ICMAP
Pathway exam

Thursday 12 June 2025

Paper IPE

Time allowed

4 hours including reading, planning and reflective time.

This question paper is an integrated case study with two questions containing a total of 100 marks and ALL questions must be completed.

All questions contain professional skills marks which are included in the marks shown.

Do NOT open this question paper until instructed by the supervisor.

You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

ACCA Think Ahead

The Association of Chartered Certified Accountants

1 Group background

Global Canned Foods (GCF) manufactures canned foods for business-to-business (B2B) sales worldwide. GCF operates across 50 countries, serving a diverse range of markets with a wide variety of canned food products.

Five years ago, GCF reorganised its operations forming six divisions each broadly aligned with a different continent:

- Europe
- Asia and the Middle East
- Africa
- North America
- South America
- Australasia and the Pacific Islands.

While this structure allows the divisions to have a clear regional focus, some factories in the group specialise in products that are distributed globally. For example, one factory in the African division specialises in the production of canned fruit. Although the factory is owned and managed by the African division, the factory sells its products internally to other divisions at a transfer price calculated as the market price minus 50% of the cost saved from making an internal sale rather than an external sale. For example, packaging and distribution costs can be cheaper when transferred internally.

Each division has an annual budget to aim for, and bonuses are paid based on that division's performance compared to that budget.

Group finance

Each division currently manages its own finance function, leading to inefficiencies and inconsistencies. Kevin Williams, finance director, has expressed significant frustration with the lack of standardisation in reporting and policy application across divisions. For instance, depreciation rates for identical machinery vary widely from country to country. Additionally each division produces its own forecasts and financial analysis based on their own data and chosen data analysis techniques. This leads to inconsistencies in the preparation of documentation, making consolidation of information difficult, and any resulting reports unreliable. This and many other inconsistencies make it difficult to compare financial performance accurately.

Additionally, the decentralised management of banking arrangements is problematic. For example, each division arranges its own bank loans, resulting in missed opportunities for better terms that could be achieved through centralised negotiations. These inefficiencies have prompted Kevin to push for a more cohesive and integrated financial management approach.

The proposed solution

To address these challenges, Kevin has recently secured board approval to establish a global Shared Service Centre (SSC) named **GCF Finance**. This SSC will centralise finance functions and standardise policies across all divisions. This restructuring aims to improve efficiency, enhance value, and align the group's financial operations globally. Further details are included in Exhibit 1.

Kevin's board approval was granted, but four key issues were raised by board members. These were:

- The SSC may be seen as imposed on the divisional managers, leading to demotivation and resistance.
- A uniform solution may not be appropriate for every division.
- The finance function may be increasingly remote from divisional decision making
- The practicalities of a service level agreement with the divisions and a transfer price to charge for the work of the SSC could create friction.

Kevin will need to evaluate these issues in some detail and consider how to address them in the roll out.

Kevin wants to ensure that the new SSC is a leading example of best practice. As such, he is keen to implement best practice process improvement techniques as soon as the SSC is launched. The intended approach, and associated management style, is discussed in Exhibit 2.

Internal advice

You are a finance assistant reporting directly to Kevin Williams, finance director. Kevin has asked you to help him set up the new SSC for finance. He has asked you to prepare a report, addressing the four specific matters noted in the requirements.

The following exhibits provide information relevant to the requirements:

1. Briefing note about GCF Finance
2. The use of Japanese business practices and data analytics in the new SSC

Exhibit 1 – Briefing note about GCF Finance

From: Kevin Williams, finance director
To: The global board, GCF
Subject: GCF Finance – our new shared service centre
Date: 10 May 2025

Dear fellow board members

I am pleased to introduce our new shared service centre (SSC), **GCF Finance**. Each division will effectively 'outsource' their finance function to the SSC. A service level agreement will be in place charging each division for its use of the SSC to cover the budgeted operating costs of the new SSC, and to give some accountability to the SSC for the quality of service it provides.

Strategic goals for the SSC are to:
- Harmonise policies and practice in finance
- Improve group decision making by acting as business partner to divisional decision makers
- Reduce group costs relating to finance and treasury transactions
- Encourage the adoption of best practice processes and methodologies

Headline operating plan:
- Establish consistent accounting policies and reporting practices globally
- Centralise negotiations for finance, and foreign exchange hedging
- Develop group policies and systems for debt collection and accounts payable to enable these activities to be maintained by the divisions in a consistent manner.
- Adopt a 'business partnering' approach to support divisional decision making (for example to include investment appraisal and building broader business cases)
- Closure of all regional finance functions

Divisional overview:

US$ million, 2024	Europe	Asia and Middle East	Africa	North America	South America	Australasia and Pacific Islands
External Revenue	825	754	714	1,010	601	154
Internal transfers - revenues	100	189	600	252	542	30
Internal transfers - costs	602	211	170	450	200	80

Exhibit 2 – the use of Japanese business practices and data analytics in the new SSC

Transcript of a conversation between Kevin Williams, finance director (KW), Carla Simmons, Information Technology (CS), and Dexter Williams, HR (DW) on 17 May 2025.

KW: We need the new Shared Service Centre (SSC) to be a leading example of best practice for the divisions. As such, I want to implement Japanese business practices from day 1 to improve the value for money provided by the service centre to the divisions. I would like the SSC to apply the following techniques to its own operations:

- Kaizen costing: continuous improvement in efficiency
- Target costing: deducting a required margin from sales price to arrive at a target cost
- Just in time: producing to order
- Total quality management: creating a culture of quality first and "right first time"

CS: Agreed. We also have a huge opportunity here to standardise the data for each division, and store it all in one place. That way we can improve the quality and increase the use of big data analytics.

DW: I like the sound of that! I've been thinking about the Hopwood framework for the performance management of the SSC. There are three management styles outlined by Hopwood:

- Budget constrained - aiming to manage the SSC's own costs on a line-by-line basis, with no over-runs allowed
- Profit conscious – a more flexible approach that focuses on delivering overall value for money, rather than worrying about individual budget items.
- Non-accounting – focus primarily on performing well, rather than the financial consequences of how well the SSC performs.

I believe, as the finance function, we need to adopt a 'budget constrained' style – if we don't stick to the budget line-by-line, how can we expect anyone else to?!

Required:

(a) **Evaluate the four key issues raised by board members in relation to the new SSC establishing its position as a centralised finance function and collaborating with the GCF divisions. Recommend how these issues should be managed by the head of the service centre.**

(14 marks)

Professional skills marks are available for demonstrating *evaluation* skills in identifying and evaluating the issues in the context of GCF.

(3 marks)

(b) **Assess the application of the four Japanese business practices in the new SSC, giving specific examples of each in the context of GCF.**

(8 marks)

Professional skills marks are available for demonstrating *commercial acumen* skills when giving examples of the use of Japanese business practices in this context.

(2 marks)

(c) **Evaluate the ways in which having one information system in the SSC could improve the quality of data analytics in the finance function for performance measurement and management, and evaluate the risks of increasing the use of big data in the finance function of GCF.**

(10 marks)

Professional skills marks are available for demonstrating *scepticism* skills when assessing the risks of increasing the use of big data in the finance function.

(3 marks)

(d) **Assess the use of the Hopwood management styles outlined in Exhibit 2 for the new SSC and provide a justified recommendation as to which management style should be adopted.**

(8 marks)

Professional skills marks are available for demonstrating *analysis* skills is applying the Hopwood model to the SSC.

(2 marks)

(50 marks)

2 Company Overview

Thetaland Marble Co (TMC) is a large company that operates in a mineral-rich mountain region located in the central part of Thetaland. TMC specialises in mining and exporting high-quality marble, which is recognised for its superior quality and is sought after in global markets. TMC has established a strong reputation in the industry as a reliable exporter, consistently meeting the demands of international clients.

The company achieved a significant milestone ten years ago when it was listed on the Thetaland stock exchange. At that time, Vanguard Sovereign Trust Fund (VSTF), a major institutional investor, acquired 40% of TMC's ordinary share capital. Five years later TMC placed more shares with VSTF, increasing VSTF's investment to 60%. This majority shareholding led to VSTF appointing one of its representatives to occupy one of the three non-executive director roles on TMC's board. This move was aimed at ensuring that the board's decisions consistently reflected the objectives and expectations of its key shareholder.

TMC's success is underpinned by its ownership of extensive mineral-rich land in the region where it operates. This land contains highly productive marble mines that have consistently yielded top-quality marble. Over the past two decades, TMC has maintained a policy of paying out 85% of its earnings as dividends. This high payout ratio was instrumental in attracting and retaining VSTF as a major shareholder, as VSTF relies on these dividends to meet its pension payment obligations to investors.

Strategic diversification and new revenue streams

Five years ago, under the leadership of CEO Adam Scott, TMC undertook a comprehensive strategic review aimed at formalising the company's goals and identifying key areas for improvement essential for achieving them (see Exhibit 1). This review spurred a proactive exploration of TMC's existing land holdings and nearby areas for other valuable mineral resources.

This led to the discovery of a significant deposit of graphite, a highly valuable mineral critical to modern industries, including the production of batteries, electric vehicles, and renewable energy technologies. Although the deposit is located deep underground and presents substantial logistical challenges in terms of extraction, it is viewed as a tremendous opportunity to diversify revenue streams and enhance long-term shareholder value.

To fund the development of this new graphite mining project, TMC is planning to temporarily adjust its dividend payout policy. Specific details of the proposed financing strategy are outlined in Exhibit 2.

Employee relations and operational challenges

While TMC's workforce is generally hard working and happy, some employee grievances have surfaced recently, particularly in relation to the annual appraisal process. Staff members have expressed frustration over the rigid procedures they are required to follow and the limited authority they are given to address challenges or make decisions independently. This lack of empowerment has contributed to a sense of dissatisfaction among employees who feel constrained in their ability to innovate or solve problems in ways they believe are effective.

Another issue relates to TMC's budgeting practices. The current approach, which relies heavily on taking an incremental approach to prior-year costs, has been criticised for failing to account for the increasingly capital-intensive nature of mining operations and the variability in production levels. This has led to unrealistic targets, particularly concerning maintenance costs and depreciation.

These issues are negatively impacting employee morale and may hinder operational efficiency as the company seeks to expand its operations into graphite mining.

Recognising the need for improvement, finance director James Taylor and HR director Sarah Gimmel recently initiated discussions to explore potential solutions. Ideas include empowering employees to take a more active role in decision-making processes and revising the company's budgeting practices to align better with its operational realities (see Exhibit 3).

Internal advice

You are a strategic analyst and you work for the board on strategic matters. Your manager is James Taylor, but you frequently work for other board directors. You have been asked for your assistance on issues relating to corporate governance, dividends and the key areas for improvement.

The following exhibits provide information relevant to the requirements:

1. TMC Strategic goals and key areas for improvement
2. Extract of board meeting minutes 1 May 2025
3. Transcript of discussion between James Taylor (JT - finance director) and Sarah Gimmel (SG - HR director)

Exhibit 1 – TMC strategic goals and key areas for improvement

Strategic goals:

- To increase market share in global marble production by at least 0.1% a year.
- To expand into other types of mineral extraction such that the percentage of annual revenues sourced from marble falls by 2% per year.
- To ensure the price secured per tonne of product is in the top 25% of the global range.
- To be the employer of choice in the mineral extraction industry in Thetaland.

Key areas for improvement:

- High customer retention, engagement and satisfaction
- Ensure existing mines are as productive as possible
- Effective use of state-of-the art technology to improve decision making and productivity
- Quality control that ensures only the best quality marble is extracted and graded accordingly
- Well educated and motivated staff
- Effective methods for finding new deposits and building new mining operations

Exhibit 2 - extract of board meeting minutes 1 May 2025

Apologies: George Hayfield (VSTF representative), Sally Jeffries (non-executive director), Paul Aston (non-executive director)

Financing the Graphite mine

The board agreed that new debt finance was not practical given the restrictions on new borrowing imposed by existing bank loans. The board was also uncomfortable issuing any new shares as VSTF do not want their shareholding diluted, and they also do not want to contribute any new capital themselves at present.

A proposal to finance the expansion by reducing dividends was discussed.

The finance director, James Taylor, noted that VSTF would be unlikely to tolerate a reduction in cash dividends given their own cash flow requirements. He proposed the following:

- Keeping the dividend payout ratio the same as previous years – 85%
- Paying 50% of the dividend as a scrip dividend (issuing shares instead of cash)
- Paying the other 50% as cash, but delaying payment for a period of 24 months. It would still be accounted for as a dividend for the current year.
- The payment terms would be relegated to a small footnote explained in technical language in the financial statements.
- If VSTF object, then the TMC could 'lend' VSTF an amount equal to their share of the dividend, to be 'repaid' when the remaining dividend is paid to other shareholders in two years' time. At least the remaining part of dividend due to minority shareholders would not be paid.

Sarah Gimmel, the HR director said she was uncomfortable with the arrangement, but James replied 'There's nothing wrong with what we're doing. Ultimately it's for their own good – this will help to build shareholder wealth!'

Sarah Gimmel referred to a textbook definition of the desirable qualitative characteristics of useful financial information as including:

- Relevance
- Faithful representation
- Comparability
- Verifiability
- Timeliness
- Understandability

and asked James to explain how the proposed arrangement meets these criteria.

Exhibit 3 – transcript of discussion between James Taylor (JT - finance director) and Sarah Gimmel (SG - HR director)

SG: I have had four separate grievance procedures raised from different parts of the business referring to the targets staff are set. They essentially all say the same thing. The financial budget targets they are set for operating expenditure are based on the prior year costs and always have been. However, mining is increasingly capital intensive, which means they always overrun on maintenance costs and depreciation and fail to hit targets as a result. At the same time the labour costs budgets are continuously reduced with headcount reductions. We never vary the targets to take into account different production levels either – which I'm worried encourages them to produce less, not more! I think our approach to budgeting needs a rethink, especially if we're going to be expanding into Graphite.

JT : Our staff have always been given strict procedures to follow, with very little discretion allowed on their part. Surely we should be empowering them to hit their objectives in their own way. This could include them getting involved in the budgeting process, but it has to be much broader than that. Why don't we share the 'key areas for improvement' we developed as a board and ask for their suggestions as to how they could be empowered to meet them?

SG: What are our options for rethinking the budget process?

JT: Well, we could build the budgets from a zero-base each year using anticipated activity as a basis, and then amend them on a rolling basis – say every quarter. We would then flex the budget to actual activity levels to compare to actual performance at the end of the year for their annual assessment. I'll think about this further, if you could think about the empowerment idea?

SG: Agreed. Let's meet again in a couple of weeks.

Required:

(a) Write a report to James Taylor addressing the following matters:

(i) Evaluate the role and influence of VSTF as a key shareholder on the corporate governance of TMC, with specific focus on the non-executive director VSTF have placed on the TMC board.

(8 marks)

Professional skills marks are available for demonstrating *analysis* skills in presenting the various aspects of the role and influence of VSTF in the corporate governance of TMC.

(2 marks)

(ii) Evaluate if the proposed treatment of dividends in the financial statements meets the desirable qualitative characteristics of useful financial information.

(6 marks)

Professional skills marks are available for demonstrating *scepticism* skills in evaluating the proposed treatment of the dividends.

(2 marks)

(iii) Assess the ethical issues arising from the suggested treatment of dividends in the financial statements to help fund the Graphite mine.

(6 marks)

Professional skills marks are available for demonstrating *communication* skills in presenting the ethical issues sensitively to James Taylor.

(2 marks)

(b) Write a memorandum to Sarah Gimmel which recommends how empowerment of staff can be used to improve performance in relation to TMC's 'key areas of improvement' in Exhibit 1.

(12 marks)

Professional skills marks are available for demonstrating *commercial acumen* skills for evaluating how empowerment can improve performance at TMC.

(2 marks)

(c) Write an email to James Taylor which evaluates the impact of the proposed changes to the current approach to budgeting in TMC, and recommend improvements to the proposed changes.

(8 marks)

Professional skills marks are available for demonstrating *evaluation* skills in assessing the proposed changes to the current budgeting approach.

(2 marks)

(50 marks)

End of question paper