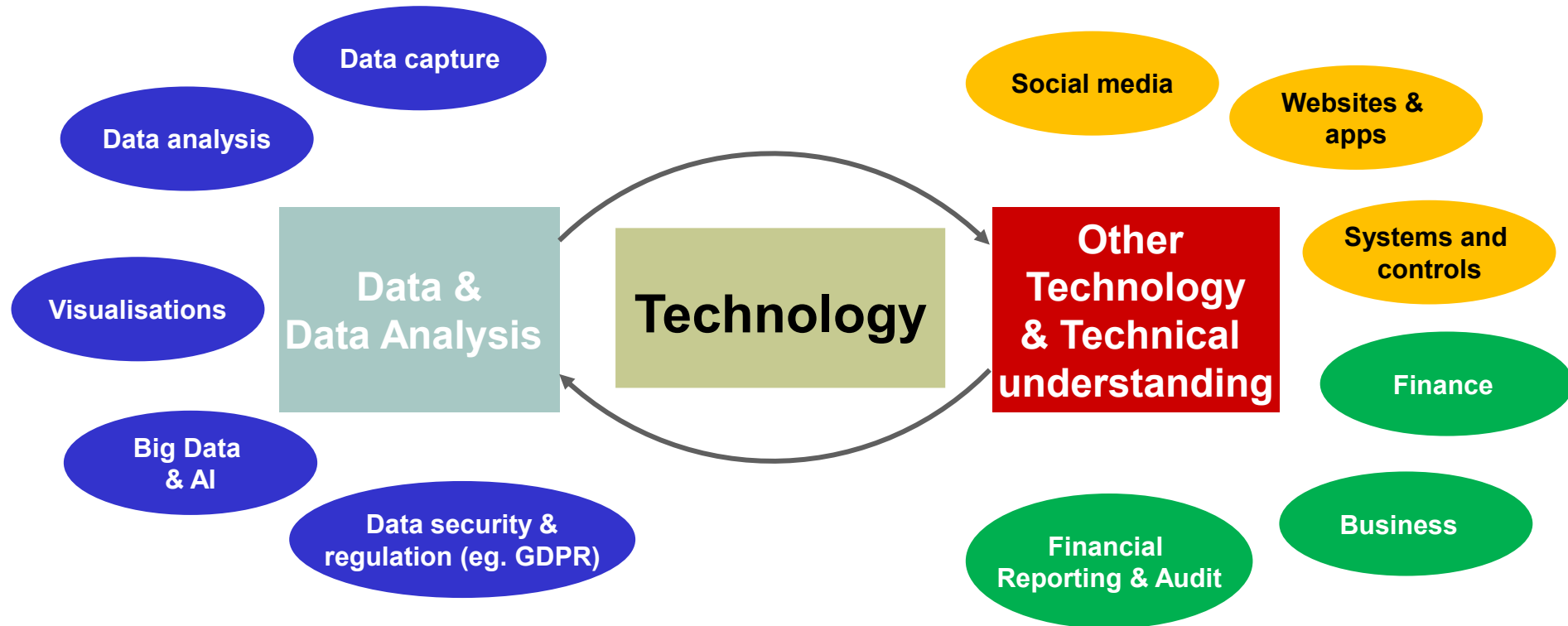
FINANCE

GOVERNANCE

METRICS AND TARGETS

OPERATIONS & SUPPLY CHAINS

LAW & REGULATION

Technology

A wide definition of technology

Data analysis
and data bias

Data Analysis and Statistics – continuing themes

- Pre-populated spreadsheet – granular data Spreadsheet functions

- Statistics

- Basic principles

  - Professional scepticism with data and data analysis

  - Data bias

- Understanding and interpretation – data distributions (eg SD)

- Move beyond descriptive statistics and means.

Data capture

Potential for data bias in **data capture**.

Examples of data bias:

- selection bias

- self-selection bias

- observer bias

- omitted variable bias

- cognitive bias

- confirmation bias

- survivorship bias

Data capture

Bias can be:

- **Intended** (ethical and legal issues) **self interest, honesty, integrity**

- **Unintended** (technical understanding, including data analysis to identify bias) **professional competence**

Professional scepticism applies to both to reveal bias.

Intended bias: data capture example

Collecting data from *a known biased population* (eg. based disproportionately towards: one age group; one income group; specific location; specific time).

Data analysis – intended bias

Intended bias in the way data is **analysed** and presented to emphasise a preferred result in favour the preparer **(self interest, honesty, integrity)**

<u>Examples</u>

- Data mining – with disclosure of only the preferred results.

- Deliberate manipulation of results.

- Deliberate manipulation of results presentation.

- Claiming correlation as causation.

- Claiming spurious results as valid (e.g. from small sample, where not statistically significant).

Would you believe it?
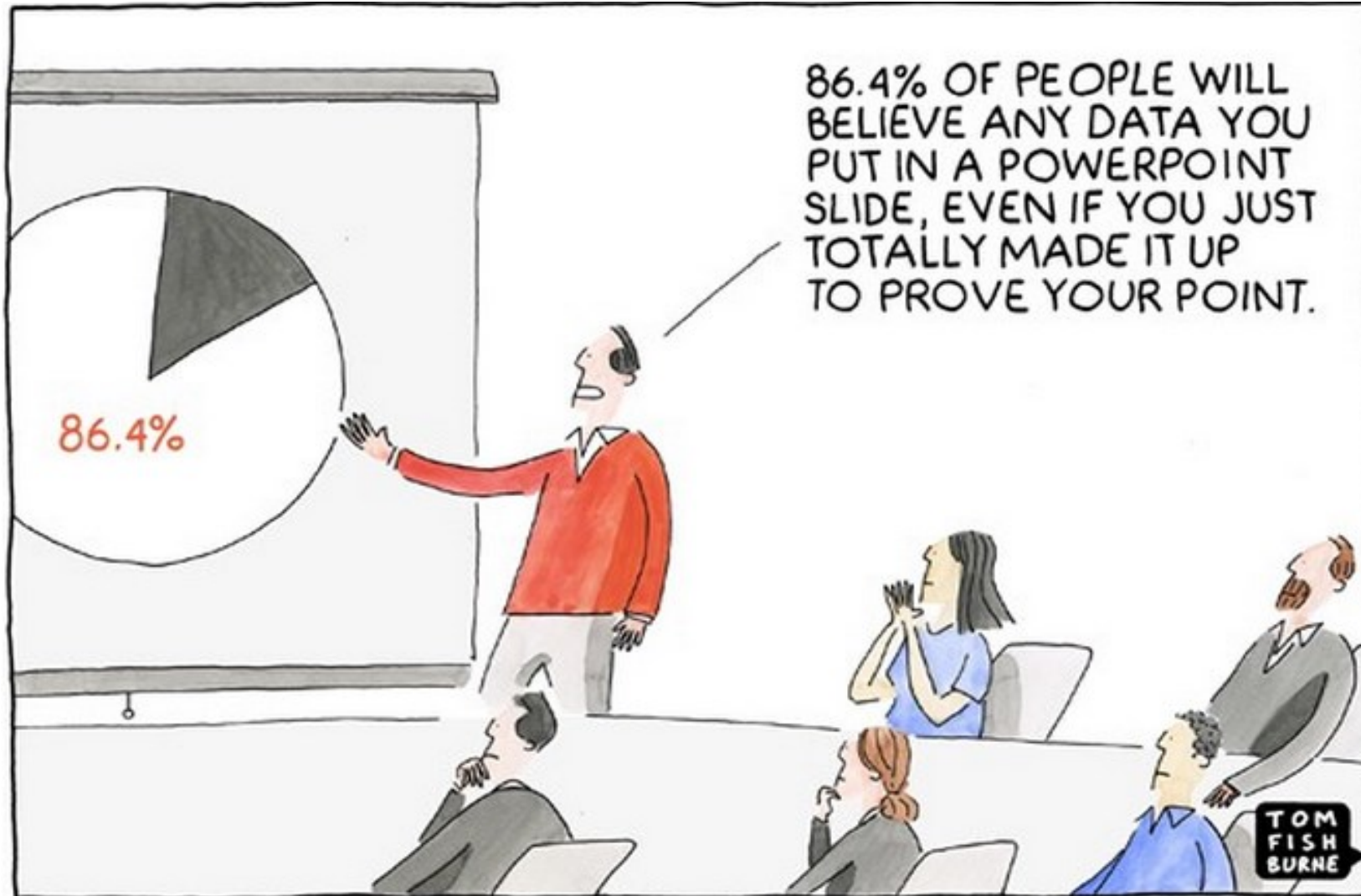
If at first you don't get the desired result
…...keep going

Data presentation – truncating the Y-axis
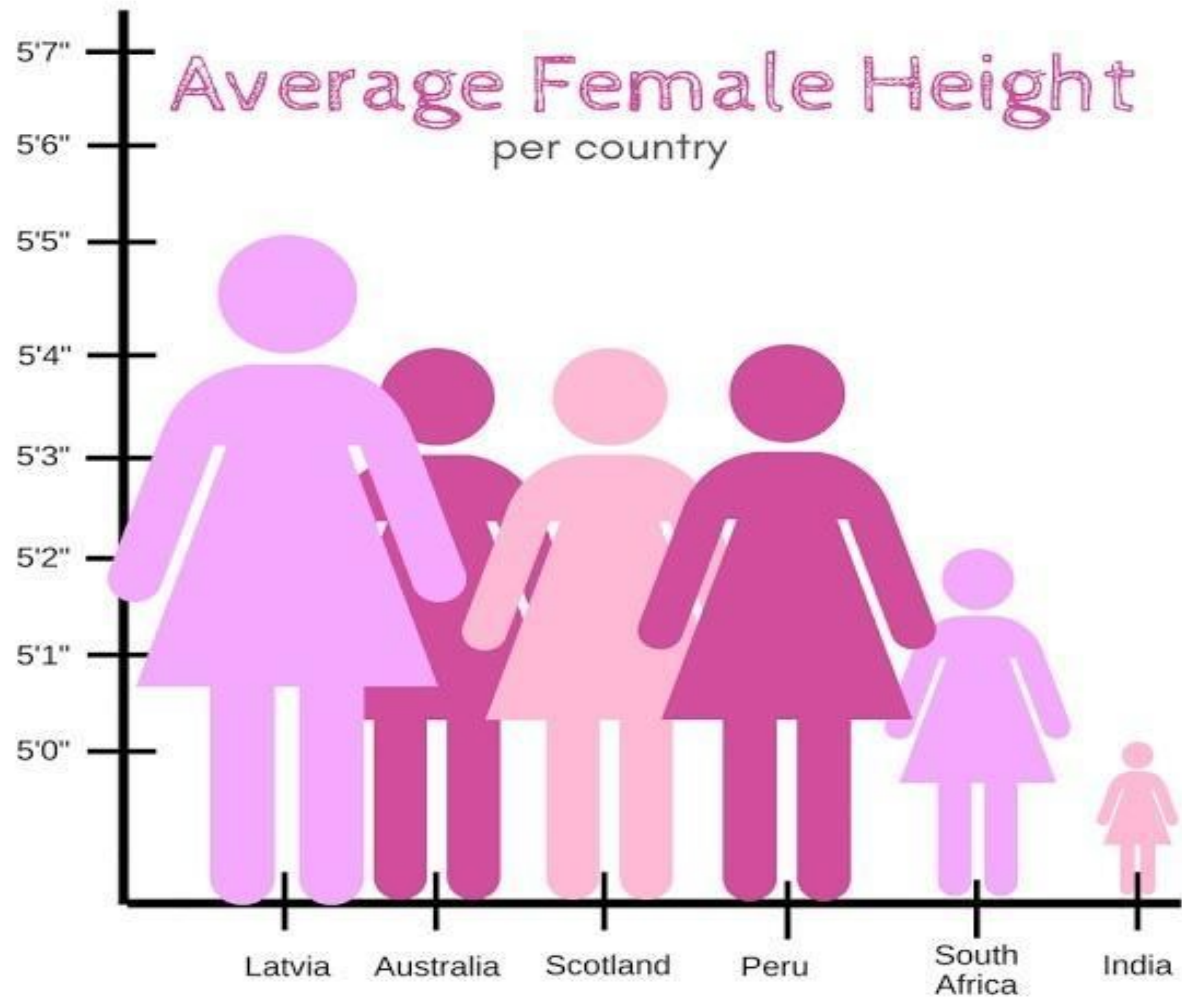
Truncating the X-axis – observing time-series trends
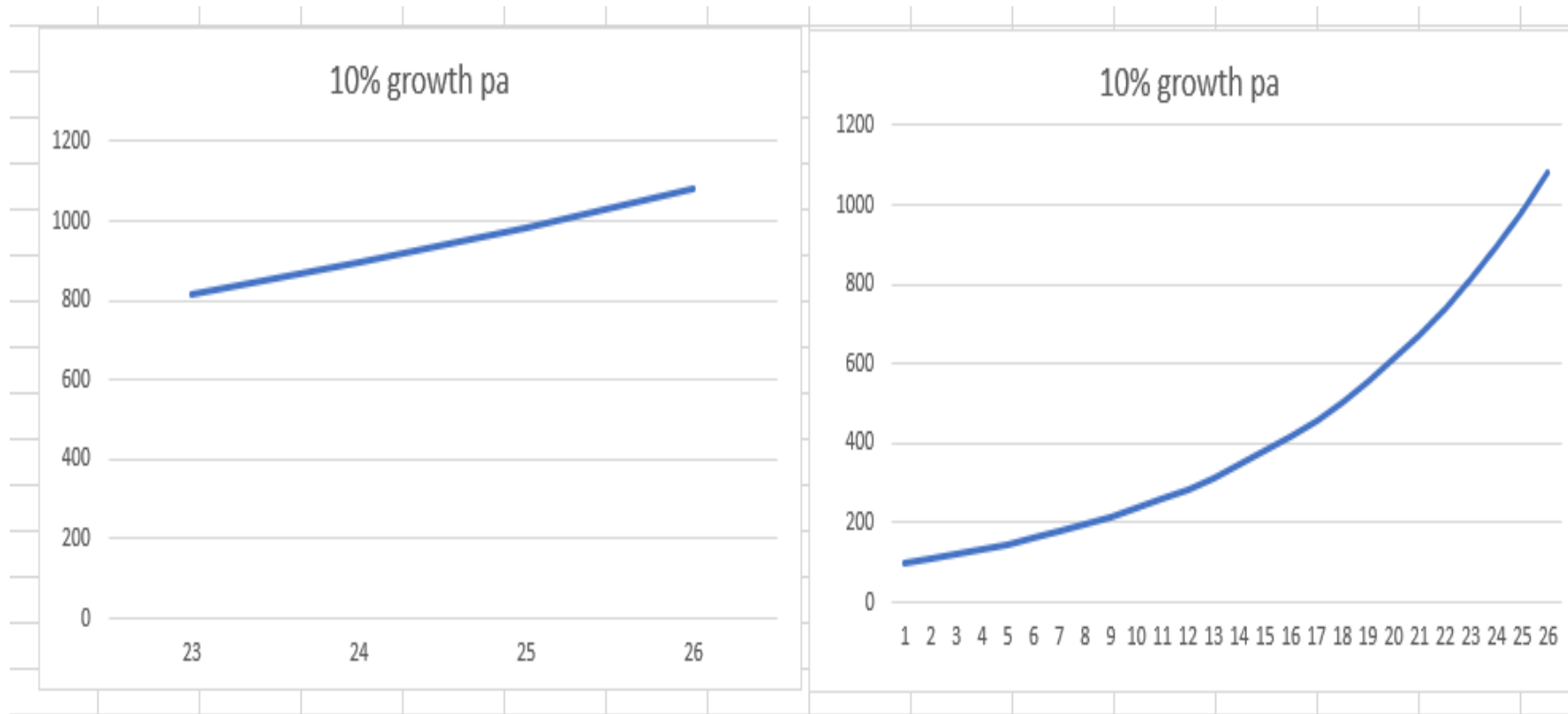
Possible technical-ethical themes for questions

Evidence for **unethical behaviour** revealed by:

- Using data analysis to identify bias in data capture.

- Explaining why data capture methods are biased.

- Identifying and explaining inappropriate data analysis methods.

- Manipulated trends in visualisations.

Pre-population and Spreadsheet functions

Spreadsheet functions

Three types of functions:
- **Logical** (e.g. *=SUMIF; =COUNTIF*)
- **Financial** (e.g. *=IRR; =NPV*)
- **Statistical** (e.g. *=STDEV*)

Required spreadsheet functions (1)

Spreadsheet Functions	BST	FM	SBM
Logical functions – Data analysis			
AVERAGE	✓	✓	✓
COUNTIF	✓		✓
COUNTIFS	✓		✓
IF (incl nested IF statements) & IFS	✓		✓
RANK	✓		✓
SUM	✓	✓	✓
SUMIF & SUMIFS	✓		✓
A1 (absolute cell reference)	✓	✓	✓
SORT			✓

Required spreadsheet functions (2)

Spreadsheet Functions	BST	FM	SBM
Statistical functions			
CORRELATION	✓	✓	✓
STD DEV	✓	✓	✓
TREND	✓		✓
Financial functions			
IRR		✓	✓
MIRR & XIRR			✓
NPV		✓	✓
POWER (also ^)		✓	✓
PV		✓	✓
RATE		✓	✓

Use of spreadsheet functions – key issues

- It is important to be familiar with the **precise** notation of each spreadsheet function on the list (*commas, quotation marks etc in the right places*)

- There is likely to be more than one way to analyse data. Practice questions give guidance on the most efficient way.

- Need to be flexible to a variety of ways to analyse the data.

Pre-populated spreadsheets

- Enables assimilation of granular data

- Likely to be limited to be more rows of data in future .

- There may be several columns of data (e.g. prices, products, volumes, dates, regions, sales staff – *but not all of these*!)

- May need to analyse in steps or stages (eg filter by market and then by product)

Progression from Professional Level - spreadsheet analysis

- SBM has limited differences in spreadsheet functions from Professional Level.

- Functions used for SBM are mostly similar to FM and BST combined

- Application of the spreadsheet functions to solve problems may require more skills for SBM, than FM or BST (e.g. answer queries from the board, rather than specified calculations)

- Recent past SBM questions are a good guide – but evolving.

- Practice questions for SBM are mainly adjusted versions of FM and BST questions.

- The SBM practice questions indicate a section of a larger question within an SBM exam (ie. not a whole question).

Data analysis – Learning Materials

- Workbook – Chapter 20. Shows spreadsheet functions and how they are used with questions and worked examples.

- Question bank – questions include spreadsheets and statistics and some past questions.

- Practice questions in ICAEW platform in CBE resources - including worked examples to practise spreadsheets

- Mock exams – include some past questions.

Data analysis requirement styles in SBM 2024

Requirement style	Practice question - Example
Analysis of data provided in scenario – without pre-population	Similar to previous SBM data analysis questions in prior years
Analysis of aggregated data – with pre-population	Sensortex (NPV) Redsox (ENPV & probabilities)
Analysis of granular data – with pre-population	Chrono Home & Garden Furniture
Use of statistics (eg SD)	Griddle Burgers

Spreadsheets – some things to note

- The ACA exam platform uses **SpreadJS**. This is close to Excel, but it is not the same. It is important to practice questions in SpreadJS format.

- The spreadsheet functions used by candidates are **not** transferred into the word-processing area when copied. Only the raw numbers are copied over, so workings are not shown to markers.

- Visualisations **cannot** be cut and pasted into the word-processing area.

- Candidates need to ensure that all their relevant analysis and data are copied from the spreadsheet into the word processing area (e.g. an excessive number of spreadsheet columns may cause issues).

- Candidates should be careful not to delete or corrupt pre-populated data or their own partly-analysed data.

Advice to students on data analysis

- Know the notation well for the required spreadsheet functions.

- Practice how the functions can best be used to answer questions.

- Focus on the key requirements. Do not try to do more than required by the question.

- Learn to structure your outputs (e.g. a table).

- There can be many way ways to analyse the data. Look for the quickest and easiest methods.

- Where functions or problems seem complex, break them down into their smaller constituent parts.

What's new for pre-populated data analysis in 2024

- Analyse data using **multiple criteria** (maximum of two)
  - Products, markets, divisions (eg sales of Product 1 in Region B)
  - Revenue and profit targets (eg meets both targets)
  - KPIs (eg meets two KPIs)

- **Open questions** eg queries from board which can be answered by analysing data in different ways (use judgement to determine analysis needed to best address query and/or determine appropriate functions to use)

- **More rows of data** to deter candidates solving manually c75 rows (ie. by inspection, rather than using functions)

- **Sort** data. No other new functions for 2024.

Statistics (WB Chapter 7, Section 5)

Standard deviation	Correlation
Normal distribution (including **Z-scores**)	**Expected values**
Coefficient of variation	**Discrete v continuous probabilities**
Conditional probabilities	**Decision trees**
Sampling and confidence intervals	Skewness
Hypothesis testing	Covariance

<u>Note:</u> items in bold may require calculations
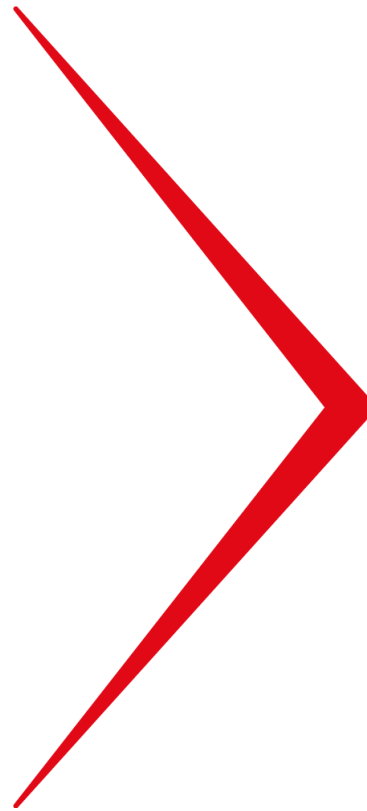
Advice for candidates

Advice to candidates

- Need to 'think on your feet'. SBM tests skills of dealing with an unfamiliar scenario.

- Identify the big issues.

- Look for links between issues.

- Look for embedded points (gateway marks).

- Apply professional scepticism.

- Apply realism.

- Answer requirements in order within a question.

- Answer the question; the whole question; and nothing but the question.

Advice to candidates – have available in exam

- All learning materials, WB and QB (SBM, but also FAR, FM, A&A).

- IFRS and ISAs

- Annuity tables

- Normal distribution tables – area under a normal curve (Z scores)

How to interpret the data

- Tabulate the data (adds structure)

- Types of calculations:
    - Percentage changes (*horizontal* – % changes between two years)
    - Financial & operating ratios (*vertical* – ratio of two numbers in same year)

- Use the spreadsheet (eg growth, discounting, NPV, cash flows, FOREX)

- Interpret visualisations (eg trends, relationships, outliers)

- Link data – (tables, visualisations, narrative) – consistent story?

- What-How-Why-When-SoWhat? (WHWWsW analysis)

- Make the numbers speak – more marks for discussion

- If there are numbers in the question; there should be numbers in the answer

- Professional scepticism and data bias

- Alternative perspectives

Professional scepticism

- 'Professional scepticism' – a questioning mind

- Applied to quantitative and qualitative information in the scenario. (but don't unreasonably disbelieve everything – use judgement.)

- Includes questioning of: actions, documents and what we are told by characters in the scenario.

- This involves being curious. Identify red flags - what are the motivations/incentives for characters in scenario?

- Issue(s) may be embedded – grey areas.

- Applying professional scepticism can involve management challenge

Should candidates use models?

- Progression from BST

- From foreground to background (guide content, but not to be used woodenly)

- Problem solving

- Models that 'break in our hands':

    - **TEF** in ethics (transparency, effect, fairness)

    - **SAF** (suitable, acceptable, feasible)

Candidates' weaknesses

Candidates' weaknesses

- Poor layout.

- Disorganised workings – use headings.

- No conclusions (sitting on fence) or concluding by assertion without justification.

- Generic answers unrelated to the scenario.

- Accept at face value assertions made by characters in the question (professional scepticism).

- Merely repeating information given in question (no added value).

Candidates' weaknesses

- Missing out parts of questions (if you write nothing, you get nothing).

- Inability to link information/data to resolve a problem.

- Inappropriate use of models to resolve an issue.

- Answering requirements within a question in random order – the order of the requirements are designed to help candidates.

- Lack of realism in giving advice.

- Conclusion by assertion.

- Identifying generic risks – not using the word '**because**' to explain.

Candidates' weaknesses

- Significant gaps in brought forward knowledge.

- Very brief explanations – and limited identification of range of issues.

- Not seeing ethical issues from the required perspectives.

- Not following the suggested layout of the answer given in the question.

- Poor time management.

- Failing to read all requirements and all of scenario before starting to write.

Bad practice – weaving calculations into narrative (some merit but missing out key numbers)

b)Performance of suppliers relating to 1a and Exibit 2

In term of late delivery, Basten is having more late delivery issues compared to Horace. Horace has only 2 times late delivery which are more than 7 days out of 27 time of delivery or 26%. Bastern has 6 times late delivery out of 18 time of delivery or 33.33%. This might be due to the distance of location of 2 suppliers to ZEC factory. Horace,based in Northern England is having a shorter distance of 350km from ZEC factory, thus will have lesser delivery days taken and lower late delivery rate compared to Basten. Basten based in Belgium, takes longer delivery days as it might require oversea shipment to deliver the items.

Horace has a defective rate of 2.96% (67/2262)
Basten has a defective rate of 0.6% (9/1508)
Basten is having a lower defective rate in term of deliver defective items compared to Horace.

As ZEC determined that the items must be delivered within 7 days of the order and with a defect rate no more than 1 in 100 ebike frame delivered equivalent to 1%.

In this case, although both Horace and Basten is having late delivery but in term of defect rate, Basten will have a better performance as only 0.6% defect rate on the items delivered which is less than 1%.

Good practice – neat summary table of results from analysis of pre-population spreadsheet

Supplier	Horace	Basten
Total delivieries	27	18
Number of late delivieries	1	6
% of delivieries late	3.70%	33.33%
Number of frames delivered	2262	1508
Number of frames defective	67	9
% defective frames	2.96%	0.60%
Above 1 in 100 defective?	Yes	No

Bad practice long table of individual; transactions - with no totals

Order date	Actual Delivery date	Supplier	Number of frames delivered	Number of defective frames	Delivery day	% of defective
01 June 2022	08 June 2022	A	46	1	7	2.17%
02 June 2022	10 June 2022	B	69	0	8	0.00%
04 June 2022	11 June 2022	A	101	4	7	3.96%
04 June 2022	11 June 2022	A	99	1	7	1.01%
05 June 2022	12 June 2022	A	68	1	7	1.47%
07 June 2022	14 June 2022	A	97	4	7	4.12%
08 June 2022	15 June 2022	B	123	1	7	0.81%
09 June 2022	16 June 2022	A	55	1	7	1.82%
11 June 2022	20 June 2022	B	89	0	9	0.00%
11 June 2022	18 June 2022	A	77	3	7	3.90%
13 June 2022	20 June 2022	B	77	1	7	1.30%
15 June 2022	22 June 2022	B	48	0	7	0.00%
16 June 2022	23 June 2022	A	111	5	7	4.50%
17 June 2022	24 June 2022	A	54	1	7	1.85%
18 June 2022	25 June 2022	B	23	0	7	0.00%
20 June 2022	27 June 2022	A	67	1	7	1.49%
21 June 2022	29 June 2022	B	75	0	8	0.00%
22 June 2022	29 June 2022	A	87	2	7	2.30%
24 June 2022	01 July 2022	B	62	0	7	0.00%
25 June 2022	02 July 2022	A	90	4	7	4.44%
26 June 2022	03 July 2022	A	89	3	7	3.37%
27 June 2022	04 July 2022	B	92	1	7	1.09%
28 June 2022	05 July 2022	A	123	6	7	4.88%
29 June 2022	06 July 2022	A	66	1	7	1.52%
02 July 2022	09 July 2022	B	145	1	7	0.69%
03 July 2022	10 July 2022	A	77	2	7	2.60%
04 July 2022	14 July 2022	B	128	1	10	0.78%
05 July 2022	12 July 2022	A	73	0	7	0.00%
06 July 2022	13 July 2022	B	93	1	7	1.08%
08 July 2022	15 July 2022	A	84	2	7	2.38%
09 July 2022	14 July 2022	A	124	5	5	4.03%
10 July 2022	17 July 2022	B	78	0	7	0.00%
12 July 2022	19 July 2022	A	55	1	7	1.82%
13 July 2022	20 July 2022	A	90	4	7	4.44%
14 July 2022	21 July 2022	B	112	1	7	0.89%

Bad practice – Using the spreadsheet for writing text rather than writing directly in the word processing area.

Word Processing area - only data in this area will be marked:

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T
1																				
2	1																			
3		Organisational structure follows mintzbergs structure																		
4		The founders are the strategic apex, maintaing key relationships with media companies and artists.																		
5		They will set the overall strategy and vision for the company and how it will manage its relevant partners.																		
6																				
7		The music editors are the operating core. They provide most of the day to day workings of the companies, updating content and executing the strategic apex vision.																		
8																				
9		The in-house IT is an example of the companies technostructure, this is the key skills area of the company where the majorty of the USP is held.																		
10																				
11		The IT element of the company is a clear competetive advantage for the company.																		
12		Its data analytics capabilities allow it to creat personalised playlist that will retain listeners and maintain subscriptions.																		
13		Keeping the IT department in house enables the data analysed to firstly remain secret and prevents any leaks to third parties compared to if it was outsourced.																		
14		Second of all, the in house element of it allows for a greater ease of integratin, collaboration and trasnfer of ideas, data between the music editors and the IT department.																		
		This will vastly improve the																		

Bad practice – not leaving gaps between the answers to each requirement

Data captured from SIA device

The data captured from the SIA device may be appropriate a commercial value through the use that is being made from the data. For example, one option would be to determine the value of the data by reference to the gains being made by the company in usir the data to drive its decision making and product offering to customers.

Another method to value the data would be by reference to its potential selling price to other companies if this is an option that's premitted under the agreement with the customers. This could enable a market value to be established. Alternatively, we could establish the value of this data by identifying whether any similar data was sold in the recent past and at which price by competitor

2) Post-implementation internal assurance review for SIA project procedures

Historical data

- Identify costs that were incurred in between reserach stages to identify where most them are being spent, efforts can then be directed here in order to minimise them as much as possible
- Identify the total costs which have been incurred from initial research to final product development and compare them against the revenues earned by the product to identify whether these were recovered
- Investigate pricing structures in the company to ensure that historical data and past experiences are being used to inform future pricing decisions
- The increases in market share from launching a product could be monitored to identify whether the company has made highly successful launches in the past and which could assist in performing one with the SIA now

Forecast data

- Perform reserach on the wider market and competitors to gain insights as to how their own products that employ similar technolo to SIA have performed since launch. This will enable a growth rate to be established.
- The product's lifecycle can be informed by looking at decreases in the sales value that are expected to take place leading up to tl end of the device's life
- Also, the product lifecycle can be informed by subscription to relevant technology magazines and academic newsletters to monit new technological improvements in the wider market that'd pose a threat to the SIA as a potentially inferior product

3a) Annual implicit interest rate earned by the bank under choice 3

The annual implicit interest rate is calculated by reference to the amount of money paid upfront by the bank and the money which would've been receivable by the company under the quarterly payments. This is equal to 50.4% and has been calculated as

Bad practice – an apology

Linda is potentially choosing hedging contracts that, although may be effective in hedging the chosen risks, may not be in the be: interest of Tallam due to the conditions associated with the contracts. This could be due to the fact that the foreign currency department at the bank is led by her brother, thus meaning that he would be generating revenue from Tallam contracts, which he could then share with Linda. There may therefore be a self-interest threat to Lindas objectivity. Additionally, Linda was possibly in breach of confidentiality if she disclosed to her brother the entitys intention to use hedging instruments such that he had an advantage over other banks.

(I apologise but this keyboard is broken and I cant use apostrophes)

SEEN

Bad practice – Disproportionate responses (J21 Q2.3)

Concern 1 – 6 marks Credit risk (wrote too much)

Concern 2 – 6 marks Transfer prices (wrote hardly anything) (went on to write more on 2.4)

Question 2.3

Concern 1

With regards to this concern, Tallam is experiencing risks with operating in overseas markets that are perhaps not quite as stable or risk-free as other markets Tallam operates in. This has resulted in operating in markets without proper due dilligence as to the liklihood of customers paying amounts on time and within the credit term provided. It has also resulted in undue risks being taken by Tallam in order to win new customers or, with the case of LaserTeck, repeat business.

Specifically regarding procedures for the LaserTeck (LT) incident, it would be worthwhile for Tallam to perform repeat due dilligence on a regular basis, perhaps every 6 months, in order to determine any potential issues. Despite LaseTeck previously paying on time, they failed to do so this time, despite increased credit terms, given LT ran into financial difficulties. Had Tallam performed regular due dilligence on LT, Tallam may have become aware of any potential issues that LT were to face with paying the amounts outstanding.

Significant due dilligence should also be performed on any new clients prior to agreeing terms to aovid new customers being unable to pay on time.

Another procedure Tallam could perform would be to tender for contracts on a reasonable basis with consistent terms and not be too quick to win contracts if the terms are unfavourable. It is noted that sometimes Tallam can be too quick to accept contracts and offer non-beneficial terms in order to hastily win contracts. Tallam could perhaps be more prudent and negotiate more favourable terms and prioritise obtaining a less risky contract over simply winning it.

It is also worth noting that whilst Tallam had returned payments on time previously, these payments were only £1m. Tallam should consider introducing caps on certain customers in comparison to previous orders to avoid accepting contracts that customers such as LT have no experience of paying before.

Concern 2

With regards to concern 2, there are issues with revenue recognition and Tallam need to ensure the right and
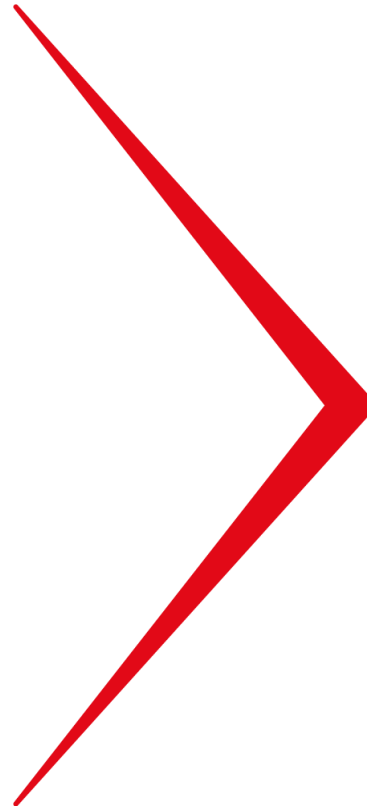
Candidates' performance in 2023

Review of 2023 - July and November 2023 pass rates

	Corporate Reporting **(2023)**	Strategic Business Management **(2023)**	Strategic Business Management **(2022)**
July	(n = 3,171) 83.7%	(n = 2,798) 88.5%	(n = 2,948) 89.5%
November	(n = 3,195) 79.4%	(n = 3,114) 83.7%	(n = 2,895) 87.0%

Average marks by Question 2023 – SBM

	Q1	Q2	Total
July 2023	64.0%	61.1%	**62.7%**
November 2023	61.3%	59.7%	**60.8%**

*November 2023
exam*

Question 1: Plaze

Plaze plc is a listed company that makes glass bottles. The company has two autonomous operating divisions, based in London and Berlin.

- Selling price issues are a concern. A **pre-populated spreadsheet** was provided for all sales deliveries made in September 2023 by each division. The CEO has two queries.

- Plaze is to expand by leasing a new factory, either in the UK or the US.

- The Plaze board intends to expand by acquiring the Ranjun Corporation. Three methods of finance have been identified (i) sale of a financial asset; (ii) issue of a 2% bond (iii) sale and leaseback. A Green bond has been identified as an alternative to the 2% bond.

- Two ethical matters have been highlighted : (i) potential mis-selling by a customer; (ii) a dispute with another major customer about defects.

Q1 Plaze – *Requirement 1*

(1) Respond to the two pricing queries from Martin, the CEO, in Exhibit 2. Use the data in the **pre-populated spreadsheet** and other information. Provide supporting data analysis and explanations.

Query 1

What was the average price per 1,000 bottles for each of the two divisions during the month of September 2023 both: (a) at list prices; and (b) after any divisional management discounts?

Query 2

I would like you to explain and evaluate the factors that caused the average price of the two divisions to differ. I am particularly interested in the impact of:

- the mix of order ranges for each division (using average list prices)
- any discounting by divisional management.

Show supporting calculations.

Q1 Plaze – Requirement 2

(2) Provide reasoned advice to the Plaze board on whether it should locate the new factory in Kent in the UK, or near New York in the US (Exhibit 3). Use the working assumptions and other information.

Consider financial and non-financial factors. Show supporting calculations.

Q1 Plaze– Requirement 3

(3) Advise the board on how Plaze should raise £20 million to finance the acquisition of Ranjun (Exhibit 4). In so doing:

(a) For each of the three methods of finance:

- Evaluate and explain the cost of finance. Calculate the annual effective interest rate (where possible);

- Identify and explain the financial risks; and

- Set out and explain the financial reporting treatment in Plaze's financial statements for the year ending 30 September 2025. Ignore the Green bond.

(b) Recommend and justify the most appropriate mix of financing using two of the three available methods. Ignore the Green bond.

(c) Evaluate and compare the Green bond (suggested by the head of sustainability) with the 2% bond (suggested by the finance director) as a possible source of financing for Plaze.

Q1 Plaze– Requirement 4

(4) Set out and explain any ethical issues for the Plaze board that arise from the two confidential matters highlighted by Martin, the CEO (Exhibit 5). Recommend the actions that the Plaze board should now take.

Requirement 1 – How did candidates perform?

1.1 Two board queries

Query 1 - A mixed performance. Weaker candidates either left out the price after discounts or only dealt with one division.

Query 2 – answers were polarised. Issues that many candidates did **not** identify were:

- the % of capacity being utilised by the two divisions, which impacted the incentive to discount.

- not providing any data (volumes or revenue) for the range codes.

- although the discounts were recognised by many candidates, they did not always explicitly quantify the discount.

- calculating the % mix.

- limited discussion of the two queries.

Requirement 2 – How did candidates perform?

1.2 New Factory – UK or New York

Overall a good performance. But weaknesses included:

- only dealt with the low demand

- taking an average of the high and low demands

- omitted revenue and only compared costs

- starting operating cash flows in year 0

- discounting the initial investment

- including depreciation as a cash flow

- exchange rate in the wrong direction (multiplying rather than dividing)

- not translating $ to £ at all

- having 5 years of contribution rather than 4 years

- using the =NPV function incorrectly

Requirement 3a – How did candidates perform?

1.3a Method 1 - Sell Windon shareholding

Answers to the financial risks section tended to be weak or omitted.

Many candidates stated that the irrevocable election meant that the asset was recognised at FVTOCI, without explaining this answer any further.

For weaker candidates, a common error was to state that the gain would go to SPL. Others referred to OCI as an account, rather than a statement.

Weaker candidates stated that the gain in the financial statements was £8m, failing to recognise the need to calculate gains before and during the current financial year separately.

Requirement 3b – How did candidates perform?

1.3b Method 2 – 2% bonds

Many candidates correctly calculated the implicit interest rate to be 8% (or 7.99%).

Weaker candidates just used the coupon rate or incorrectly used the spreadsheet function and did not carry out any further analysis. Credit was given thereafter for correctly using wrongly calculated interest rates.

High scoring answers identified a range of risks and explained them well.

For other candidates, the explanation of risks was often disappointing with the lower scoring answers just explaining that there may be increased gearing risk, without considering other risks.

Requirement 3c – How did candidates perform?

1.3c Method 3 – Sale and leaseback

- Many candidates correctly used the =IRR or =RATE function to determine the implicit rate of interest of 8%. The risks were often very general and focussed mainly on the fact that the asset would not be owned. The higher scoring answers explained a range of risks.

- Marks for financial reporting tended to polarise on this requirement. Better candidates gained near full marks, correctly determining the ROU asset, interest and the gain.

- Many candidates were able to correctly use the value of the lease liability at £8,783,471, other candidates often struggled with the calculations of the carrying amount, the gain and the closing liability.

- Weaker candidates struggled to make any meaningful calculations or omitted the financial reporting section of the answer.

Requirement 3c – How did candidates perform?

3c Green bonds

Many candidates did not attempt to calculate the implicit rate of interest with a covenant breach and instead just discussed the fact that the Green bond would be preferable from a sustainability perspective.

A number of candidates, who did fully deal with the calculation, obtained full marks on this section.

Discussions of the Green bond often lacked balance, with many taking the route of it being unquestioningly beneficial, with no consideration of possible financial costs.

Requirement 4 – How did candidates perform?

Typical weaknesses were:

- lack of ethical language and ethical principles

- overly strong view in one direction, resulting in an absence of balanced discussion

- a commercial focus, rather than an ethics focus (eg reputation, profitability effects, discussion about "shrinkflation")

- a tendency to go straight to the conclusion without working through the scenario to establish the ethical issues

- actions omitted

Better candidates addressed Plaze's responsibility to customers in the downstream supply chain.

Weaker answers were quite short and sometimes focussed on seeking legal advice or concluding by assertion, without offering much analysis of the scenario.

Question 2: Orzil – Summary

Orzil is a private equity firm which has identified a target acquisition, H4H, which operates a chain of hairdressing salons.

H4H has prepared two pieces of analysis

- H4H's website data

- a customer survey.

Orzil board's initial plan is to sell or close H4H's shops in Scotland. The financial reporting treatment is required for this potential action.

Preliminary due diligence has identified a concern about H4H's pension fund deficit. More due diligence procedures are needed to evaluate the potential impact of the deficit on the amount that Orzil would be willing to pay to acquire H4H.

Requirement 1

1. Respond to the key queries regarding the website data and the customer survey (Exhibit 3).

Queries

Website data

(a) Based on the trends and relationships in the website data, what concerns should the Orzil board have about H4H's performance?

Customer survey

(b) Assuming that the customer survey data is reliable, how can this data be used to determine an appropriate pricing policy for H4H?

(c) How reliable is the H4H customer survey data?

Requirement 2

2. Assuming Orzil acquires H4H on 1 December 2023, set out and explain the treatment in H4H's financial statements for the year ending 31 December 2023 of the decision to sell six H4H shops and close four shops in Scotland (Exhibit 4).

Consider both alternative public announcement dates of December 2023 or January 2024 and any other relevant factors.

Requirement 3

3. To inform the Orzil board's decision on any adjustment required to the £14 million preliminary valuation of H4H as a result of the pension fund deficit issue (Exhibit 5):

- Set out the due diligence procedures required relating to H4H's pension fund deficit.

- Identify and explain the risks that arise for Orzil from taking responsibility for the pension fund and the impact of these risks on any adjustment to the preliminary valuation.

- Set out the actions that the Orzil board could take to mitigate these risks

Ignore the financial reporting treatment of the pension fund deficit.

Requirement 1 – How did candidates perform?

2.1 Queries – website data and the customer survey

Some candidates merely asserted that whilst the number of visits to the website is increasing, unique visits were decreasing, without explaining possible reasons why or what concerns arise for the board of Orzil. Weaker candidates produced wholly narrative answers and largely failed to refer to the numbers.

For many candidates, there was a lack of linkage between the online bookings compared to total bookings, which could have generated a discussion on the effectiveness of marketing communication and the use of the online systems.

A high number of candidates discussed the standard deviation for prices and satisfaction and discussed the possibility of reducing prices where there was low satisfaction currently.

Weaker candidates did not address the link between prices and satisfaction.

Requirement 2 – How did candidates perform?

2.2 FR treatment of sales and closures

Candidates did not perform well on this requirement.

Most candidates recognised that the sale of the Scotland shops would meet the criteria of assets held for sale. However, many answers then failed to develop this point further. Only a minority mentioned the IFRS 5 rules for discontinued operations.

Many candidates mentioned an impairment due to the operating losses, but there was often not much more discussion beyond this and little use of the numbers in the question.

Most recognised that closure of the four Scotland shops could require a provision for the legal and redundancy costs. Weaker answers just wrote out the conditions from IFRS 5 and IAS 37.

Weaker candidates did not make a clear distinction between the shop sales and the closures.

Most candidates discussed the implications of the announcement date, but did not separately address the impact relating to IAS 37 and IFRS 5.

Requirement 2.3 – How did candidates perform?

2.3 Pension fund deficit

Due diligence – many candidates stated the objectives of procedures, rather than the actual actions carried out in performing due diligence. Many answers had procedures just relating to the financial statements as for a statutory audit. The wider commercial context of due diligence for an acquisition, where the size of the pension fund deficit would affect the acquisition price, was missed by many candidates.

The **risks** were treated adequately with most candidates picking up the main concept of taking on responsibility for the pension deficit and the volatility attached to it. Fewer picked up on the fact a £0.6m reduction in price was likely to be insufficient. Even fewer picked up the distinction between the risk of the impact on acquisition price and post-acquisition risk. Weaker candidates incorrectly went down the route of audit risks and discussed how the valuation may be misstated in the financial statements.

Risk mitigation – many noted a possible switch to a defined contribution scheme for future years and/or new employees. Some mentioned transferring risks to an insurance company.

Any Questions?