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# Answers

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**1 (a) REPORT**

**To:** Sinton Bank, Board of Directors

**From:** External Consultant

**Subject:** Analysis of SB's culture

**Date:** XXX

**Introduction**

SB has been approached by a TV production company to film a documentary on what it is like to work for a challenger bank. This was discussed at a recent SB board meeting, and it was agreed that an independent report on SB's culture should first be produced, with reference also given to the recent discovery of the online chat group among former and current employees.

The report will analyse SB's culture and identify any potential consequences for SB if a TV documentary proceeds and portrays SB's current culture.

**(i) Analysis of the culture at SB**

The cultural web is a framework that could be used to analyse the culture at SB.

**Paradigm**

The overall tone for how SB operates is the work ethic that the founders have sought to replicate at SB based on their prior work experience in Londeen. This includes working long hours, including evenings and weekends, and staff being encouraged to socialise with each other after working hours. This could create a pressure for staff to work longer and participate in social activities and they may not wish to do this, or it may not be practical for them to do so, for example, staff with families will have other commitments outside of work hours.

**Organisation Structure**

SB operates a functional structure with five main functions: finance, marketing, human resources, banking operations (BO) and technology operations (TO). The TO and BO teams appear to be the primary functions, supported by the three support functions, and the largest department is the TO team, which comprises 60% of all SB employees. The TO team also report directly to the CEO, whereas the remaining functions all report to the CTO.

### **Symbols**

SB was established in Durpeth, a small town in the north of Denland. Its head office is a modern, glass-fronted building occupying the most prestigious office location in Durpeth. The head office appears to align with SB when it was first established – a new, modern building that could be attractive to potential new employees in Durpeth and the north of Denland. The designated parking spaces for the founders are symbolic of their role and status within SB and the building may also be a personal recognition for Andy, to demonstrate his personal success in his hometown.

Staff at SB appear to wear contrasting work clothes, with most departments wearing formal suits but the TO team dressing more casually in SB branded polo shirts and jeans. This could indicate different treatment for different groups of staff, with the TO team deciding to do what they want and not adhering to the more formal dress policy, as they see themselves as more important than other departments. It may also simply indicate that the TO team are not generally customer facing and therefore the nature of the work may determine what staff can or should wear.

### **Stories**

The founders enjoyed their time working in Londeen, and Andy can often be heard during Friday evenings with staff recounting stories of the “good old days”. This was obviously a way of working that was suitable for the legacy banks, but the major reason that the founder’s developed SB was because they were disillusioned with the slow pace of technological change in the sector at that time. The emergence of challenger banks, like SB, need new ways of operating which will no doubt be different from the “good old days”.

As noted during the SB board meeting, the recent discovery of an online chat group of both current and former SB employees is concerning as the posts are not complementary of SB’s working practices and culture. This could be a few disgruntled employees, who are airing their frustration based on their personal circumstances working at SB, or it could be more widespread and indicate some serious underlying issues for employees at SB. Given how social media channels are now used by many people, this chat group could have a damaging effect on SB’s existing staff and the possible recruitment of new staff.

### **Rituals and routines**

The “weekender” event every Friday in SB supports the aspiration of creating a team environment and does provide staff with an opportunity to mix with other members of staff, especially between the TO and BO teams. However, it appears that Andy has created an additional informal event

after the weekender, where he tries to persuade staff to join him at his favourite bars in Durpeth.

### **Power**

The founders are still very powerful within SB as they are significant shareholders (each owning 20%) and occupy the two senior executive positions of CEO and CTO. The founders oversee all departments within SB, but the TO department appears to also exert power within the organisation, partly due to them being the largest department, but also because they are led by a manager (Simon Williams) who views the developer staff as the most important for SB and its future. This has created tension and disagreement with the BO team. Simon's influence also appears to have increased over the last year.

There may also be a gender issue within SB, as the TO team are predominantly male, and have been critical and dismissive of the BO team, who are predominantly female. This has potentially been fuelled by Simon William's assertion that all the best developers are male. This could be a contributing factor as to why up to 50% of female new joiners leave within their first year.

### **Control**

The founders exert executive control within SB, and they are supported by five functional board directors, covering the key departments. The headcount is now 356, which is significant, but the founders were reluctant to implement a formal management system, as they felt that this would create bureaucracy. They have, however, appointed a new management level within the TO team, but the founders have not been committed to investing in this role, as those appointed have not received any training and lack the confidence and interest to fulfil their roles. The new managers were also awarded additional salary and benefits to take on the roles, which may indicate that a thorough selection process was not undertaken but instead incentives were provided to entice people to take on the new roles.

## **(ii) Consequences for SB of the proposed TV documentary**

If the proposed documentary proceeds and highlights some of the cultural practices outlined above, there could be some adverse consequences for SB.

### **Damage to SB's reputation**

SB's introduction as Denland's first digital bank has helped to establish SB as part of the growing fintech sector. If the documentary includes

information on the current culture and the founder's role in continuing with this work ethic, then this could have a negative impact on SB's reputation. The sector may not wish to be associated with the old banking norms and practices, and therefore may look unfavourably on SB. **(1 mark)**

#### **Difficult to fulfil recruitment targets**

SB has a forecast skills gap based on its short-term growth plans, and the current culture may dissuade possible recruits from applying. SB know that it is difficult to recruit to the north of Denland, and this may limit them further, as people may not be willing to relocate to an organisation if there is risk that they will not like or fit with the culture. This could be particularly relevant for potential female recruits. **(1 mark)**

#### **Difficult to retain key existing staff**

The online chat group has highlighted that some staff, both former and current, are unhappy about the working practices and culture at SB and the broadcast of a TV documentary will highlight these issues further and may lead key staff to leave SB as they can no longer work in this way. Other opportunities exist, especially in the South of Denland, and this could be the event that prompts staff to leave to work for organisation with a better working culture. **(1 mark)**

#### **Reduction in growth**

SB have plans to expand into neighbouring countries, and the possible negative publicity associated with the documentary may cause potential new customers to look elsewhere, both in Denland and overseas. The fintech sector is growing so there is now more competition for digital banking customers, and therefore any publicity seen as negative could be detrimental. **(1 mark)**

#### **Dissatisfied shareholders**

50% of SB's shares are owned by two institutional investors. They will not like negative publicity for companies where they invest, as it could damage current and future value. They may feel the need to have greater involvement in the running of the company, especially from TDG, the majority shareholder, who already hold a board position. They may even consider that changes are required in the two senior executive director roles currently occupied by the founders. **(1 mark)**

#### **Recommendation**

I hope this report has provided further insight into the working culture at SB and in relation to the proposed TV documentary, although I recognise that it may provide SB with significant exposure to a wider audience, the issues surrounding the culture discussed in this report, if portrayed within the

documentary, would have a detrimental effect on SB and its stakeholders and therefore I recommend that the SB board should not agree to the documentary. **(2 marks)**

### **Marking scheme**

*For the first requirement the answer above analyses the culture using the Cultural Web. Credit will also be given to candidates who analyse the culture in other ways.*

- (i) Up to 2 marks for discussion of each point relevant to the current culture at SB – up to a maximum of 10 marks.*
- (ii) Up to 1 mark for each relevant point that assesses the consequences for SB if the culture was portrayed in the TV documentary. Up to 2 marks for a reasoned recommendation. Up to a maximum of 6 marks.*

*Maximum of 12 marks in total*

**Professional skills may be additionally rewarded as in the following rubric:**

<b>How well has the candidate demonstrated professional skills as follows:</b>	<b>Not at all</b>	<b>Not so well</b>	<b>Quite well</b>	<b>Very well</b>
Analysis skills when reflecting on SB's culture.	<p>The candidate has demonstrated poor or no analysis skills.</p> <p>The candidate has failed to identify and then analyse appropriate cultural issues in SB.</p>	<p>The candidate has demonstrated limited analysis skills.</p> <p>The candidate has provided only one or two relevant cultural issues to analyse.</p>	<p>The candidate has demonstrated good analysis skills.</p> <p>The candidate has made identified and analysed appropriate cultural issues in SB (using the cultural web).</p>	<p>The candidate has demonstrated excellent analysis skills.</p> <p>The candidate has provided a comprehensive analysis of all aspects of culture at SB (using the cultural web).</p>
	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>

**(b) BRIEFING NOTE**

**To:** Andy Jackson

**From:** External Consultant

**Subject:** Talent Management programme at SB

**What is Talent Management?**

Talent management has been defined by the Chartered Institute of Personnel and Development as “managing the ability to attract, develop, engage, retain and deploy individuals who are considered particularly valuable to an organisation”.

Those aspects of talent management that should be considered by SB include the following three specific areas – recruitment, development, and succession planning.

- Recruitment – to first identify the current and future roles that the organisation will require, and secondly to identify and recruit suitable people to fulfil these roles.
- Development – to develop the skills and knowledge of those on the programme, which would include training to do their jobs, plus opportunities for them to develop further both in terms of their role and personal development. The latter may include some form of mentoring.
- Succession planning - to plan for those situations when key staff leave the organisation, and who would replace them.

**(2 marks)**

**Recruitment**

An increasing issue for SB is the ability to recruit younger members of staff, and especially in the North of Denland. For those interested in a career in the banking and technology industries the opportunities for people are much greater in the south of Denland, and particularly in Londeen. In addition, there is a high turnover of staff at SB, which means that recruitment is a very important process to get right for SB. **(1 mark)**

As stated by the HR Director a graduate development programme may be a good option for SB, as it would enable SB to access university educated young people, who may have studied relevant degrees in finance or computer sciences, and a graduate programme could be created to provide graduates with a clear progression pathway through their respective department (finance, HR, marketing, technical, banking). SB would need to check the market for



salaries in London to ensure that SB could offer competitive pay to work in the North. **(1 mark)**

Another option may be to introduce a school leaver programme, which would focus on younger people living in SB's local areas in the North, who would be unskilled on joining, but could learn on the job and from shadowing and observing other SB employees. SB would have the opportunity to develop their school leavers early in their careers, which could be valuable given SB's predicted growth in numbers from 356 to over 500. **(1 mark)**

There would also be an opportunity for the school leavers to do further qualifications in a related field, which could be supported by SB. In addition, there may be funding available in the North from the Denland or local governments which may provide some form of financial assistance to encourage employers to develop school leaver programmes. **(1 mark)**

### **Development**

It is important that SB continue to develop as a company, as they compete in a very competitive market, and therefore they will need to develop the skills of their employees to support this, both from a banking and technology perspective. **(1 mark)**

Many of the early developers in SB have become managers, and it is good to still have their knowledge in the company, but there is a risk that their technical expertise has reduced over time given their management responsibilities. SB also need to ensure that managers are trained in those roles, to be able to effectively support and develop others, so training is essential for existing SB managers, but also SB may want to look to recruit some external people, who are experienced managers, who may also have a positive influence on SB's working culture. **(1 mark)**

If SB were successful in attracting new starters to graduate and school leaver programmes, then this would be a great framework for future skills development within SB.

### **Succession planning**

This would also be relevant to SB as with a growing workforce, there will be a requirement for new layers of management, as some existing staff may progress further, but others may be reluctant to do so, so SB need to consider how those future key positions will be filled. **(1 mark)**

Also, it appears that Stewart may be looking to retire, so that will create a gap both from a senior director and a CTO perspective. SB need to be more proactive with its succession planning process by addressing the current and

future structure and seeing how succession could be addressed by the introduction of graduate and school leaver programmes, but that may take a few years to address these issues, so SB needs to also consider its shorter-term plans. **(1 mark)**

### **Marking scheme**

*Up to 2 marks available for explaining the components of a talent management programme (recruitment, development, succession planning)*

*1 marks for each point raised in relation to how a talent programme may assist SB – up to a maximum of 8 marks. [Students may structure their answers using the components of a talent management programme but are not required to do so to generate marks].*

*Maximum of 10 marks in total*

**Professional skills may be additionally rewarded as in the following rubric:**

<b>How well has the candidate demonstrated professional skills as follows:</b>	<b>Not at all</b>	<b>Quite well</b>	<b>Very well</b>
Commercial acumen skills in identifying how talent management could help resolve the skills shortage at SB.	<p>The candidate has demonstrated poor or no commercial acumen skills.</p> <p>The candidate discusses talent management but does not identify how it could help resolve the skills shortage at SB.</p>	<p>The candidate has demonstrated good commercial acumen skills.</p> <p>The candidate has demonstrated an understanding of talent management and has identified several relevant points as to how talent management may help resolve the SB skills shortage.</p>	<p>The candidate has demonstrated excellent commercial acumen skills.</p> <p>The candidate has referred to the key areas of talent management and used this structure to discuss how a talent management programme may help resolve the SB skills shortage.</p>
	<b>0</b>	<b>1</b>	<b>2</b>

**(c) CONFIDENTIAL EMAIL**

**To:** Andy Jackson

**From:** External Consultant

**Subject:** Shareholder support for proposed IPO

**Date:** XXX

Hi Andy,

I know that you are keen to grow SB, and this will require additional capital, which will not be available from SB's existing shareholders. Therefore, you are proposing that an IPO in 2024 could be an option. I have analysed how each of the shareholders may view a proposed IPO to measure their level of support.

**TDG Bank (TDG)**

TDG is the largest shareholder of SB at 35% and in 2013 when it first invested TDG had two objectives: a financial return plus knowledge of the fintech sector to help with its own plans in its home country. It appears that the latter objective was the most important. TDG has been able to remain engaged with SB through its non-executive director representative on the board.

In terms of the IPO, TDG may see this as an appropriate time (after 10 years) to reduce its level of investment by 50%, which should provide it with a significant financial return in addition to years of industry insight and knowledge which may have been transferred back to its own business. **(1 mark)**

An IPO would also reduce its power as a shareholder and may result in it losing its non-executive position on the board, but it may also favour this approach and be happy to continue as a more passive investor in future. **(1 mark)**

TDG may therefore be supportive of the IPO, but it will need to be part of the discussion given their board role, so you should have an informal conversation with TDG's board representative on your initial thoughts and gauge their reaction. **(1 mark)**

**Higham Investment Fund (HIF)**

HIF is the other external investor in SB and own 15% of the shares. It does not have any representee directors on the board and given that it has a large portfolio of investments, it appears to have been a rather passive investor for SB. HIF usually invests for a 3-5 year period and then exits its investment, but it anticipated greater future returns for SB, so has continued the investment over a longer period.

In terms of the IPO, you have informed me that a HIF analyst has produced a report recommending that HIF now sell its investment in SB. A proposed IPO in 2024 may therefore be attractive for HIF, as it will provide HIF with a good, and potentially easier, opportunity to sell its investment. **(1 mark)**

The proposed IPO would make 50% of the shares available in SB, and your initial thinking was that each shareholder would therefore sell half of their existing shareholding. If HIF want to sell all its investment, this would not be possible, so an adjustment may be required to accommodate them. **(1 mark)**

However, the timing may not be suitable for HIF as the analyst report has indicated that a sale of its investment should take place during 2023 due to changing trends in the sector, so HIF may not want to wait until 2024. **(1 mark)**

Given that 2023 is forecast to be SB's most profitable year, HIF may also consider that there is further value to be gained by retaining its investment until an IPO in 2024. **(1 mark)**

### **Stewart Roper (Chief Technology Officer)**

Stewart is a 20% shareholder in SB. He will have an emotional and financial attachment to the business, and he is also the current CTO. However, Stewart is now considering his retirement and has not been as active in the business in this past year.

An IPO will provide Stewart with an opportunity to realise 10% of his shareholding which should provide a financial return and assist him with his plans for retirement. **(1 mark)**

An IPO could also act as good target for Stewart stay engaged with SB to at least 2024 and potentially beyond. Over the past year he has been less active in the business and an IPO may motivate him to become more engaged with his TO team, in order that the IPO sale value is maximised. **(1 mark)**

As a founder of SB Stewart may find it difficult to completely exit the business, both as an employee and a shareholder, whereas the proposed basis of the IPO will provide a level of funds for his retirement but also allow Stewart to remain a shareholder and hopefully benefit from the continued future success of SB. **(1 mark)**

### **SB's five board directors**

The five directors have responsibility for the following functions: finance, marketing, HR, banking operations and technology operations, and each director owns 2% of SB so collectively they own 10%. It is unclear what the individual aspirations are of each director, but the proposed IPO will have two

implications for these managers – as they are both employees and shareholders and therefore their motivations may be different. **(1 mark)**

As a shareholder they may welcome this opportunity to receive a return on their shares at SB, although it will mean that they will dilute their shareholding. This may depend on whether they paid for their shares or were awarded shares for their performance, which is unknown at this point. **(1 mark)**

As an employee they may be cautious of an IPO as it will mean change for SB and may also mean that the founders may be considering leaving the organisation, so the managers may be thinking what will happen to them. This may also create additional opportunities for them as directors, either initially following the IPO, or in the future as the funding obtained through the IPO will help SB to deliver on its growth options. **(1 mark)**

I hope this provides you with an external perspective on each of the shareholders in relation to a proposed IPO and their possible level of support. If you have any questions or would like to discuss this further, then please let me know.

Regards  
External Consultant

### ***Marking scheme***

*Up to 3 marks for a relevant discussion on the claims of TDG.*

*Up to 3 marks for a relevant discussion on the claims of HIF.*

*Up to 3 marks for a relevant discussion on the claims of Stewart Roper.*

*Up to 3 marks for a relevant discussion on the claims of the functional directors.*

*Maximum of 12 marks in total*

**Professional skills may be additionally rewarded as in the following rubric:**

<b>How well has the candidate demonstrated professional skills as follows:</b>	<b>Not at all</b>	<b>Not so well</b>	<b>Quite well</b>	<b>Very well</b>
Evaluation skills in investigating whether each shareholder would be supportive of the IPO.	<p>The candidate has demonstrated poor or no evaluation skills.</p> <p>The candidate does not consider the reasons why each shareholder may support or not support the IPO.</p>	<p>The candidate has demonstrated limited evaluation skills.</p> <p>The candidate has provided a few insights in to the shareholders view on the IPO, but this is limited and does not provide a balanced evaluation.</p>	<p>The candidate has demonstrated good evaluation skills.</p> <p>The candidate has provided relevant reasons for each shareholder on why they may or may not support the IPO.</p>	<p>The candidate has demonstrated excellent evaluation skills.</p> <p>The candidate has provided an excellent evaluation of each shareholder and whether they will be supportive of the IPO by identifying both reasons for and against the IPO.</p>
	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>

**(d) BRIEFING NOTE**

**To:** Andy Jackson

**From:** External consultant

**Subject:** Sponsorship opportunity

The proposed agreement would be seen as advertising and promotional expenditure to improve SB's brand image through the sponsorship of the golfer. In accordance with IAS 38 Intangible Assets, the costs must be expensed when SB has received the service, which would be when the golfer has fulfilled his commitments in relation to the contract with SB. Any amounts paid in advance of the service being received should be recognised as prepayments and expensed when that service is received.

**Initial payment**

The initial payment of \$10,000 will be paid to the golfer on commencement of the agreement. In return, the golfer is obliged to advertise SB on clothing and equipment and be active on social media channels. The payment relates to the full contract term and therefore a prepayment of \$10,000 should be recognised on commencement and then expensed on a straight-line basis over the two-year contract period. If the contract is terminated prior to the end of the contract period, any amount not recovered from the golfer would be expensed immediately **(2 marks)**.

**Retainer payments**

The golfer receives the annual retainer at the end of each year, provided he has entered and competed in a minimum of 20 tournaments for each year of the agreement. SB would have a contractual obligation to pay the player and should therefore recognise a financial liability during the period, which must be accounted for in accordance with IFRS 9 Financial Instruments. The liability is recognised at the point where SB has an obligation, which arises on the date when the golfer has competed in all the specified tournaments. **(2 marks)**.

**Bonus**

The golfer also receives an additional bonus, or performance-related payments, if they finish in the top 10 of any tournaments. As these payments relate to specific events, they are treated as executory contracts. They should therefore be accrued and expensed when the player achieves a top-10 finish **(2 marks)**.

**Marking scheme**

*Up to 2 marks for discussion and guidance in relation to the initial payment*

*Up to 2 marks for discussion and guidance in relation to the retainer payment*

*Up to 2 marks for discussion and guidance in relation to the bonus*

*Maximum of 6 marks in total*

**Professional skills may be additionally rewarded as in the following rubric:**

<b>How well has the candidate demonstrated professional skills as follows:</b>	<b>Not at all</b>	<b>Quite well</b>	<b>Very well</b>
Communication skills in providing clear guidance on how payments should be reflected in the financial statements.	<p>The candidate has demonstrated poor or no communication skills.</p> <p>The candidate has failed to provide clear guidance on how the three payments should be reflected in the financial statements.</p>	<p>The candidate has demonstrated good communication skills.</p> <p>The candidate has provided brief guidance on how the three payments should be reflected, but this is not always clear or complete.</p>	<p>The candidate has demonstrated excellent communication skills.</p> <p>The candidate has provided clear explanation and guidance on how of the three payments should be reflected in the financial statements.</p>
	<b>0</b>	<b>1</b>	<b>2</b>



## 2 REPORT

**To:** Amir Patel, Patel Furniture Company (PFC)

**From:** Business Consultant

**Subject:** Various business matters affecting PFC

**Date:** XXX

### Introduction

Following our meeting to discuss several business matters currently facing PFC, you asked that I provide advice and guidance on four specific matters. This report addresses each one of these matters for your consideration.

#### (a) Analysis of social media data in relation to PFC's pop-up shops

##### Visualisation 1 - Social media posts

PFC have provided a consistent number of posts in relation to its pop-up shops throughout 2022, with a slight increase in posts as the year has progressed, with over 100 posts in Q3. **(1 mark)**

Additionally, given that this was a new initiative for PFC, greater activity on social media promotion would be expected. Posts have been consistent, yet there was an opportunity to further interact with the public especially given their increased engagement with PFC on social media (see next paragraph). **(1 mark)**

The posts by the public have significantly increased during the year from less than 50 for Q1 to more than 400 for Q3. This increase may be in response to the increased use of pop-up shops as 2022 has progressed, and therefore an increasing recognition of the PFC brand and its products. **(1 mark)**

We do not, however, have any information on the content of these posts, as some of these posts may have been negative, possibly due to a customer experience at a particular pop-up-shop or dissatisfaction with the sofa ordering process or indeed the product itself. **(1 mark)**

##### Visualisation 2 - New followers

This shows a very positive trend, as new followers in the last 6 months of 2021 were constant, and as pop-up-shops were introduced during 2022, the number of new followers has shown a significant upward trend, especially in Q2, which exceeded 4,000 new followers. Although there has been a drop in Q3, the level of new followers is still above 3,000. **(1 mark)**

Not all new followers may be due to attendance at pop-up-shops, however, given the comparison with 2021 there is a positive indication that pop-up shops have generated a new group of potential followers, and therefore possible future customers. **(1 mark)**

Following a company does not, of course, always mean that they will buy the products, and followers may well be very passive and inactive. However, in most cases, a member of the public actively choosing to follow a company is a positive action and demonstrates a level of interest in the company and its products. **(1 mark)**

The number of followers has also increased more than the number of posts, which implies that not all followers are willing to make posts on social media regarding PFC. This however would not be unusual as not all new followers would be expected to make posts on social media about their pop-up shop experience with PFC. **(1 mark)**

#### Additional information

I have identified below examples of additional information that would provide greater context to support the data already reported.

- Social media posts by PFC that did not relate to the pop-up shops. This may provide an indication as to the level of social media activity by the marketing team, and whether the posts in relation to the pop-up-shops were low, average, or high. Marketing may have remained focused on “normal” PFC campaigns and not invested sufficiently in promoting the pop-up-shops. **(1 mark)**
- It would be good to understand whether members of the public were incentivised to follow PFC in any way, for example through PFC’s own social media posts or through attendance at the pop-up-shops. **(1 mark)**
- More qualitative information on the content of social media posts by the public. This would provide a more accurate indication of the sentiment of the posts and what proportion were positive and negative for PFC and its products. **(1 mark)**
- A comparison of quarterly sofa sales for the period from Q3 2021 to Q3 2022 to see whether there were any significant increases during 2022 following the introduction of the pop-up-shops. **(1 mark)**

- Benchmark data with other furniture companies in terms of the level of social media activity – posts and followers. PFC could also compare their performance with other organisations who use pop-up-shops and events throughout the country. **(1 mark)**

### **Marking scheme**

*Up to 4 marks available for a relevant discussion of the data visualisation covering social media posts.*

*Up to 4 marks available for a relevant discussion of the data visualisation covering the number of new followers.*

*1 mark for identifying and briefly explaining each suggestion for additional information. Up to a maximum of 4 marks.*

*Maximum of 12 marks in total*

**Professional skills may be additionally rewarded as in the following rubric:**

<b>How well has the candidate demonstrated professional skills as follows:</b>	<b>Not at all</b>	<b>Not so well</b>	<b>Quite well</b>	<b>Very well</b>
Analysis skills in interpreting the social media data visualisations.	<p>The candidate has demonstrated poor or no analysis skills.</p> <p>The candidate has failed to provide any relevant analysis of the two data visualisations.</p>	<p>The candidate has demonstrated limited analysis skills.</p> <p>The candidate has provided only limited insight into the data contained in the visualisations, but failed to apply this to PFC.</p>	<p>The candidate has demonstrated good analysis skills.</p> <p>The candidate has provided a good attempt at interpreting the data contained in the visualisations and attempting to identify the relevance to PFC.</p>	<p>The candidate has demonstrated excellent analysis skills.</p> <p>The candidate has provided an excellent insight into the data provided in the visualisations and clearly highlighted the key trends and the potential relevance and value for PFC.</p>
	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>

**(b) Possible problems with managing performance in a JV with XF**Establishing clear objectives

It may be difficult to establish clear and agreed objectives for the JV between the two partner organisations. The partner may have different goals, and this may be apparent with PFC's proposed JV with XF. From our meeting, I am aware that you have a long-term vision for PFC to become the largest producer of self-assembled furniture in the world, and you see that expanding your markets (i.e. in to Durton) is key to this vision. You also indicated that you would like to use the JV arrangement for a three-year period, until you became established in Durton and ready to take on full ownership. **(1 mark)**

However, for XF its objectives appear quite different. It is experiencing financial difficulties and XF may see the proposed JV as an opportunity to generate income and cash, which can then help support its core business. XF will therefore require immediate cash flows, whereas this is less important for PFC, as you wish to grow and develop the JV over a longer period. This may well provide initial and ongoing difficulties for PFC. **(1 mark)**

Performance measures

It may be difficult to establish agreed performance measures when each partner in the JV is bringing different skills and knowledge to the venture. **(1 mark)**

Partners may be working to different timescales, which is applicable here as XF appear to have a short-term focus whereas PFC has a longer-term focus, and this may lead to conflict in the choice of measures used: i.e. monthly cash flows will be important for XF to report to its shareholders but PFC shareholders will be interested in measures on quality, growth, customer satisfaction, indicators more focused on the longer term success of the JV. **(1 mark)**

Residential and corporate markets

PFC and XF operate in different markets within the furniture industry, as PFC targets the residential market, whereas XF focuses on the commercial market. The requirements, expectations and margins will be different between these markets, and it may therefore be difficult to agree performance criteria. **(1 mark)**

Given that the focus of the proposed JV will be the residential market, the performance criteria should be more aligned with those currently used by PFC. **(1 mark)**

### Risk appetite

The shareholders in the JV may have different risk appetites when assessing strategic issues and opportunities. **(1 mark)**

If XF is focused on the quickest returns, they may be unwilling to consider projects or opportunities for the JV that may provide longer term returns. This may lead to conflict, and problems may be difficult to resolve as the ownership is proposed to be split 50:50 between PFC and XF. **(1 mark)**

### Management of the JV

Conflict can also appear in the day-to-day co-ordination and control of the JV. The management of the JV must be given clear direction at the outset, otherwise there may be disagreement between the management selected by the JV partners. Therefore, the compatibility of the management styles and cultures of the PFC and XF will have an important impact on success. **(1 mark)**

PFC appear to have a very innovative, design-led culture, whereas XF operates in a traditional market, which is highly competitive, and therefore the operating model is different, which could create conflict in management style. **(1 mark)**

### Sharing of resources

Another potential issue in joint ventures is that, as well as sharing offices, assets and staff, the partners must also share information and intellectual property. **(1 mark)**

It appears that PFC are bringing significant advantage for the JV with their patented furniture design, and this will need to be protected if this is to be shared with XF, which appears likely given that they will be responsible for the manufacture of product in Durton. **(1 mark)**

### ***Marking scheme***

*Up to 2 marks for identifying and discussing possible problems that may be encountered in managing performance for a JV – with specific reference to the proposed JV between PFC and XF.*

*Maximum of 8 marks in total*

**Professional skills may be additionally rewarded as in the following rubric:**

<b>How well has the candidate demonstrated professional skills as follows:</b>	<b>Not at all</b>	<b>Quite well</b>	<b>Very well</b>
Commercial acumen skills in identifying problems for PFC in managing performance in a joint venture with XF.	<p>The candidate has demonstrated poor or no commercial acumen skills.</p> <p>The candidate has failed to identify any problems for PFC in managing performance in the XF joint venture.</p>	<p>The candidate has demonstrated good commercial acumen skills.</p> <p>The candidate has identified several problems in managing performance in a joint venture, but there is limited reference to PFC and XF.</p>	<p>The candidate has demonstrated excellent commercial acumen skills.</p> <p>The candidate has identified and explained relevant problems for PFC in managing performance in a joint venture with XF.</p>
	<b>0</b>	<b>1</b>	<b>2</b>

**(c) Cost analysis to calculate PFC's costs of quality**

	Quantity	Rate \$	Total \$'000
<b>Prevention costs</b>			
Design engineering	7,700	65	500,500
Process engineering	4,620	50	231,000
Training			62,500
Total prevention costs			<b>794,000</b>
<b>Appraisal costs</b>			
Inspection	5,305	35	185,675
Total appraisal costs			<b>185,675</b>
<b>Internal failure costs</b>			
Rework before sale	531	96	50,976
Total internal failure costs			<b>50,976</b>
<b>External failure costs</b>			
Warranty repair	1,268	375	475,500
Warranty replacement	218	1,000	218,000
Customer support	1,486	100	148,600
Transportation costs	1,486	150	222,900
Total external failure costs			<b>1,065,000</b>
<b>Total quality costs for PFC</b>			<b>2,095,651</b>

To compare PFC's performance in relation to best practice companies in Sharpton, we can use PFC's latest revenue projection for 2022 of \$40m and calculate that, over the last 12-month period, PFC have spent \$2,095,651 / \$40m = 5.2% of its revenue on quality costs. **(1 mark)**

You mentioned that you had read that best practice companies in Sharpton spend on average between 10% and 15% of their revenues on quality, so the above cost analysis demonstrates that PFC is currently spending less on their CoQ compared to leading companies.

PFC may need to consider further investment in their prevention costs, possibly training, to ensure that all PFC staff are fully aware of the need for quality in all PFC products. PFC may also consider investing further in appraisal costs, particularly inspection, which could help reduce the number of sofas requiring rework, and even more importantly, reducing the number of sofas that need to be returned by customers for either repair or replacement.



PFC are currently spending over \$1m on external failure costs, which creates reputational issues for PFC, so further investment in prevention and appraisal may help reduce this level of expenditure.

**(2 marks)**

***Marking scheme***

*There are 9 costs to include in the cost analysis split across the 4 categories of quality costs.*

*Part 1: 1 mark for each cost if included in the right category of quality costs (see below):*

- Prevention costs: design, process, training*
- Appraisal costs: inspection*
- Internal failure costs: rework before sale*
- External failure costs: warranty repair, warranty replacement, customer support, transportation.*

*Up to a maximum of 9 marks.*

*Part 2: 1 mark for the correct calculation of PFC's % spend on quality costs compared to revenue (5.2%). 1 mark for a comparison of PFC to best practice companies 1 mark for each area identified for improvement. Up to a maximum of 4 marks.*

*Maximum of 12 marks in total*

**Professional skills may be additionally rewarded as in the following rubric:**

<b>How well has the candidate demonstrated professional skills as follows:</b>	<b>Not at all</b>	<b>Not so well</b>	<b>Quite well</b>	<b>Very well</b>
Communication skills in presenting the quality cost calculations and advice to Amir in a clear and logical format.	<p>The candidate has demonstrated poor or no communication skills.</p> <p>The candidate has failed to present their analysis neither clear nor logically.</p>	<p>The candidate has demonstrated limited communication skills.</p> <p>The candidate has presented some aspects of their analysis in a clear manner, but this is not consistent.</p>	<p>The candidate has demonstrated good communication skills.</p> <p>The candidate has provided a good attempt at presenting their cost analysis in a clear and logical format.</p>	<p>The candidate has demonstrated excellent communication skills.</p> <p>The candidate has presented a very professional, clear and logical format for their cost analysis.</p>
	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>

**(d) Proposed treatment of non-current assets**

You have made a proposal to change how non-current assets, particularly production equipment, are accounted for in 2022. If the useful life of the equipment is extended and the residual value of the equipment is increased (as proposed), this would result in an adjustment to the depreciation expense incurred during 2022. This adjustment would have the effect of reducing expenses and thereby increasing profits.

The proposal changes the inputs to an accounting estimate and, if implemented, should be accounted for as a change in accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates, and Errors. Depreciation is an accounting estimate that is based on inputs - the expected useful lives of assets and their expected residual value - both of which are matters of judgement.

**Accounting Issues**Extended life of assets

You have expressed an opinion that the useful life of the equipment should be extended from five to eight years. You have also stated that you intend to continue to use the equipment next year, beyond the planned five-year life, and this therefore supports the proposed change to the useful life. **(1 mark)**

As the equipment is specialised and used in the manufacture of PFC furniture, it is difficult to provide an objective assessment of the life and value of such equipment, unlike, for example, computer hardware. Therefore, as the owner of the business, you will understand the capability of the equipment for your business and therefore your judgement is important. **(1 mark)**

There appears to be some business justification to extend the useful life of the equipment, both from a production and accounting perspective, as you have confirmed that PFC plans on continuing to use the machines beyond the five-year life period. **(1 mark)**

However, to extend for a further three years appears excessive, given that you have not confirmed that you expect the equipment to be used for this additional three-year period. I therefore see a justification to extend for a one-year period only at this point. **(1 mark)**

### Residual value

You have also proposed that the residual value should be increased to 30% from the original 10%. This would appear more difficult to justify, as an extended useful life may more likely suggest a reduction in the residual value, or indeed a zero value. **(1 mark)**

You have, however, stated that the equipment may have become more useful and valuable than first anticipated when the equipment was purchased, and through the use and knowledge of the equipment, you are now able to better understand the value and the potential market for replacement equipment, which supports this part of your proposal. **(1 mark)**

I think there is an issue on the point of changing the residual values. There does not appear to be any reliable market information to suggest that the equipment will now have a higher resale value, and indeed with a longer life it may well support a lower, rather higher, residual value. **(1 mark)**

### **Ethical issues**

As a director of PFC, you have a responsibility to ensure that the financial statements provide a true and fair view of PFC's operations. I appreciate that you would like 2022 profit figures to show an increase on previous years, but this should not be the reason to adjust the accounting treatment for PFC's non-current assets. This may appear to both your own staff, and especially auditors, that you are attempting to manipulate the profit figures for 2022, by adjusting PFC's accounting policies and only for certain assets. **(1 mark)**

From an ethical perspective these actions may indicate a lack of integrity, as you are not being honest in your reasons to change the accounting treatment of non-current assets, and you would not be acting objectively as your judgement is being compromised by a conflict of interest, as you wish to enhance 2022 profits for the purposes of maintaining motivation within the PFC employees. **(1 mark)**

### Recommendation

I would suggest that you should speak with your accountant if you feel that the accounting policies currently employed by PFC are no longer appropriate, and they, and possibly in consultation with the auditors, could review and suggest possible changes if they feel appropriate. **(1 marks)**

**Marking scheme**

*Up to 4 marks for a relevant discussion on extending the useful life of the assets.*

*Up to 3 marks for a relevant discussion on increasing the residual value.*

*Up to 2 marks for a relevant discussion on the ethical issues surrounding the decision and directors' responsibilities.*

*Up to 1 mark for a clear recommendation*

*Maximum of 8 marks in total*

**Professional skills may be additionally rewarded as in the following rubric:**

<b>How well has the candidate demonstrated professional skills as follows:</b>	<b>Not at all</b>	<b>Quite well</b>	<b>Very well</b>
Scepticism skills in discussing relevant accounting or ethical issues in relation to Amir's proposal.	<p>The candidate has demonstrated poor or no scepticism skills.</p> <p>The candidate has failed to identify any relevant accounting or ethical issues within Amir's proposal.</p>	<p>The candidate has demonstrated good scepticism skills.</p> <p>The candidate has identified relevant accounting and ethical issues, but there is limited challenge to Amir's proposal.</p>	<p>The candidate has demonstrated excellent scepticism skills.</p> <p>The candidate has provided a range of accounting and ethical issues that challenge Amir's proposal.</p>
	<b>0</b>	<b>1</b>	<b>2</b>