# Answers

**1 REPORT**

**To:** The board of Reefland Harvest Company

**From:** Strategic analyst

**Subject:** Strategic evaluation and recommendations on budgeting, stakeholder management, structure, data use, and CSR reporting

**Date:** XX December 20X5

**Introduction**

This report seeks to advise the board in relation to budgets, stakeholder management, organisational structure, data use and CSR reporting issues raised by the expansion into retail.

**(a) The current approach to budgeting**

**Not suited to fast-moving retail**

The company's current budgeting method is top-down and updated once a year. This works for wholesale, which is steady and predictable, but not for retail. The retail market changes quickly, and the company needs a more flexible system to keep up with new trends and customer demands.

**(2 marks)**

**Too rigid to support growth**

The fixed budgets make it hard to shift money where it's needed. When the salad boxes became popular, there wasn't enough funding available for packaging, marketing, or extra deliveries. By the time money was approved, the chance had passed. This slows down growth and limits profits.

**(2 marks)**

**Retail and wholesale are too different**

The same budgeting method is being used for both parts of the business. However, retail and wholesale have different needs and cost patterns. Using one method for both means neither is being managed properly, especially as the retail side grows.

**(2 marks)**

**Can't respond to data or demand**

Customer data and sales figures are available through the EPOS system, but the budgeting system doesn't allow the company to act quickly on this information. Retail needs to respond to changes week by week, but the annual budget makes this difficult.

**(2 marks)**

**Creates problems for staff**

Sales, logistics, and procurement teams are finding it difficult to do their jobs. They are being pulled in two directions—trying to meet the needs of both large wholesale clients and individual retail customers. Without flexible budgets, they can't adjust their plans or spending.

**(2 marks)**

**Retail needs its own support**

Retail depends on areas like customer service, small package delivery, and digital payments. These are different from wholesale operations and need separate funding. The current budget model doesn't give retail enough flexibility to cater for a new emerging business model.

**(2 marks)**

**Recommendation: rolling, activity-based budgeting**

The company should move to a rolling budget, reviewed every three months. It should also use activity-based budgeting. This means linking costs to the actual work being done—for example, separate budgets for home deliveries, promotions, and online orders.

This approach will allow the retail team to react quickly to what customers want. It will also give clearer information about where money is being spent and where profits are coming from. This will help the business make better decisions and grow both the retail and wholesale sides successfully.

**(2 marks)**

**<u>Marking scheme</u>**

- *Up to 2 marks for each issue identified up to a maximum of 8 marks*
- *Up to 2 marks for a well-reasoned recommendation*
- *Maximum of 10 marks in total for (a)*

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

| **How well has the candidate demonstrated professional skills as follows:** | **Not at all** | **Limited** | **Appropriate** |
|---|---|---|---|
| Professional skills marks are available for demonstrating *communication* skills in explaining the issues and your recommendation to the whole board, many of which are not from a financial background | The candidate has not demonstrated appropriate *communication* skills | The candidate has demonstrated limited *communication* skills | The candidate has demonstrated appropriate *communication* skills |
| | **0** | **1** | **2** |

**(b) Retail and wholesale stakeholder analysis**

**Retail customers – power**

Retail customers currently have low individual power but growing collective influence. As the retail business expands and online orders become more profitable, this group's power is increasing. Their behaviour is shaping product choices, service standards, and pricing expectations.

**(1 mark)**

**Retail customers – interest**

Retail customers have a strong interest in the company's retail offering. They value freshness, ethical sourcing, convenience, and affordability. Their loyalty depends on the quality of service and continued low prices.

**(1 mark)**

**Wholesale customers – power**

Wholesale customers have high power. They account for large volumes of revenue and have long-standing contracts. Eastern Grocers Ltd alone represents 25% of RHC's income, giving it the ability to seriously affect financial stability if it withdraws.

**(1 mark)**

**Wholesale customers – interest**

Wholesale customers have a high interest in RHC's actions, particularly pricing and market positioning. They expect exclusivity, stable supply, and support in maintaining their own market share. The retail expansion threatens these interests.

**(1 mark)**

**Conflict between the two groups**

The conflict arises because RHC's retail prices undercut those offered by wholesale customers. Wholesale buyers see this as direct competition, damaging their sales and leading to a loss of trust in RHC.

**(2 marks)**

**Recommendation for managing the conflict**

First, RHC should create clearer separation between retail and wholesale activities. This could include using different brand names, pricing structures, and digital platforms to avoid direct comparisons.

**(1 mark)**

Second, the company should open a dialogue with key wholesale customers to explain the strategy and offer reassurance. Options may include exclusive product lines or price protection agreements.

**(1 mark)**

Third, RHC should gradually scale the retail business in a way that does not disrupt wholesale supply or relationships, allowing time for both parts of the business to adapt.

**(1 mark)**

**<u>Marking scheme</u>**

- *1 mark each for power and interest, for each stakeholder - maximum of 4 marks*
- *Up to 2 marks for explaining the conflict*
- *Up to 2 marks for a well-reasoned recommendation*
- *Maximum of 8 marks in total for (b)*

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

| How well has the candidate demonstrated professional skills as follows: | Not at all | Limited | Appropriate |
|---|---|---|---|
| Professional skills marks are available for demonstrating *analysis* skills in analysing the power, interest and claims of each stakeholder group | The candidate has not *analysed* the power, interest and claims of each stakeholder group | The candidate has provided limited *analysis* of the power, interest and claims of each stakeholder group | The candidate has provided appropriate *analysis* of the power, interest and claims of each stakeholder group |
| | **0** | **1** | **2** |

**(c) Information gathered from the customer focus group survey and EPOS data and how may be used to inform future strategic planning.**

**<u>Customer focus group</u>**

**Insight into values**: The focus group revealed that customers care about ethical sourcing, freshness, and trust. Comments such as "I trust RHC more than the supermarkets" suggest strong brand loyalty. These insights show that future strategy should focus on maintaining transparency in sourcing, and building the brand around trust and ethical values.

**(2 marks)**

**Preferences for convenience:** Participants also highlighted the need for digital convenience and ready-to-eat products. These preferences suggest RHC should continue to develop services like home delivery, digital payments, and packaged options. This would improve the customer experience and encourage repeat business.

**(2 marks)**

**<u>EPOS data</u>**

**Reliable source of real-time behaviour**: The EPOS system gives detailed, up-to-date information about what customers are buying, when they are buying it, and how often they return. For example, it shows peak online ordering days and which products sell best. This allows the company to plan more effectively, especially in areas like stock management, staffing, and promotions.

**(2 marks)**

**Use in strategic decision making**

**Supports targeted decision-making**: Because online shoppers buy more and return more often, RHC can use this data to focus investment on its most valuable customer groups. For example, targeted marketing could be on days when order volumes are lower to encourage an increase in sales on those days, and special promotions could be offered on top-selling products like seasonal vegetable packs.

**(2 marks)**

**Supports agile product development**: The success of the salad boxes shows that customers respond well to new, convenient product lines. Combining feedback with EPOS trends allows RHC to trial new ideas quickly and adjust based on real demand. This can reduce waste and improve profitability.

**(2 marks)**

**Informs pricing and promotional strategy**: By linking spending data with customer feedback, RHC can develop smarter pricing strategies—offering bundles, loyalty discounts, or limited-time offers based on known buying patterns. This will help the company grow sales while still appealing to price-sensitive buyers.

**(2 marks)**

**Encourages evidence-based decisions**: Using both data sources together helps the company make well-informed, low-risk decisions. This reduces guesswork and makes the strategy more responsive and customer-focused, which is especially important in a fast-moving retail environment.

**(2 marks)**

**Marking scheme**

- *Up to 2 marks for each point evaluating the customer focus group information up to a maximum of 4 marks*
- *Up to 2 marks for each point evaluating the EPOS data up to a maximum of 4 marks*
- *Up to 2 marks for each suggestion for how the information can be used to inform future strategic decision making, up to a maximum of 6 marks*
- *Maximum of 9 marks in total for (c)*

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

| How well has the candidate demonstrated professional skills as follows: | Not at all | Limited | Appropriate |
|---|---|---|---|
| Professional skills marks are available for demonstrating *evaluation* skills when assessing the value of the information gathered, and how it may be used | The candidate has not demonstrated *evaluation* skills when assessing the value of the information gathered, and how it may be used | The candidate has demonstrated limited *evaluation* skills when assessing the value of the information gathered, and how it may be used | The candidate has demonstrated appropriate *evaluation* skills when assessing the value of the information gathered, and how it may be used |
| | **0** | **1** | **2** |

**(d) Changes to the company's internal structure that will improve the chances of the strategy working**

**Separate teams for retail and wholesale**

RHC should move away from a single functional structure and create separate teams for its retail and wholesale operations in a **divisional structure**. Each side of the business has different needs—retail focuses on smaller, frequent deliveries and customer service, while wholesale deals with bulk orders and long-term contracts.

**(2 marks)**

**Dedicated retail logistics and procurement**

Logistics and procurement should be divided between the two operations. A dedicated retail logistics team can manage short-distance, time-sensitive home deliveries, while the wholesale team can continue to handle large, palletised shipments. Similarly, retail procurement should focus on variety and freshness, while wholesale procurement can continue to work on large seasonal orders. This will reduce delays and improve service quality for both customer groups.

**(2 marks)**

**Retail-specific sales and finance functions**

The sales team should be split so that retail sales can focus on individual customers, online promotions, and in-store experience. The finance team should also have a retail-focused branch to support more flexible budgeting, faster decision-making, and digital payment systems. This will allow each team to work with the right tools and goals, improving efficiency and results.

**(2 marks)**

**Justification**

Dividing the internal structure by business line will make operations clearer, reduce internal pressure, and allow both retail and wholesale to succeed on their own terms. It will also support better use of data, faster responses to customer needs, and more effective planning.

**(2 marks)**

<u>**Marking scheme**</u>

- *Up to 2 marks for each point recommending changes to group structure, up to a maximum of 4 marks*
- *Up to 2 marks for each point justifying the recommendation well, up to a maximum of 4 marks*
- *Maximum of 5 marks in total for (d)*

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

| **How well has the candidate demonstrated professional skills as follows:** | **Not at all** | **Limited** | **Appropriate** |
|---|---|---|---|
| Professional skills marks are available for demonstrating *commercial acumen* skills in suggesting a practical structure that is likely to improve the chances of success | The candidate has not demonstrated *commercial acumen* skills in suggesting a practical structure that is likely to improve the chances of success | The candidate has demonstrated limited *commercial acumen* skills in suggesting a practical structure that is likely to improve the chances of success | The candidate has demonstrated appropriate *commercial acumen* skills in suggesting a practical structure that is likely to improve the chances of success |
| | **0** | **1** | **2** |

**(e) Ethical and financial reporting issues associated with the intended CSR reporting approach and recommend how they may be resolved**

**Inconsistency with financial reporting undermines trust**

The sustainability report claims a 12% reduction in electricity usage, yet the audited financial statements show a threefold increase in electricity costs. This contradiction damages stakeholder confidence and raises concerns about the company's **integrity** and the preparer's **professional competence and due care**. Financial reporting is held to high standards, and any related non-financial disclosures must be consistent and clearly explained.

**(2 marks)**

**Use of selective, partial data is misleading**

The reported energy reduction is based on estimates from a small solar panel trial at one site, without making this clear. Presenting this as a company-wide achievement fails to meet the principle of **objectivity** and may be considered **unprofessional behaviour – the Finance director (assuming they an accountant) may draw the accounting profession into disrepute**.

**(2 marks)**

**Marketing approach conflicts with ethical standards**

The suggestion to only report favourable outcomes in the Integrated Report ignores the duty to present a balanced view. Omitting less positive or conflicting information undermines **integrity** and does not reflect **professional competence and due care**. Stakeholders expect honest, full disclosures—especially when sustainability reporting links to corporate values.

**(2 marks)**

**Recommendations to improve reporting**

RHC should ensure that all reports—financial and non-financial—are aligned, transparent, and reviewed jointly by Finance and Marketing. Any estimates must be clearly labelled – in this case for example, either the full picture on energy consumption must be published, or the limitations of the data provided made clear. In the future, key sustainability metrics could be externally assured.

**(2 marks)**

<u>**Marking scheme**</u>

- *Up to 2 marks for each point evaluating ethical and/or financial reporting issues, up to a maximum of 6 marks*
- *Up to 2 marks for a well justified recommendation*
- *Maximum of 8 marks in total for (d)*

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

| **How well has the candidate demonstrated professional skills as follows:** | **Not at all** | **Limited** | **Appropriate** |
|---|---|---|---|
| Professional skills marks are available for demonstrating *scepticism* skills when assessing the current approach and the marketing director's proposal | The candidate has not demonstrated *scepticism* skills when assessing the current approach and the marketing director's proposal | The candidate has demonstrated limited *scepticism* skills when assessing the current approach and the marketing director's proposal | The candidate has demonstrated appropriate *scepticism* skills when assessing the current approach and the marketing director's proposal |
| | **0** | **1** | **2** |

If any of the above requires clarification or if you have any questions, please do not hesitate to ask.

Best wishes
Strategic analyst

**2 REPORT**

**To:** The board, CCL
**From:** Strategic adviser
**Subject:** Joint venture proposal
**Date:** XX December 20X5

**Introduction**

This report examines and evaluates several key issues relating to the potential joint venture ('JV') with Smart Networking Technologies (SNT), and makes recommendations to address the noted issues.

**(a) Cultural issues**

There are significant cultural differences between Circuit Clever Ltd (CCL) and Smart Networking Technologies (SNT), which may undermine the success of the joint venture unless actively managed. These can be analysed using the Johnson and Scholes cultural web, which focuses on areas such as routines, control systems, power structures, communication styles, and underlying beliefs.

**1. Routines and working habits**

CCL operates within a highly structured routine. Work is guided by detailed project plans, defined timelines, and formal progress reviews. For example, CCL managers expressed concern that SNT's early project documentation lacked milestones and deliverables.

In contrast, SNT favours flexibility and iteration. Their teams are used to evolving objectives and open-ended meetings where decisions are often deferred or revised later. This may result in perceived inefficiency by CCL, and frustration from SNT staff when rigid processes slow innovation.

**(2 marks)**

**Recommendation:** A new planning framework with agreed policies and procedures should be jointly developed, combining SNT's adaptive approach with CCL's scheduling discipline. For example, 'sprints' or 'agile'-style planning cycles could be embedded within a structured milestone framework to satisfy both preferences.

**(1 mark)**

**2. Control systems and use of technology**

CCL relies on formal controls, including an integrated ERP system, financial tracking, and strict documentation protocols. This helps ensure traceability and auditability. SNT, by contrast, uses informal tools like spreadsheets and cloud-based file-sharing, with limited access controls or central oversight.

This divergence poses risks in a joint venture, particularly around data integrity, cybersecurity, and accountability. For example, inconsistent document storage could lead to version control issues or gaps in audit trails.

**(2 marks)**

**Recommendation:** The joint venture should adopt a shared technology platform approved by both parties, with minimum standards for access control, record-keeping, and auditability. In the short term, a document repository with version tracking should be introduced immediately.

**(1 mark)**

3. **Organisational structure and decision-making**

CCL's hierarchy places authority with senior management. Decisions are escalated and often require formal approval. For example, CCL would expect staged sign-offs before committing to new development work.

SNT operates with a flatter, more empowered hierarchy, encouraging broad participation in decisions. Engineers and junior staff contribute directly, and decisions are often based on consensus. This can slow decision-making when urgency is required or cause confusion about accountability.

**(2 marks)**

**Recommendation:** A joint venture governance structure should be created with equal representation from both firms. Clear delegated authority should be assigned to the JV board and project leads to prevent unnecessary escalation.

**(1 mark)**

4. **Communication and language styles**

CCL communicates using formal technical terminology, structured documents, and written reports. SNT communicates more casually and often uses their own language in internal discussions. This has already caused miscommunication during joint meetings, where key decisions were unclear or misunderstood.

**(2 marks)**

**Recommendation:** Shared communication protocols should be established. These might include agreed working languages, defined document templates, and translated summaries for key reports. Staff should be trained in the preferred communication methods of both firms.

**(1 mark)**

5. **Core beliefs and assumptions**

CCL views stability, compliance, and planning as essential to long-term success. SNT, by contrast, believes that speed, creativity, and adaptability are the key to innovation. These differences influence everything from pricing strategy to timekeeping.

For example, SNT's proposal to quote customers based on "what we can get away with" reflects a more opportunistic mindset, which clashes with CCL's likely preference for transparent, justifiable pricing.

**(2 marks)**

**Recommendation:** The JV should develop a shared mission and core values that combine CCL's strengths in governance and SNT's innovation ethos. These values should be included in onboarding material, performance reviews, and internal communications.

**(1 mark)**

**Marking scheme**

- *Up to 2 marks for each issue explained and related to the case facts up to a maximum of 8 marks*
- *Up to 1 mark for each valid and reasonable recommendation up to maximum of 4 marks*
- *Other valid points to be awarded credit on merit*
- *Maximum of 10 marks in total for (a)*

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

| **How well has the candidate demonstrated professional skills as follows:** | **Not at all** | **Limited** | **Appropriate** |
|---|---|---|---|
| Professional skills marks are available for demonstrating *analysis* skills when evaluating various individual aspects of culture for the two companies | The candidate has not demonstrated *analysis* skills when evaluating various individual aspects of culture for the two companies | The candidate has demonstrated limited *analysis* skills when evaluating various individual aspects of culture for the two companies | The candidate has demonstrated appropriate *analysis* skills when evaluating various individual aspects of culture for the two companies |
| | **0** | **1** | **2** |

**(b) Evaluation of joint venture versus organic development**

CCL's decision to pursue a **joint venture (JV)** with SNT versus developing the high-penetration Wi-Fi technology organically presents a distinct set of strengths and weaknesses.

__Strengths of the joint venture__

- **Access to complementary expertise:** The JV provides immediate access to SNT's cutting-edge networking software and hardware solutions and their expertise in developing innovative intellectual property. This is a significant strength as CCL primarily has a reputation for manufacturing electronic equipment at scale. Developing this specialist knowledge in-house would entail a substantial learning curve, recruitment of highly specialised engineers, and considerable time.

  **(1 mark)**

- **Risk and cost sharing:** Under the proposed JV, both companies contribute equally to development costs and investment in manufacturing infrastructure. This significantly mitigates the financial risk for CCL, especially given the innovative nature of the product and the inherent uncertainties in new technology development. If CCL were to pursue organic development, it would bear 100% of these substantial costs.

  **(1 mark)**

- **Accelerated market entry:** SNT's existing expertise and "strong innovation track record" mean the JV can likely develop and bring the product to market faster than CCL could independently. The CEO, Dario Wells, acknowledges that organic development "would take longer," which is crucial in a fast-evolving technology sector where rapid market penetration is key to success and rendering "traditional domestic mesh wi-fi systems largely obsolete."

  **(1 mark)**

- **Leveraging established brand recognition (combined):** While there is disagreement over which brand to use, the JV allows for the potential to leverage the combined brand recognition of both CCL and SNT in their respective countries. CCL brings its "long-standing reputation for manufacturing electronic equipment at scale" and market penetration, while SNT offers its "technology innovation image." This combined brand power could enhance the product's credibility and market acceptance more effectively than either company could achieve alone.

  **(1 mark)**

__Weaknesses of the joint venture__

- **Loss of control over intellectual property (IP):** A significant concern for CCL's CEO is the "losing control of the intellectual property." In a JV structure, IP ownership and usage rights must be carefully negotiated and shared, potentially limiting CCL's full autonomy over the innovative Wi-Fi technology and its future applications. organic development would ensure 100% ownership and control.

**(1 mark)**

- **Complex cross-cultural and operational hurdles:** The differences between Alphaland's and Omegaland's corporate cultures are profound, encompassing communication styles, decision-making processes, work-life balance, and attitudes towards documentation and spontaneity. These "deep-rooted cultural misalignments" have already led to "practical difficulties" and "delays in communication and uneven collaboration," which could significantly impede the JV's efficiency and success.

**(1 mark)**

- **Integration challenges and system incompatibilities:** The differing technology platforms (CCL's centralised ERP versus SNT's multiple disconnected tools) and approaches to data management present significant "concerns about data security, traceability, and operational transparency." Integrating these disparate systems and procedures will be complex, costly, and could lead to operational inefficiencies and vulnerabilities, despite the HR director's optimistic view.

**(1 mark)**

- **Potential for profit sharing dilution:** While the JV spreads risk, it also means that "profits from the sale of the new product would be shared equally." CCL's CEO expresses concern about "sharing profits on something this significant," suggesting that if the product is highly successful, organic development would allow CCL to retain 100% of the returns, potentially yielding a higher overall profit for CCL.

**(1 mark)**

**Conclusion**

Ultimately, the decision between a joint venture and organic development hinges on CCL's willingness to balance the clear benefits of shared expertise and risk with the significant challenges posed by cultural integration, control over IP, and potential dilution of profits. a thorough risk assessment and detailed integration plan will be crucial if the joint venture path is chosen.

**(1 mark)**

**Marking scheme**

- *Up to 1 mark for each strength explained and related to the case facts up to a maximum of 4 marks*
- *Up to 1 mark for each weakness explained and related to the case facts up to a maximum of 4 marks*
- *Up to 1 mark for a conclusion*
- *Other valid points to be awarded credit on merit*
- *Maximum of 8 marks in total for (b)*

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

| **How well has the candidate demonstrated professional skills as follows:** | **Not at all** | **Limited** | **Appropriate** |
|---|---|---|---|
| Professional skills marks are available for demonstrating *evaluation* skills when examining the various strengths and weaknesses of the proposal | The candidate has not demonstrated *evaluation* skills when examining the various strengths and weaknesses of the proposal | The candidate has demonstrated limited *evaluation* skills when examining the various strengths and weaknesses of the proposal | The candidate has demonstrated appropriate *evaluation* skills when examining the various strengths and weaknesses of the proposal |
| | **0** | **1** | **2** |

**(c) Ethical issues associated with the proposed pricing strategy**

The proposed pricing strategy, informally termed a "what we can get away with" model, raises several significant ethical concerns that warrant careful consideration by the board. These concerns primarily revolve around the fundamental ethical principles of integrity, objectivity, professional competence and due care, and professional behaviour.

It should be noted that the policy is aiming to maximise returns, which it could be argued forms part of the CCL's fiduciary duty to their shareholders. In this sense, the pricing policy has perhaps some limited merit ethically.

**(2 marks)**

However, the proposed policy raises several major ethical concerns:

1. **Integrity**

   The core of the ethical challenge lies in the departure from a transparent pricing approach with published, standard prices, in favour of a "customer-specific pricing approach" based on perceived "willingness to pay." This approach directly challenges the principle of **integrity**, which requires straightforwardness and honesty in all professional and business relationships. By deliberately obscuring the true cost or value proposition and instead tailoring prices to maximise profit based on individual customer assessment, the JV may be seen as engaging in practices that lack transparency and fairness.

**(2 marks)**

2. **Objectivity**

   Furthermore, it could compromise **objectivity**. If pricing decisions are heavily influenced by the sales team's subjective assessment of a customer's purchasing power, rather than objective cost analysis or established market rates, there is a risk of bias and arbitrary decision-making. This could lead to inconsistent pricing for similar products or services, undermining trust and potentially leading to accusations of discriminatory practices. The marketing director's statement, "as long as we avoid publishing price lists or encouraging direct comparisons," strongly suggests an intent to avoid scrutiny, which is inconsistent with transparent and honest business practices.

**(2 marks)**

3. **Professional competence and due care**

   While the marketing director suggests this approach could "significantly enhance margins," it raises questions about the exercise of **professional competence and due care**. A pricing strategy should be developed with a comprehensive understanding of its long-term implications, including legal, reputational, and ethical risks. A "what we can get away with" model, as acknowledged by the marketing director, carries a "risk of being challenged on fairness or transparency." Failing to adequately consider and mitigate these risks, and potentially exposing the joint venture to legal disputes or reputational damage, could be seen as a failure to exercise professional competence and due care. This approach also suggests a lack of robust internal controls and due diligence in establishing a sustainable and defensible pricing framework.

**(2 marks)**

4. **Professional behaviour**

   The proposed strategy could also contravene the principle of **professional behaviour**. This principle requires compliance with relevant laws and regulations and avoidance of any action that discredits the profession. As an accountant, Megan Sprendthrift could for example bring the accounting profession into disrepute if she was associated with the decision and it became public knowledge. While the strategy might not be explicitly illegal in all jurisdictions, it borders on practices that could be perceived as unethical or exploitative by customers, competitors, and regulatory bodies. Such a perception could severely damage the joint venture's reputation and that of CCL. Customers who discover they have paid significantly more for a similar bespoke product than another customer due to perceived willingness to pay could feel exploited, leading to a loss of trust and negative publicity. This could also invite scrutiny from consumer protection agencies or lead to legal challenges based on unfair trading practices.

**(2 marks)**

**Summary**

In essence, the "highly flexible pricing strategy" as described is a form of price discrimination that, without clear justification (e.g., based on different service levels, volume, or specific value-added features for each customer), can be viewed as unfair and unethical. While bespoke products offer some leeway, deliberately manipulating prices based solely on perceived customer wealth, rather than the inherent value or cost of the customisation, poses a significant ethical risk. This approach deviates from established norms of fair dealing and could lead to accusations of predatory pricing or exploitation, ultimately undermining the joint venture's long-term sustainability and reputation.

**(2 marks)**

**Marking scheme**

- *Up to 2 marks for each issue examined and related to the case facts up to a maximum of 6 marks*
- *Up to 2 marks for a well-reasoned conclusion*
- *Other valid points to be awarded credit on merit*
- *Maximum of 8 marks in total for (c)*

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

| How well has the candidate demonstrated professional skills as follows: | Not at all | Limited | Appropriate |
|---|---|---|---|
| Professional skills marks are available for demonstrating *commercial acumen* skills when considering the practical impact of the proposed pricing strategy | The candidate has not demonstrated *commercial acumen* skills when considering the practical impact of the proposed pricing strategy | The candidate has demonstrated limited *commercial acumen* skills when considering the practical impact of the proposed pricing strategy | The candidate has demonstrated appropriate *commercial acumen* skills when considering the practical impact of the proposed pricing strategy |
| | **0** | **1** | **2** |

**(d) Analysis of post-integration issues and recommendations**

1. **Incompatible systems and data management practices:** CCL's centralised ERP clashes with SNT's informal, disconnected tools, raising concerns about data security, traceability, and operational transparency, only minor adjustments made

   **(2 marks)**

   To address this, it is recommended to conduct an independent audit of IT infrastructure to identify incompatibilities. Develop a phased IT integration roadmap to centralise critical data, implement a secure unified system, and establish clear data governance policies.

   **(2 marks)**

2. **Lack of a detailed integration plan and overly optimistic outlook:** The absence of a detailed integration plan, coupled with an unsubstantiated optimistic view, significantly increases the risk of the joint venture failing. Despite the IT director's optimism, integration plans are often complex and problematic in their execution.

   **(2 marks)**

   It is recommended to form a dedicated Joint Venture Integration Office (JVIO) to develop a granular, phased integration plan covering all aspects. This plan must include clear milestones, Key Performance Indicators, assigned responsibilities, and robust risk management.

   **(2 marks)**

**Marking scheme**

- *Up to 2 marks for each integration issue explained and related to the case facts up to a maximum of 4 marks*
- *Up to 2 marks for each valid and reasonable recommendation up to maximum of 4 marks*
- *Other valid points to be awarded credit on merit*
- *Maximum of 8 marks in total for (d)*

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

| **How well has the candidate demonstrated professional skills as follows:** | **Not at all** | **Limited** | **Appropriate** |
|---|---|---|---|
| Professional skills marks are available for demonstrating *scepticism* skills when examining the extent of the potential integration issues | The candidate has not demonstrated *scepticism* skills when examining the extent of the potential integration issues | The candidate has demonstrated limited *scepticism* skills when examining the extent of the potential integration issues | The candidate has demonstrated appropriate *scepticism* skills when examining the extent of the potential integration issues |
| | **0** | **1** | **2** |

**(e) Evaluating advertising expenditure: an IFRS Conceptual Framework perspective**

The marketing director's proposal to "capitalise the full amount (A$2.5 million) in the accounts as an intangible asset" for the initial advertising campaign, based on the expectation of "long-term benefits," requires careful evaluation against the fundamental principles of the IFRS Conceptual Framework. The Conceptual Framework sets out the concepts that underlie the preparation and presentation of financial statements, guiding decisions on what should be recognised as an asset.

**Understanding the IFRS Conceptual Framework for asset recognition**

For any item to be recognised as an asset, it must meet the definition of an asset and satisfy the recognition criteria as outlined in the Conceptual Framework.

**Definition of an asset:** An asset is defined as a present economic resource controlled by the entity as a result of past events. An "economic resource" is a right that has the potential to produce future economic benefits. Does the advertising spend create a present right that has the potential for future economic benefits?

**(1 mark)**

While the advertising aims to generate future sales, it's not a tangible item or a contractual right that CCL directly controls in the same way it would control a piece of machinery or a patent. The "resource" (e.g., increased brand awareness, customer relationships) is often inextricably linked to the entity itself, rather than being a distinct, separable resource. Does CCL control the future economic benefits arising from the advertising campaign? While CCL pays for the advertising, the ability to control the future inflow of economic benefits (e.g., sustained customer loyalty or specific sales increases) is highly uncertain and influenced by numerous external factors beyond the direct control of the entity (e.g., competitor actions, market trends, product quality).

**(1 mark)**

**Recognition criteria for an asset:** Even if an item meets the definition of an asset, it can only be recognised in the financial statements if it is **probable** that future economic benefits associated with the item will flow to the entity and the **cost or value** of the item can be measured reliably.

**(1 mark)**

While the marketing director anticipates "long-term benefits," the direct and probable flow of future economic benefits from general advertising is inherently difficult to demonstrate. Unlike a machine that produces goods, or a patent that grants exclusive rights, the link between advertising spend and specific, probable future economic benefits is tenuous.

**(1 mark)**

The benefits are often indirect and depend on many other factors, making them less than "probable" in a strict accounting sense. While the initial campaign budget of A$2.5 million is reliably measured, the challenge lies in reliably measuring the *value* of the future economic benefits attributable *solely* to this specific advertising campaign over its anticipated "three years" or beyond. How would CCL definitively quantify the future revenue directly generated by this advertising as distinct from other marketing efforts, product quality, or market conditions? This difficulty in reliable measurement further hinders capitalisation.

**(1 mark)**

**Recommended accounting treatment based on conceptual framework**

Considering the definitions and recognition criteria within the IFRS Conceptual Framework, the A$2.5 million advertising expenditure should, in almost all practical scenarios, be **expensed in statement of profit or loss as it is incurred**.

**(1 mark)**

**Rationale:** The expenditure typically does not give rise to a *controlled economic resource* that is *identifiable* and from which *probable* future economic benefits can be *reliably measured*. The benefits derived from advertising (such as increased brand awareness or improved customer relationships) are generally considered to contribute to the entity's overall **goodwill**, which is an internally generated intangible that the Conceptual Framework does not permit to be recognised as an asset in the financial statements. This is because internally generated goodwill cannot be reliably separated or measured.

**(1 mark)**

**Presentation:** The expenditure should therefore be recognised as an expense in the Statement of Profit or Loss. This provides a more prudent and faithful representation of the entity's financial performance by not capitalising uncertain future benefits. It avoids overstating assets on the Statement of Financial Position and provides users with a clearer view of the costs incurred to generate current period revenues or awareness.

**(1 mark)**

**<u>Marking scheme</u>**

- *Up to 1 mark for each valid point explained and related to the case facts and the conceptual framework up to a maximum of 4 marks*
- *Up to 2 marks for a reasoned recommendation about accounting treatment*
- *Up to 1 mark for a reasoned recommendation about presentation*
- *Other valid points to be awarded credit on merit*
- *Maximum of 6 marks in total for (e)*

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

| **How well has the candidate demonstrated professional skills as follows:** | **Not at all** | **Limited** | **Appropriate** |
|---|---|---|---|
| Professional skills marks are available for demonstrating *communication* skills when recommending your approach to the board as a whole | The candidate has not demonstrated *communication* skills when recommending your approach to the board as a whole | The candidate has demonstrated limited *communication* skills when recommending your approach to the board as a whole | The candidate has demonstrated appropriate *communication* skills when recommending your approach to the board as a whole |
| | **0** | **1** | **2** |