

# ICMAP Pathway Exam

Tuesday 15 December 2020

**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**

Paper IPE



Think Ahead

The Association of  
Chartered Certified  
Accountants

1 Advanced Business Consultancy plc (ABC) operates in the economically developed country of Zedland.

ABC was established twenty years ago by Vanessa Pei, a qualified accountant who offered independent business advice to small businesses. ABC's mission was, and remains, 'to guide companies successfully through periods of change and upheaval.' Vanessa quickly gained a reputation for rescuing companies that were struggling commercially, and ABC grew quickly.

Vanessa recruited and trained consultants who could replicate her approach to clients. Within five years, ABC had offices in four cities in Zedland and had built up an impressive number of small business clients. Both clients and consultants attributed this successful growth to Vanessa's charismatic style of leadership.

Ten years ago, ABC was listed on the Zedland Stock Exchange (ZSE). Currently, 35% of ABC's shares are held by two institutional shareholders. Vanessa retained a further 35% of shares and the remaining 30% is spread across a large number of small investors. ABC traded well until November 2018, when Vanessa was diagnosed with a serious illness and had to step down immediately as Chief Executive Officer (CEO) of ABC, although she has retained her shares. Vanessa was replaced by Jean Tan, ABC's Chief Operating Officer (COO) who has adopted a similar leadership style to Vanessa.

Nine months ago, the Zedland Stock Exchange started investigating ABC's Finance Director, Robert Smith. Evidence emerged that Robert had been using confidential information about ABC to engage in insider trading. This evidence was handed over to the police and led to the discovery that Robert had also been stealing funds from ABC. Three months ago, Robert was found guilty of insider trading and theft and began a five-year prison sentence. There is nothing to indicate that anybody else was involved and ABC has dismissed Robert Smith from his role as Finance Director.

You are a finance manager working in ABC's finance department. You used to report to Robert Smith when he was Finance Director on a wide range of business and strategic issues. Since Robert's imprisonment, you have been reporting to the current COO, Karen Hart.

At ABC's recent Extraordinary General Meeting (EGM), several shareholders questioned whether the current, principles-based approach to corporate governance was effective and asked whether a rules-based approach would be more appropriate. The board has asked you to help it understand more about the issues the shareholders have raised.

At the EGM, Vanessa Pei asked to be kept informed about the recruitment of ABC's new Finance Director. Simon Goodwin, ABC's HR Director has asked for your input to guide the company in the recruitment and selection of a suitable candidate.

The CEO recently commissioned an independent consultant to identify and recommend technological opportunities for ABC. The consultant has just published his report but some directors are unfamiliar with the technological issues contained in it. You have been asked to explain the issues and recommend a response to his proposals. The CEO is very interested in using the latest cryptocurrency technology and started to look into how this would be accounted for in ABC's financial statements, but is unclear on exactly how this should be done. He has asked for your assistance to clarify the correct accounting treatment.

The following exhibits should be used to undertake the tasks asked of you:

Exhibit 1: Extracts from minutes of ABC's Extraordinary General Meeting

Exhibit 2: Extracts from minutes of ABC's recent board meeting

Exhibit 3: Extracts from independent consultant's report

Exhibit 4: Email from CEO about cryptocurrency

***Today is assumed to be 1<sup>st</sup> November 2020.***

**Required:**

- (a) Prepare briefing notes for the board to share with shareholders that advise why the principles-based approach to corporate governance remains the most appropriate approach for ABC to take.

(10 marks)

Professional skills marks are available for demonstrating *communication* skills in persuading ABC's shareholders why the principles-based approach to corporate governance is more appropriate than a rules-based approach.

(2 marks)

- (b) Prepare an email for Simon Goodwin, the HR Director, that identifies with reasons the key leadership traits that the directors of ABC should look for when recruiting a new Finance Director.

(7 marks)

Professional skills marks are available for demonstrating *commercial acumen* skills in showing insight into appropriate leadership traits of the new Finance Director.

(2 marks)

- (c) Write a report to the board of ABC that:

- (i) Explains the concept of cryptocurrency and discusses whether ABC should accept ZipChips as a method of payment.

(11 marks)

Professional skills marks are available for demonstrating *scepticism* in probing deeply into the underlying issues relating to ABC's potential acceptance of ZipChips.

(3 marks)

- (ii) Discusses how ABC should account for ZipChips in its financial statements.

(12 marks)

Professional skills marks are available for demonstrating *commercial acumen* skills in demonstrating awareness of cryptocurrency and how it should be treated in ABC's financial statements.

(3 marks)

**(50 marks)**

## Exhibit 1: Extracts from minutes of ABC's Extraordinary General Meeting

Date: 1<sup>st</sup> October 2020

Present: ABC board of directors

ABC shareholders representing 92% of ordinary shares, including:

Vanessa Pei (VP) holding 35% of ordinary shares

Pi Bank (PB) holding 20% of ordinary shares

Rho Fund (RF) holding 15% of shares

### Concerns over ABC board's handling of Robert Smith's fraud case

Representatives from PB and RF made a joint statement that expressed three specific concerns:

- It was felt that ABC did not have sufficient controls in place to identify fraud. In the case of Robert Smith, the fraud was identified by the Zedland Stock Exchange not ABC.
- They described feeling let down by the board's failure to communicate more pro-actively over the course of the police investigation. They pointed out that they had heard news about the case in the public media before receiving notification from the board.
- Information from the board, when it arrived, was too technically detailed. PB and RF explained they were seeking an overall assurance that the situation was being managed effectively but, instead, received a forensic analysis of the situation that contained little in the way of meaningful action.

Other shareholders supported these points. One shareholder referred to the minutes of a previous annual general meeting (AGM), where Robert Smith's financial report was criticised for containing too much complex accounting terminology that did not relate directly to the wider strategy of ABC.

VP explained that she had remained in close dialogue with the board since her resignation as CEO. The board kept her informed of the key issues and she was therefore less concerned about the lack of communication. VP said that she found their communication clear and informative and their dialogue was helped by the fact that the board members had worked with her for many years. However, she expressed a desire to be kept informed of key future decisions such as the recruitment of a new Finance Director.

PB and RF asked for all shareholders to receive the same information that VP was receiving. They recognised that Zedland's stock exchange required a principles-based approach to corporate governance but questioned whether a rules-based approach would be more appropriate for ABC as it would provide objectively measurable compliance criteria. The board of directors agreed to consider this proposal and respond within two months.

## Exhibit 2: Extracts from minutes of ABC's recent board meeting

Date: 10<sup>th</sup> October 2020  
Present: Jean Tan, CEO (JT)  
Karen Hart, Chief Operating Officer (KH)  
Peter Turner, Marketing Director (PT)  
Simon Goodwin, HR Director (SG)  
[Chair and three non-executive directors were also present]  
Apologies: None. All board members were present.

### 1. Corporate governance

The Zedland Stock Exchange requires listed companies to follow a principles-based approach to corporate governance. The directors concluded that this prevented them from moving to a rules-based approach.

At the same time, the directors recognised that shareholders were not satisfied with ABC's corporate governance. It was agreed that the board needed to explain the benefits of the principles-based approach to shareholders and demonstrate how such an approach could be used to address their concerns.

**Action:** JT to investigate further and present her recommendations at the next board meeting.

### 2. Finance Director recruitment

SG confirmed that ABC's recruitment procedures were independently reviewed recently and are fully compliant with Zedland's legislative requirements. However, none of the directors present felt they had a sufficiently detailed understanding of finance to contribute meaningfully to a new Finance Director person specification and job description.

**Action:** SG to seek input from finance department on the required leadership traits for a new finance director.

### **Exhibit 3: Extracts from independent consultant's report**

#### **REPORT**

To Jean Tan, CEO ABC  
From A. Consultant, Theta Technology plc  
Date 1<sup>st</sup> November 2020  
Subject Using technology within ABC

This report is the result of an independent review into how ABC could take advantage of the latest developments in technology.

ABC has built up a strong brand and reputation over the past twenty years. However, it has not always grasped the opportunities that technology has created over that period. As a result, there is a risk that it may be perceived as increasingly old-fashioned and out-of-date.

This report identifies a number of practical ways in which ABC can be seen to embrace the latest technology and turn what is currently a weakness into a strength.

...

#### **Cryptocurrency**

Cryptocurrency and blockchain technology offer radical new ways of conducting business transactions. Many large, respected companies now accept cryptocurrencies alongside domestic currencies. There is an opportunity here for ABC to boost its brand image by being associated with this exciting and revolutionary development.

ZipChips is a new cryptocurrency that has been developed in Zedland specifically for large, commercial transactions. It has seen a dramatic surge in popularity in recent months and this popularity has made it a very attractive investment for speculators.

ABC has an opportunity to accept ZipChips as a method of payment for its services alongside the Zedland \$. The set-up costs are minimal, and the currency is as easy to administer as a traditional bank account. ABC would simply set up an electronic 'wallet' which would store ZipChips in the same way that a traditional bank account would store currency.

As there is no obligation for ABC's customers to pay using ZipChips, there is very little risk involved in offering this additional service.

## Exhibit 4: Email from CEO about cryptocurrency

### EMAIL

To: Finance Manager  
From: Jean Tan, Chief Executive Officer  
Date: 01 November 2020  
Subject: Accounting for ZipChips

Hi,

As you're aware, the board has been considering the possibility of adopting ZipChips, a cryptocurrency. We want to be seen as innovative in an attempt to differentiate ourselves from other competitors.

We don't know how popular this cryptocurrency is going to be. To begin with, we would offer clients the option to pay with ZipChips as opposed to \$. We suspect that less than 5% of clients would take us up on this offer, but there is the possibility of this figure rising if ZipChips takes off.

We would be setting up a ZipChips wallet, which should be administered in the same way as our bank accounts. Ideally, we would use ZipChips to pay our suppliers and staff. However, I'm not aware of any suppliers currently accepting ZipChips and I can't imagine staff wanting to receive their salaries in this currency! Until such time as we can spend ZipChips more widely, we would look to convert any surplus into \$ on a regular (weekly / fortnightly?) basis.

We are aware of the potential to retain ZipChips as an investment. This is not our main intention and, at this point, we do not understand enough about the market to do this with confidence. Again, this may change in the future, but we have more than enough to be focusing on as a business without getting into further financial speculation!

I recognise that there are likely to be accounting implications of using ZipChips. I started looking into this myself but gave up after I came across five different definitions which all seem to be applicable here! I've copied and pasted these definitions from the articles I read:

<b>Cash</b>	Cash can be 'readily exchanged for any good or service.' (IAS 32)
<b>Cash equivalent</b>	Cash equivalents are 'short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.' (IAS 7)
<b>Financial asset</b>	Financial assets represent 'cash, an equity interest in an entity, or a contract establishing a right or obligation to deliver or receive cash or another financial instrument.' (IAS 32)
<b>Intangible asset</b>	An intangible asset is 'an identifiable non-monetary asset without physical substance.' (IAS 38)
<b>Inventory</b>	Inventories are 'held for sale in the ordinary course of business, in the process of production for such sale, or in the form of materials or supplies to be consumed in ... the rendering of services.' (IAS 2)



Could you draft a report for the board which gives us your views on the independent consultant's report, and also some clarifications to explain broadly how the ZipChips wallet would be treated in the accounts and why. As you know, none of us are qualified accountants so please don't make your explanations too technically complex!

Many thanks,

Jean Tan  
**Chief Executive Officer**

- 2 The Biscuit Company (TBC) is a food manufacturer and specialises in biscuit products made with chocolate. A young baker, Joseph Taylor, who wanted to develop and make biscuits based on his grandmother's old recipes, established TBC in 1968 and following his work in his local bakery and funded by his parents, he started a small bakery initially selling to local shops.

As TBC's reputation for quality biscuits increased, they established contracts with regional and then national chains of supermarkets and by the 1980s had become an established national biscuit maker, distributing their products to all the major food retailers. Their three major brands are "ChocCake", "ChocBar" and "ChocTime".

TBC still operate from its original manufacturing facility, which, over the years, has been expanded to increase capacity in order to meet the higher demand for its biscuits. The board of TBC have also invested heavily in the facility, in both the infrastructure and the production process, in order that TBC can be a market leader in the making of chocolate biscuit products.

The facility is designed to produce a "generic" biscuit type, which only requires the changing of the biscuit design and the ingredients for each new production run. For example, TBC could make 10,000 units of ChocCake, and then the manufacturing equipment would be programmed to change the biscuit design and ingredients to ChocBar for a further production run of 10,000 units. This provides TBC with unique flexibility to adapt its production processes based on changing customer demands. The current capacity on this basis is a total of 25 million biscuits per year.

TBC continues to employ people from its local town, and now has 400 staff involved in manufacturing, distribution and sales, and is led by a board of directors, primarily from the Taylor family. Many of the TBC staff have worked for the organisation for a long time, and there are family groups within the workforce, with children joining their parents in working for TBC. Joseph often publicly comments on the great loyalty of TBC's staff, although in private many staff are not happy working at TBC. They believe that they are underpaid and lack opportunities for development, but recognise that in the local area TBC is the largest employer and opportunities are therefore limited elsewhere.

Joseph Taylor is now 72 years old but is still very much involved in the business through his role as Chair of the board. The Chief Executive Officer (CEO) is Joseph's daughter, Valerie, and the Finance Director is Nigel Taylor, Joseph's son. There are two further members of the board, an Operations Director and a Human Resources Director, occupied by non-family members. Joseph is very proud of his own performance in creating, developing and managing TBC for 52 years.

In 2015 Nigel's daughter, Emily, graduated from university with a business degree and joined TBC as a trainee management accountant. She has progressed to the role of Financial Controller, as she has brought a fresh perspective to how the business operates, which has been welcomed by the rest of the Taylor family and the wider board. Indeed Joseph now views Emily as key to the future success of the business, and is keen to hear more from her about how the business can improve in the future.

Although TBC has its range of well-established biscuit brands that continue to generate good sales through TBC's retail channels, competition is intense in the biscuit sector, particularly this year with the arrival of a new competitor selling a similar, but cheaper product to TBC's ChocCake. TBC's profitability has started to decline in recent years with noted increases in some of the company's costs, including the cost of the raw materials used in the ChocBar. The board now think that the

company may need to consider other ways of generating revenue for the future. Additionally TBC has historically only concentrated on its home market, but is now considering the wider global market for its products.

TBC’s mission statement is “To bake great tasting biscuits” and Joseph does not want to diversify away from this company purpose, so any future changes will need to be aligned. However, Joseph and the board do recognise that TBC has now reached a significant point, where the more traditional way of operating may not be a sustainable option for the future, and therefore if TBC wishes to continue then it needs to review its business model. Emily has advised her grandfather that TBC needs to be strategic, and be willing to work with other organisations, which Joseph has previously opposed, if TBC is to have a long-term future.

Emily has also pointed out to her father that although TBC have continued to invest in new technology in the manufacturing facility, there are real weaknesses in other parts of the business. Most notably these weaknesses are in:

- finance and marketing
- the staff’s understanding of technology and how it may help TBC
- TBC’s willingness to invest in non-manufacturing technology.

Emily also said that TBC should grasp the opportunity that “Big Data” has now provided – to which Nigel shrugged his shoulders and walked off!

Following a request from the board for future ideas, Emily has presented two strategic growth options for consideration:

- i. Following a recent approach from an existing customer, TBC may consider establishing a joint venture with this national supermarket to develop and manufacture private label biscuit products (i.e. biscuit types under the supermarket’s own brand);
- ii. To expand TBC’s global market, TBC should explore the possibility of licensing agreements with overseas food manufacturers to license, manufacture and distribute TBC’s three branded products within geographic regions.

At the end of her presentation, Emily pointed out to the board that these options would require further investment for TBC, and the board should arrange a meeting with TBC’s bankers as soon as possible to discuss the options and generate support for a funding application.

At the same meeting, Nigel Taylor presented the monthly key performance indicator (KPI) information to the board as follows:

Brand	2019 Sales			2020 Sales/Forecast		
	Volume	Sales Value	Cost of Sales	Volume	Sales Value	Cost of Sales
	units	\$’000	\$’000	units	\$’000	\$’000
<b>ChocCake</b>	6,000,000	12,000	6,000	4,000,000	7,600	4,000
<b>ChocBar</b>	2,285,714	4,000	1,600	1,142,857	2,000	1,000
<b>ChocTime</b>	1,666,667	2,500	1,600	6,666,667	10,000	6,400
	9,952,381	18,500	9,200	11,809,524	19,600	11,400

Joseph has always liked the simplicity of the monthly KPIs, and believes that sales is the key measurement for TBC's success and is, therefore, always happy to see sales volumes increasing on an annual basis, as per the 2020 forecast figures. His view is that if sales are increasing then the rest of the organisation should be able to make it profitable!

Emily, however, is keen for TBC to introduce a Balanced Scorecard (BSC), which she has studied in her professional accountancy exams. Joseph and Nigel have never heard of a BSC and are, therefore, happy to continue with TBC's current measurement of performance.

**Required:**

You are an external consultant hired by TBC to provide strategic advice and guidance on a number of matters under consideration by the TBC board.

- (a) For TBC's bankers to consider a funding application they would like more information on the organisation's current and potential future performance. You have been asked to recommend an alternative way to report on the business.

**Provide a briefing note to the TBC board to persuade them to adopt the Balanced Scorecard (BSC) by explaining what the BSC is, the rationale for it and its potential application to TBC. Demonstrate its usefulness by preparing an example set of performance indicators, relevant to TBC, for each perspective within the BSC.**

**[Ignore the future growth options proposed by Emily].**

(12 marks)

**Professional skills marks are available for demonstrating *analysis* skills when assessing TB's business operations and how they may be more appropriately measured and reported.**

(3 marks)

- (b) The board were interested in the two possible growth options presented by Emily at the recent board meeting, but require some further clarification on these opportunities and would also like to understand how TBC could measure its success in pursuing such opportunities. Prepare a report to the TBC board addressing the following requirements.

- (i) **Briefly explain the term joint venture, and discuss the performance management issues that should be considered by TBC before it establishes a joint venture as part of its strategy for growth.**

(6 marks)

- (ii) **For the licensing agreement option, recommend what measures, with reasons, could be used to assess performance if TBC were to proceed with this option.**

(4 marks)

**Professional skills marks are available for *commercial acumen* skills when demonstrating awareness of how performance may be measured within different business structures.**

(3 marks)

- (c) The TBC board has asked you to review the latest monthly KPI report. It is concerned that important information may be missing from the data provided.

**Using the KPI report, provide an alternative table of data that analyses the gross profit performance for TBC and its three major brands of biscuits, and compares performance between 2019 and the 2020 forecast. Provide the board with an explanation and commentary on the data analysed.**

(8 marks)

**Professional skills marks are available for demonstrating *analysis* skills when assessing the performance of TBC.**

(3 marks)

- (d) Although TBC have invested in manufacturing technology, the wider TBC business does not appear to have embraced the broader technological changes affecting all businesses.

**Prepare two slides for the board with supporting speaker's notes, one to explain the meaning of "Big Data" and the other to assess the challenges that TBC may face in adopting Big Data in the future.**

(8 marks)

**Professional skills marks are available for demonstrating *communication* skills in the presentation.**

(3 marks)

**(50 marks)**

**End of Question Paper**

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# Answers

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**1 (a) BRIEFING NOTES**

The principles-based approach outlines a set of guidelines for organisations to follow when ensuring effective corporate governance. This is contrary to a rules-based approach which dictates specific instructions that organisations must follow.

ABC currently follows a principles-based approach to corporate governance. This is in line with Zedland Stock Exchange requirements and it is highly unlikely that ABC will be able to unilaterally change its corporate governance approach without ceasing to be compliant with the Exchange.

At the same time, the shareholders have a number of valid concerns about corporate governance that need to be addressed. For example, communication with shareholders is not clear and consistent as some shareholders (e.g. Vanessa Pei) are receiving more information than others.

These briefing notes advise why a principles-based approach is more appropriate than a rules-based approach for improving communication with ABC's shareholders and addressing their concerns:

Reduce information overload

A rules-based approach is very bureaucratic, with shareholders notified whether the business is compliant with a long list of regulations. Shareholders have already complained about information overload so a principles-based approach is likely to be preferable to them.

Encourage constructive dialogue

Vanessa Pei describes being in dialogue with the directors and being kept informed of key issues. This dialogue is what the other shareholders are seeking. A principles-based approach encourages dialogue rather than the bureaucratic approach of the rules-based approach which, by its nature, informs rather than discusses.

Encourage a holistic overview

A rules-based approach risks being reduced to a box-ticking exercise, whereas a principles-based approach encourages a more holistic approach to the governance of the business. This is a particular issue for ABC which has been the victim of internal fraud. Although a principles-based approach to corporate governance was in place at the time, there is evidently scope to develop this approach. More robust application of the principles-based approach should reduce the risk of further fraud in the future.

Encourage strategic growth

Shareholders have requested that the board conducts a strategic review. Unlike the rules-based approach, a principles-based approach to corporate governance encourages ongoing growth and development that would be consistent with the shareholder's request in this area.

Flexibility to deal with changing situations

As ABC faces a period of uncertainty, a principles-based approach is more flexible and can therefore be adapted to incorporate change as it takes place. The rules-based approach, on the other hand, is much more prescriptive and is therefore harder to alter.



## Conclusion

Although ABC purports to already apply principles-based corporate governance, the board recognises that the principles have not always been applied appropriately. However, changing to a rules-based governance system would be more onerous and is unlikely to satisfy the shareholders' needs. Therefore, it is recommended that the principles-based approach is retained and developed.

## ***Marking scheme***

*Up to 2 marks per well explained point that advises why the principles-based approach is appropriate for ABC.*

*Points could include, but are not restricted to:*

- Method of governance is dictated by regulatory environment (i.e. stock exchange). Companies do not normally have freedom to select their approach.*
- The principles-based approach is being applied poorly at present*
- Some shareholders have complained about information overload. They need a strategic overview, not forensic analysis.*
- Principles-based governance will meet this better than rules-based (forensic, bureaucratic).*
- VP is satisfied with current approach which is principles-based (dialogue rather than checklists).*
- Rules-based reduces governance to a box-ticking exercise, when a more holistic approach would be more likely to identify issues.*
- Faced with concerns over strategic direction, principles-based approach encourages ongoing growth and development, unlike rules-based.*
- Principles-based approach allows increased flexibility in dealing with complex situations.*

*(Up to a maximum of 10 marks in total)*

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

<i>How well has the candidate demonstrated professional skills as follows:</i>	<i>Not at all</i>	<i>Not so well</i>	<i>Quite well</i>	<i>Very well</i>
<i>Communication skills in persuading ABC's shareholders why the principles-based approach is appropriate.</i>	<i>The candidate has demonstrated poor communication skills. Key issues around the suitability of the principles-based approach for ABC's shareholders have not been communicated clearly.</i>	<i>The candidate has demonstrated limited communication skills. The communication may be appropriate for the board to share with shareholders, but it lacks clarity and does not explain clearly why the principles-based approach is suitable for ABC.</i>	<i>The candidate has demonstrated reasonable communication skills. The briefing notes are appropriate for the board to share with shareholders and will help to convince shareholders why the principles-based approach is suitable for ABC. However, the report does not address all the issues.</i>	<i>The candidate has demonstrated excellent communication skills, adopting a tone suitable for the board to share with shareholders. The briefing notes are well presented and concise, and clearly advise why the principles-based approach is appropriate for ABC. Each point is clear and reinforces the message effectively.</i>
	<i>0</i>	<i>0.5</i>	<i>1</i>	<i>2</i>

**(b) EMAIL**

To: Simon Goodwin  
 From: Finance Manager  
 Date: 01 November 2020  
 Subject: Finance Director recruitment

Dear Simon

As discussed, this email sets out my recommendation of suitable leadership traits that ABC's new Finance Director (FD) should have.

**Leadership traits**

ABC's culture is based on the charismatic style of leadership encouraged by Vanessa Pei. This approach has proved popular with clients and consultants so the new FD should have a leadership style that complements this style.

At the EGM, shareholders commented that they had received too much complex accounting data that did not relate to ABC's wider strategy. The new FD therefore needs a 'helicopter factor' – namely the ability to rise above finance-specific issues and relate them to the bigger strategic picture.

With the strategic review underway, the new FD should have a strong sense of initiative that will bring new ideas to ABC, both within the finance function and the wider organisation. If this person is recruited from outside ABC, he or she will bring a fresh perspective which will be of particular value.

The board of directors is well-established, having worked with Vanessa Pei for many years (albeit in different roles). In bringing fresh ideas, the new FD will need a high level of self-assurance and assertiveness to maintain his or her perspective, especially if that perspective is not consistent with the existing status quo.

Finally, ABC's finance department has been hit hard by the fraud scandal. Change is needed and the new FD needs to be highly motivated to enthuse staff with new ways of working.

Please let me know if I can provide any further information or assistance.

Kind regards,  
Finance Manager

### ***Marking scheme***

*Up to 2 marks per well explained point that identifies the key leadership traits that the directors of ABC should look for when recruiting a new Finance Director.*

*Points could include, but are not restricted to:*

- An appropriate fit with ABC's culture (VP's 'charismatic style of leadership')*
- Helicopter factor to recognise financial factors in the context of ABC's strategy (see comment at EGM)*
- Initiative to bring new ideas to ABC, both within the finance function and with regard to the strategic review.*
- Self-assurance to maintain an independent perspective in the face of challenges from other board members (and, potentially, VP?)*
- Motivation to engage staff with the changes that are required.*

*Theorists identify many different leadership traits, so students have considerable discretion here. However, any traits must be clearly linked to the scenario.*

*(Up to a maximum of 7 marks in total)*

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

<b><i>How well has the candidate demonstrated professional skills as follows:</i></b>	<b><i>Not at all</i></b>	<b><i>Not so well</i></b>	<b><i>Quite well</i></b>	<b><i>Very well</i></b>
<i>Commercial acumen skills in showing insight into appropriate leadership traits of the new Finance Director.</i>	<i>The candidate has demonstrated no commercial acumen skills and has demonstrated poor awareness the traits of a finance director.</i>	<i>The candidate has demonstrated limited commercial acumen skills. Having shown some limited awareness of the traits of a finance director, the issues are not sufficiently related to ABC.</i>	<i>The candidate has presented a report in a tone suitable for the board and demonstrated reasonably good commercial acumen skills. They have demonstrated sound judgement in identifying some suitable traits for ABC's new finance director.</i>	<i>The candidate has presented a report in a tone suitable for the board and demonstrated excellent commercial acumen skills. They have shown strong commercial awareness of the traits that would be suitable for ABC's new finance director.</i>
	<i>0</i>	<i>0.5</i>	<i>1</i>	<i>2</i>

## **(c) REPORT**

To: Board of Directors  
From: Finance Manager  
Date: 01 November 2020

### **1.0 Introduction**

Further to the report from Theta Technology plc, this report discusses whether ABC should accept payment in ZipChips, a cryptocurrency. It also contains guidance on how ABC should account for its use of ZipChips under International Financial Reporting Standards.

### **2.0 Executive Summary**

- The adoption of ZipChips would improve ABC's reputation for innovation, but caution needs to be taken against the associated financial risks.
- If adopted, ZipChips should be accounted for as intangible assets in the company's financial statements.

### **3.0 ABC's use of cryptocurrency**

Traditional currencies are regulated by an institution such as a government or central bank. This institution therefore controls the currency itself.

Cryptocurrencies avoid centralised control by using blockchain technology to regulate a currency. Blockchain technology records ownership of a cryptocurrency in a distributed ledger which is held by all members of the network. Transactions are only valid if they are accepted by all members of the network.

Because there is no single, central record as there is with traditional currencies, cryptocurrency is free from centralised control or regulation.

Cryptocurrencies are relatively easy to set up. Many of them exist, of which Bitcoin is the most famous. Although cryptocurrencies have been around for a number of years, it remains very much a niche product compared to traditional currencies.

The lack of centralised regulation means that cryptocurrencies have become associated with secretive or dishonest transactions. This is not always the case but is a factor that ABC will need to consider when deciding whether or not to accept ZipChips.

Cryptocurrencies are popular in countries with undeveloped or corrupt economies where freedom from regulation is much more sought after. ABC operates in Zedland, an economically developed country, so there is limited attraction to using a cryptocurrency here.

The report recommends adopting ZipChips so that ABC's brand image is improved – specifically by being associated with 'this exciting and revolutionary development'. However, ABC's current market position has been driven by damage to its reputation caused by fraud, and Vanessa Pei's resignation. It's difficult to see how adopting ZipChips would address these issues.

As relatively new technology, ABC will need specialist skills and knowledge to adopt and maintain

ZipChips. ABC does not appear to be in a good position to do this – there is an absence of IT and finance specialisms at board level. There are also concerns about current financial processes which could be exacerbated with the introduction of this new currency. These factors increase the risk that the experiment does not succeed, although the situation may change if the new Finance Director has expertise in this field.

The consultant's report refers to ZipChips being an attractive investment. This potential refers to financial speculation and falls outside the scope of a consultant's report. Such speculation should only take place after expert financial advice. This is especially true for cryptocurrencies: while they can grow rapidly, they can also decline rapidly. The comment that 'there is very little risk' is incorrect, as ABC would be exposed to the loss of any funds held in ZipChips.

To conclude, there is the possibility of ABC's adoption of ZipChips improving its reputation for innovation, but this needs to be offset against the very real financial risks that come with it.

#### **4.0 Accounting for ZipChips – Intangible assets**

There are no specific International Financial Reporting Standards (IFRS standards) that explain how cryptocurrencies such as ZipChips should be accounted for. In this context, it is recommended that ABC treats its ZipChips as an intangible asset as it is "an identifiable non-monetary asset without physical substance".

Intangible assets are valued using either the cost model or revaluation model:

- Cost is calculated as cost on acquisition less accumulated amortisation and accumulated impairment losses.
- The revaluation model carries the asset at fair value less accumulated amortisation and accumulated impairment losses. For ZipChips fair value can be ascertained with reference to the current market price because there appears to be an active market that has developed in Zedland for this cryptocurrency.

It is recommended that any ZipChips are recorded in the financial statements at fair value. Any revaluation losses at the end of the period should be written off to the Profit or Loss account unless there is a credit balance in revaluation surplus relating to ZipChips which would be utilised first; any revaluation gains should be recognised as other comprehensive income however gains would be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset that was previously recognised in profit or loss.

As ABC has no plans to maintain a significant balance of ZipChips, any year end balance is likely to be low. In fact, it may be possible to convert any ZipChips into \$ immediately prior to year-end.

In recommending the accounting treatment for ZipChips, a number of assumptions have been made. These assumptions, for example that there is an active market in ZipChips to arrive at a fair value, should be verified before confirming the accounting treatment, and the treatment should be reviewed if the situation changes. For example, if a decision is made to retain ZipChips as an investment and change ABC's business model with regards cryptocurrencies, the treatment will need to be reviewed.

#### **4.1 – Consideration of other definitions**

Other definitions suggested as alternatives for ABC's accounting of ZipChips are considered briefly below:

##### **Cash**

Although ZipChips is a currency, it is not 'readily exchangeable'. This is evidenced by the fact that less than 5% of ABC's clients plan to use it to pay. Even the most established cryptocurrencies, such as bitcoin, are not 'readily exchangeable' in the way that cash is.

##### **Cash equivalents**

As ZipChips can be bought and sold on an open market, they would meet the definition of 'short-term, highly liquid investments that are readily convertible'. However, like all cryptocurrencies, ZipChip's price is volatile which means it is not 'subject to an insignificant risk of changes in value'. For this reason, they cannot be classified as a cash equivalent.

##### **Financial assets**

ZipChips do not meet the definition for financial assets as they are not cash (see above), equity or a financial instrument.

##### **Inventory**

Some organisations classify their cryptocurrencies as inventory, but can only do so if they are being sold 'in the ordinary course of business'. This classification is usually used by commodity broker-traders. Cryptocurrencies are not part of ABC's service provision and, given its novelty, could not be classified as part of its ordinary business.

##### ***Marking scheme***

*Up to 2 marks per well explained point that explains the concept of cryptocurrency.*

*Points could include, but are not restricted to:*

- Cryptocurrency is a digital currency regulated by blockchain rather than a government or central bank*
- Blockchain records ownership of digital currency in a distributed database held by everyone in the network (unlike traditional currencies which records ownership in a single, central record)*
- Cryptocurrencies are therefore free from central control / regulation*

*(Up to a maximum of 3 marks)*

*Up to 2 marks per well explained point that discusses whether ABC should accept ZipChips.*

*Points could include, but are not restricted to:*

- Cryptocurrencies are relatively easy to set up and there are very many of them, of which bitcoin is the most famous*
- Increasing popularity of cryptocurrency but still very much a niche product*
- Lack of central control and regulation has created a reputation for secrecy / dishonest transactions, but this is not inevitably the case*
- Zedland is economically developed – nothing to indicate a need for cryptocurrency (unlike some undeveloped economies where cryptocurrencies have been more attractive)*
- Main issues facing ABC relate to reputation and competition – unlikely to be addressed by accepting cryptocurrency (may even undermine reputation)*
- Lack of board awareness of IT issues (cybersecurity) and absence of FD make it highly unlikely that*

*ABC has the internal skills and knowledge required*

- *Not correct that this is very low risk for ABC*
- *Possibility of huge growth in ZipChips that increases ABC's wealth but also a risk that ZipChips value crashes and all funds are lost*
- *Risk that financial processes are not sufficiently robust to prevent fraud / mistakes*
- *ABC could be seen as an early adopter of an exciting new technology (although cryptocurrencies have been around for several years)*

*(Up to a maximum of 8 marks)*

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

<b><i>How well has the candidate demonstrated professional skills as follows:</i></b>	<b><i>Not at all</i></b>	<b><i>Not so well</i></b>	<b><i>Quite well</i></b>	<b><i>Very well</i></b>
<i>Scepticism skills in probing deeply into the underlying issues relating to ABC's potential acceptance of ZipChips.</i>	<i>The candidate has demonstrated no scepticism skills. They have not probed into the impact of ZipChips on ABC.</i>	<i>The candidate has demonstrated some, but limited, scepticism skills. There is some evidence identifying relevant issues, but the points are brief and simplistic.</i>	<i>The candidate has presented a report in a tone suitable for the board and demonstrated a reasonable level of scepticism. They have done some probing into the implications of ABC accepting ZipChips.</i>	<i>The candidate has presented a report in a tone suitable for the board and demonstrated excellent scepticism. They have probed effectively into the most important issues to discuss the implications of ABC accepting ZipChips.</i>
	<i>0</i>	<i>1</i>	<i>2</i>	<i>3</i>

*Up to 2 marks per well explained point that discusses how ABC should account for ZipChips in its financial statements.*

*Points could include, but are not restricted to:*

- *Expectation is that ZipChips will be cashed in (ideally at a profit)*
- *In spite of wallet being administered 'in the same way as our bank accounts', it is not the same from a financial statements perspective*
- *Not cash, as ZipChips cannot be 'readily' exchanged; currently a niche currency (see comments about suppliers / staff). Even bitcoin (most popular cryptocurrency) is not readily exchangeable.*
- *Not cash equivalent as cryptocurrencies in general, and ZipChips in particular, are exposed to significant volatility (i.e. not 'insignificant risk of changes in value')*
- *Not financial asset – not cash (see above), not equity or a financial instrument.*



- Although 'inventory' recognises the fact that these assets are due to be sold, it's questionable whether they're being sold 'in the ordinary course of business'.
- 'Intangible asset' definition seems closest to ABC's use of cryptocurrencies
- Need to determine valuation method – either cost or fair value
- Cost = cost on acquisition less accumulated amortisation and impairment losses
- Fair value requires an active market (which ZipChip appears to have, even though it is volatile)
- At year end, record ZipChips as an asset at current market value. May consider converting as many ZipChips as possible into \$ prior to year end.
- Revaluation losses recognised on P or L (unless previous gains in OCI)
- Revaluation increases recognised in other comprehensive income (unless previous losses in P or L)

**Note:** other accounting treatments not outlined above should be awarded full credit as long as they recognise the nature of ZipChips and are consistent with accounting standards and the conceptual framework.

(Up to a 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>
<i>Commercial acumen skills in demonstrating awareness of cryptocurrency and how it should be treated in ABC's financial statements.</i>	<i>The candidate has demonstrated no commercial acumen skills and has demonstrated poor awareness of how cybersecurity should be treated in ABC's financial statements.</i>	<i>The candidate has demonstrated limited commercial acumen skills. Having shown some limited awareness of cybersecurity and the conceptual framework and IFRS standards, the two are not sufficiently linked.</i>	<i>The candidate has written a report in a tone suitable for the board and demonstrated reasonably good commercial acumen skills. They have demonstrated sound judgement in advising on the accounting treatment of ZipChips.</i>	<i>The candidate has written a report in a tone suitable for the board and demonstrated excellent commercial acumen skills. They have shown strong commercial awareness of how the Conceptual Framework/IFRS standards guides the treatment of ZipChips in the financial statements.</i>
	<i>0</i>	<i>1</i>	<i>2</i>	<i>3</i>

## 2 (a) BRIEFING NOTE

To: Board of The Biscuit Company  
Subject: The Balanced Scorecard  
Date: 15 December 2020

In order to provide finance for any future investment, TBC's bankers would like a more balanced view of the organisation's performance, rather than the current focus on sales and cost of sales for TBC's three products.

An alternative option for TBC to consider would be to use a Balanced Scorecard (BSC) framework of performance measurement.

### **What is the BSC?**

Traditionally most organisations had always assessed their performance using some form of financial measurement (i.e. sales, profits, margins) but a criticism of this approach was that financial measures alone did not give a complete picture of performance.

In response to this problem, Kaplan and Norton developed the Balanced Scorecard approach. The objective of the balanced scorecard is to provide top management with an integrated set of performance measures.

The balanced scorecard looks at performance from four perspectives:

1. Customer perspective – how do our customers see us?
2. Internal business process perspective – what must we excel at?
3. Learning (or innovation) and growth perspective – how can we continue to grow and change in the modern dynamic business environment?
4. Financial perspective – how do we look to shareholders?

### **Rationale for the BSC for TBC**

The BSC would provide the TBC board with a much broader set of performance measures, which would include both non-financial and financial indicators. Currently they appear to only assess sales performance only. The framework should also enable TBC to consider both short-term and long-term performance, with a mixture of lead indicators (a forward view of the organisation) and lag indicators (a backward view of the organisation). As they only report on sales, which are historic, the TBC board does not have any indication on future performance of the organisation.

As TBC's bankers have indicated that to consider any future funding application, they will need more information on the current and potential future performance of the organisation, then a BSC approach to performance measurement may help to provide confidence to TBC's bankers and therefore assist in securing the future finance.

### **Example performance indicators for TBC**

As indicated there are four perspectives to the BSC, and proposed below are an example set of indicators for TBC under each of these perspectives. TBC's mission is "To make great tasting biscuits", which should

be at the centre of how the business is measured.

- **Learning and growth** – focuses on how an organisation can continue to grow and develop in a changing business environment
  - Staff satisfaction (%) – to enable TBC to understand how staff are feeling, as although staff currently appear loyal, TBC does not regularly seek their opinion.
  - Number of internal staff promotions – this would indicate that opportunities are being created for staff to develop with TBC, which could help to motivate and inspire staff to engage more in the business.
  - Training costs per employee (\$) – an indication of whether TBC is investing in this key resource. TBC need to first invest in the training, and then see the benefits of that training in future.
  - Expenditure on non-manufacturing technology (\$) – there appears to have been under investment in the past on technology to support the infrastructure of the business, not just the manufacturing facility.
  
- **Internal business** – focuses on what processes an organisation must excel at to be successful.
  - Number of new biscuit types developed – TBC need to continue to invest in new products to meet changing customer needs, and therefore creating some form of R&D facility to identify products for production.
  - % capacity used – TBC have a leading facility which is currently under-utilised (60% utilised - 25m capacity / 2020 forecast usage 12m)
  - Total wastage (\$) – this is cost for TBC, so this should be measured, especially given market leading facility, with its unique flexibility in biscuit production.
  - Facility downtime (Hrs) – the facility is potentially available 7 days per week, and only requires essential maintenance, so this indicator could be key when planning future orders or partner agreements.
  - Manufacturing facility investment (\$) – TBC has an apparent advantage in terms of its facility, and this may need to continue so continued investment will be required.
  
- **Customer** – focuses on how its customers see an organisation and what is important to those customers.
  - Customer satisfaction (%) – TBC need to understand how all their customers feel about their products and service, and this should be tracked on a regular basis.
  - % growth in customer revenue – TBC should establish long-term customer agreements that hopefully continue to grow.
  - Number of new customers – given TBC's current appetite for growth, there needs to be an active plan to recruit more customers, and on a global basis.
  - Number of customer complaints – given the strategic nature of TBC's customer contracts, all complaints to be seen at board level.
  - Market share (%) – TBC need to clarify their market segment and then establish their market share, in order to understand their position in the market.
  - Number of customer forums – TBC could host customer events to get feedback on product, tastes, branding etc which could then help inform future product decisions.
  
- **Financial** – focuses on an organisation's financial results and the ability to satisfy its shareholders.
  - Margin per product (\$) – TBC should understand its product margins, as recently these have

been declining but sales have been increasing, so it is important for the board to investigate margin decreases.

- Company revenue (\$) – this has always been a key indicator for TBC and should continue to be so.
- Company net profit (\$) – profitability is essential for the TBC's business to continue and therefore should be seen monthly by the board.
- Overseas revenue (%) – this is a potential new market for TBC and therefore the board should see progress in attracting this new revenue source.
- Gearing (Debt/Equity) – as TBC will probably require external debt to fund new future initiatives, the board should monitor the levels of gearing.
- Available cash (\$) – TBC need to maintain sufficient levels of liquidity.

As you can see with the example set of indicators, if the TBC board were to receive this information, or something similar, on a monthly basis it would provide the board with a much greater insight into how the business is performing, both currently and an indication on future performance. This information is then available for sharing with key stakeholders, if applicable, for example, TBC's bankers.

If you require any further information on the Balanced Scorecard and how it could be designed and implemented for TBC, then please do not hesitate to contact me.

### ***Marking scheme***

*Up to 2 marks for an explanation of the Balanced Scorecard:*

- *why it was created / BSC objective (up to 1 mark)*
- *the 4 perspectives within the BSC (up to 1 mark)*

*Up to 2 marks for the rationale of the BSC for TBC. Points could include, but are not restricted to:*

- *current focus on sales only so financial v non-financial,*
- *current v future performance,*
- *bankers request for additional performance measures.*

*Up to 1 mark for each appropriate measure in each of the 4 perspectives applied to the scenario (points could include, but are not restricted to those included in the suggested solution but must be applied to the scenario to score marks). Marks are restricted to a maximum of 2 marks for each BSC perspective.*

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

<i>How well has the candidate demonstrated professional skills as follows:</i>	<i>Not at all</i>	<i>Not so well</i>	<i>Quite well</i>	<i>Very well</i>
<i>Analysis</i>	<i>No attempt to identify appropriate measures.</i>	<i>Some limited investigation of the information in the scenario.</i>	<i>A reasonable attempt to analyse the information in the scenario and explain relevant measures for TBC with some appropriate conclusions.</i>	<i>Excellent professional analysis skills with a thorough investigation of the scenario and appropriate commentary relevant to TBC.</i>
	<i>0</i>	<i>1</i>	<i>2</i>	<i>3</i>

**(b) REPORT**

To: Board of The Biscuit Company  
 From: Consultant  
 Subject: Strategic Growth Options  
 Date: 15 December 2020

**Introduction**

In a recent TBC board meeting two strategic growth options were proposed by Emily Taylor, TBC’s Financial Controller. The board expressed an interest in each of the options but also required some further clarification on the opportunities and would like to understand how the potential performance management issues to consider when creating a potential joint venture and, secondly, the possible measures to be used when assessing the performance of a licencing agreement This report will address each of these issues below.

**(i) Joint Venture**

A joint venture (JV) is a business arrangement between two (or more) parties to pool resources for a specific business, project or activity.

Most JV’s create an incorporated organisation, which therefore provides a legal structure for the JV, and the parties to the JV then become the legal owners of the JV company. This ensures that the existing businesses of the JV partners are both unaffected and protected from the operations of the JV.

For TBC this would mean that TBC and the supermarket would still operate their existing businesses, but would then form a third company, to which they would both own to some extent, which would

be clearly separate from the existing business.

Through the creation of a new company this enables the JV parties to share costs, risks, expertise and benefits or outputs.

### **Potential performance management issues with a JV**

When organisations form relationships there is a much wider range of activities that contribute towards performance and therefore performance management may become more difficult compared to when operating as a single organisation.

TBC have been approached by a customer, a national supermarket, who would like to create their own branded biscuits, but would require TBC to manufacture the biscuits and the supermarket would then market and sell the biscuits through their retail outlets to their existing customer base. This arrangement may be achieved through a joint venture agreement between TBC and the supermarket.

### **Potential performance management issues for consideration**

- **Ownership** – the parties need to agree on the percentage owned in the joint venture company. In most situations when there are only two parties, as with TBC, the parties will agree to a 50:50 ownership.
- **Agreed objectives & timescales**– it is important that the objectives of the JV are clear at the start – what is the purpose of the JV and how long do the parties wish to continue with the JV. Most JV's are time-bound, so timescales should be discussed and agreed.
- **Management structure/team** – who will comprise the management of the JV, will this be equally shared between the parties or will external staff be required. For TBC it would appear that TBC staff will be required given the manufacturing focus of the JV.
- **Funding** – how will the JV be funded – this could be funded by both parties or may require external funding, guaranteed by the parties. TBC will need to decide on levels of funding, or will the supermarket be the primary funder, given that they will be the primary recipient of the JV's output.
- **Dispute resolution** – how will disputes be resolved -will all decisions be made by the management team of the JV, without interference from the partner organisations (TBC and the supermarket). Or will the parties wish to intervene in the decision-making of the JV on certain issues.
- **Measurable metrics** – how will the JV be measured to assess whether it is operating successfully? For TBC there could be measures relating to production volumes, sales volumes, performance to budget The JV could also consider a Balanced Scorecard approach to performance measurement.
- **Sharing of information** – what and how much information will be shared between the two parties from the operations of the JV? There may be confidential information for both parties and questions as to how it will be protected.
- **Different attitudes to risk** – manufacturers and retail partners may have different attitudes to risk, and that needs to be agreed at the onset.

It is important that TBC is clear as to the purpose of the joint venture and how each party can contribute to its success. The initial approach implies that the JV will be a manufacturing JV, where a

new range of supermarket branded goods will be produced through TBC's existing facility or possibly through the creation of a new facility, which would be more appropriate for a JV arrangement. TBC would need to be clear as to how proceeds from the sales of these biscuits would be split between the two parties.

TBC will need expert advice to support them through a JV negotiation but the issues identified will hopefully provide the TBC board with some indicative issues to consider about how such a JV arrangement may work.

## **(ii) Performance measures for a licensing agreement with overseas manufacturers**

TBC wishes to expand its global sales and is considering the opportunity of establishing licensing agreements with suitable partners to licence, manufacture and distribute TBC's product in different global geographic regions.

If TBC were successful in implementing a licensing strategy, there are a number of ways that TBC could measure the success of this strategy:

- **Number of potential licencees** – this will provide TBC with an indication of whether this strategy could be successful. Research will need to be undertaken to identify possible licensee partners across the world, and TBC could use the information to assess whether this strategy is viable and to help secure funding if applicable. This is a lead indicator only, as it does not provide information on how successful the company has been in increasing sales revenue, but provide an indication as to whether the future market could generate the required level of sales.
- **Number of signed licencing agreements** - this will provide TBC with an indication of the success of the licensing strategy, in terms of the ability to identify and secure agreements with suitable partners. This is also a lead indicator.
- **Royalty fees from licensing (\$)** – this measures the financial rewards of the strategy, and is therefore classed as a lag indicator, as it will show how successful TBC have been in achieving additional sales through this strategy.
- **Volume of licensed products produced** – this would provide TBC with information on sales volumes, which will be key to the success of the licensee, as they will wish to secure economies of scale in the production of TBC's products.
- **Margins on licensed products (%)** – this will provide TBC with comparative information to margins achieved, per product, in different countries across the world, using TBC's home country as the benchmark.
- **Quality issues on licenced products** – this will allow TBC to assess the quality and reliability of the licensing partners. It should also highlight to TBC whether the selection and setup processes for partners is appropriate.
- **Audit score in licensor visits (%)** – TBC will need to establish some form of audit process to re-assess partners on a regular basis, and a consolidated score would provide comparable information to TBC on partner performance over time and against each other. This could then enable the sharing of best practice among partners.
- **Number of license agreements renewed** – a licence agreement would be for a set period of time, for example five years, and therefore if agreements were being renewed it would provide TBC with evidence that the license agreement is working well for both TBC, as the licensor, and the licensee organisation that wished to continue working with TBC.

## **Conclusion**

The two options covered in this report can no doubt provide TBC with scope for future growth.

The board required further clarity on specific issues regarding joint venture and licensing agreements, and these have been discussed and explained in the above sections.

If you require any further information or have any queries regarding the measures outlined in the report then please come back to me.

## ***Marking scheme***

**(i)** *Up to 2 marks for an explanation of a joint venture:*

- Definition and legal form (1 mark)*
- Application to TBC (1 mark)*

*Up to 1 mark per well explained performance management issue to be considered before establishing a JV up to a maximum of 4 marks in total. Points could include, but are not restricted to:*

- Ownership*
- Agreed objectives & timescale*
- Management Structure/team*
- Funding*
- Dispute resolution*
- Measurement metrics*
- Sharing of information*
- Different attitudes to risk*

**(ii)** *Up to 1 mark for each well explained performance measure for a licensing agreement with an overseas manufacturer up to a maximum of 4 marks in total. Possible measures could include, but are not limited to:*

- Number of potential licencees*
- Number of signed licensing agreements*
- Royalty fees from licensing*
- Volume of licensed products produced*
- Margins on licensed products*
- Quality issues on licensed products*
- Audit score in licensor visits*
- Number of license agreements renewed*



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

<i>How well has the candidate demonstrated professional skills as follows:</i>	<i>Not at all</i>	<i>Not so well</i>	<i>Quite well</i>	<i>Very well</i>
<i>Commercial acumen</i>	<i>Does not demonstrate awareness of how joint ventures and licencing agreements operate.</i>	<i>Some awareness of joint ventures and licencing agreements, but points are limited and not sufficiently relevant to TBC.</i>	<i>A reasonable attempt, to identify and explain the measures to be considered under joint venture and licencing agreements.</i>	<i>Excellent commercial acumen with strong awareness of how joint ventures and licencing agreements operate.</i>
	<i>0</i>	<i>1</i>	<i>2</i>	<i>3</i>

**c) FURTHER ANALYSIS OF TBC'S KPI REPORT**

**Data Table**

<b>Brand</b>	<b>Variance</b>				
	<b>Volume (units)</b>	<b>Volume %</b>	<b>Sales Value \$'000</b>	<b>Cost of Sales \$'000</b>	<b>Gross Profit \$'000</b>
<b>ChocCake</b>	2,000,000	(33%)	(4,400)	2,000	(2,400)
<b>ChocBar</b>	1,142,857	(50%)	(2,000)	600	(1,400)
<b>ChocTime</b>	5,000,000	300%	7,500	(4,800)	2,700
	1,857,143	19%	1,100	(2,200)	(1,100)

<b>Brand</b>	<b>2019 Sales</b>			<b>2020 Sales/Forecast</b>			<b>Variance</b>		
	<b>Rev Per Unit</b>	<b>Cost Per Unit</b>	<b>GP Per Unit</b>	<b>Rev Per Unit</b>	<b>Cost Per Unit</b>	<b>GP Per Unit</b>	<b>Rev Per Unit</b>	<b>Cost Per Unit</b>	<b>GP Per Unit</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>ChocCake</b>	2.00	1.00	1.00	1.90	1.00	0.90	(0.10)	0.00	(0.10)
<b>ChocBar</b>	1.75	0.70	1.05	1.75	0.88	0.88	0.00	0.18	(0.18)
<b>ChocTime</b>	1.50	0.96	0.54	1.50	0.96	0.54	0.00	0.00	0.00

The first data table performs a variance analysis at a company level and the second table performs a variance analysis at a brand or product level.

The company analysis shows that sales volumes have increased in 2020 by nearly 2m from the 2019 figures, which is an overall increase of 19%. This is significant for TBC and part of the reason why Joseph believes that performance has improved. However, when we consider the volume change by brand, we can see a

different picture, as both ChocCake and ChocBar have seen significant falls in volumes (33% and 50% respectively), whereas ChocTime has seen a significant increase of 300%, with an additional 5m units sold in 2020.

This has resulted in total sales increasing by \$1.1m for 2020, or 6%. However the cost of sales figure has increased by more, which means that TBC has seen a decline in its gross profit figures from \$9.3m to \$8.2m, which 12%.

By analysing the product data we can then identify particular areas of concern for consideration by the TBC board.

### **ChocCake**

As noted above ChocCake's sales are down by 2m units and \$4.4m from 2019. This decline is likely to be due to the arrival of a new competitor selling a similar product at a cheaper price. The cost per unit has remained the same for 2019 and 2020 at \$1 per unit, and the decrease in the price per unit from £2.00 to \$1.90 only accounts for \$200k of the reduction in revenue. Therefore the major reason for the fall in gross profit (\$2.4m) for 2020 is the reduced demand for the product, and so the directors of TBC need to urgently identify and understand the reasons for this reduction.

Options to protect and increase the market share and profitability of ChocCake could include a change in TBC's pricing strategy, a new marketing campaign, or even halting production of this product to focus on other more profitable products in their range such as ChocTime.

### **ChocBar**

This product has seen the greatest decline in sales volumes for 2020, with a 50% reduction from 2019. Even though sales are down, TBC have managed to maintain the sales price per unit at \$1.75. The costs, however, have increased from \$0.70 to \$0.88, which is a 26% increase in direct costs of production. The increase in costs may be in part due to the lower production levels, which has limited the potential for economies of scale, albeit, the TBC manufacturing facility generally operates at efficient levels, so the manufacturing costs may not be the reason for the cost increase. There have also been increases in the raw material costs for the ChocBar product.

For this product there are two key reasons for declining gross profit figures – an increase in the cost of sales and a decline in sales volumes. The directors at TBC should look to quantify the effect of the changes in the raw materials costs, and identify any other reasons for the cost increases. More importantly, the board should investigate and identify reasons why demand has fallen so much from 2019 to 2020; this may be due to increased competition but there may also be other contributing factors.

### **ChocTime**

This product has seen a significant increase in sales volumes (5m) and therefore sales revenue has also increased by \$7.5m, which has enabled the product to achieve annual sales of \$10m for 2020.

The sales price per unit and the cost per unit has remained the same in 2020. This is concerning as with such an increased level of demand there may have been an opportunity for TBC to increase their prices to reflect this demand. This would depend on contractual order commitments from customers, but pricing should be reviewed by the TBC board on a regular basis. Similarly given a 5m increase in unit production, you would

expect to see a decreasing unit cost and this has not happened. This again may be due to existing supplier contracts, but should be reviewed in light of such an increase in demand.

Nevertheless the prospects for this product have significantly changed during 2020, in that it now contributes \$3.6m of TBC's total profits, which is 44% compared to only contributing 10% in 2019. There may also be additional scope to increase the gross profits for this product, in terms of potential prices increases and lower costs.

As with the other two products, the directors should attempt to identify the reasons for the increased demand for this product, and where possible, look at actions to sustain this level of demand for 2021.

### ***Marking scheme***

*Up to 4 marks for numerical analysis of the KPI figures. Possible analysis could include, but is not restricted to:*

- Variance in sales / cost of sales (1/2 mark each)*
- Variance in revenue/cost/profit per unit (1/2 mark each)*

*Up to 4 marks in total for commentary on the numerical analysis of the KPIs. Points could include, but are not restricted to:*

- Overall (1 mark)*
  - Increase in sales volumes is why Joseph believes performance has improved.*
  - Need to look more deeply at individual product level for more meaningful conclusion*
- ChocCake (1 mark)*
  - Sales volumes down – reason is new competitors with cheaper product*
  - Sales price per unit has decreased and cost per unit unchanged. Does not explain the variance in sales volumes*
- ChocBar (1 mark)*
  - Significant decline in sales volumes and profitability. Need to investigate reasons for this urgently.*
  - Increase in costs per unit possibly loss of economies of scale, but also increase in raw material costs*
- ChocTime (1 mark)*
  - Increase in demand – should the price be increased to take advantage of opportunity?*
  - Would have expected decrease in cost per unit with larger volumes but this has not been seen – why not?*

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

<i>How well has the candidate demonstrated professional skills as follows:</i>	<i>Not at all</i>	<i>Not so well</i>	<i>Quite well</i>	<i>Very well</i>
<i>Analysis</i>	<i>No attempt to calculate relevant figures based on the data provided and no commentary on the analysis</i>	<i>Limited data analysis and commentary on TBC's performance.</i>	<i>A reasonable attempt to analyse the information and calculate relevant figures to provide appropriate explanations.</i>	<i>Excellent analysis with appropriate own calculations with clear interpretation on the potential impact for TBC</i>
	<i>0</i>	<i>1</i>	<i>2</i>	<i>3</i>

**(d) SLIDE 1: THE MEANING OF BIG DATA**

- Definition of Big Data
- Characteristics of Big Data:
  - Variety
  - Velocity
  - Volume
  - Veracity

**Supporting Notes**

- "Big Data" refers to the large amount of data that is now available to organisations. This data can be internal or external and allows an organisation to analyse the data in order to understand trends and other relationships, which should help to improve decision-making within an organisation.
- Variety – data is available from different sources, some structured (i.e. databases) and some unstructured (i.e. social media)
- Velocity – new data is always available, even on an hourly and daily basis depending on the organisation, which needs analysing quickly in order to gain the most value.
- Volume – there is a large volume of data transactions, which can no longer be easily accessed by a personal computer or through spreadsheet analysis.
- Veracity – given the increase in data, it is now more difficult to assess the truthfulness and/or accuracy of the data.

**SLIDE 2: THE CHALLENGES FACED BY TBC IN ADOPTING BIG DATA**

- Higher Cost
- Staff Skills
- The Board
- Competitor knowledge

### **Supporting Notes**

- Cost – TBC has invested heavily in its manufacturing facility, but will require further investment in Big Data, and during a period of falling profits for the company this may be difficult.
- Staff Skills – Emily has pointed out that there is a weakness in staff's understanding and knowledge of technology, and therefore staff will need to be trained or recruited in order to manage and maintain TBC's future data requirements.
- The Board – this is new to the board, and therefore they may be reluctant to support such an investment in the company's data. Joseph is still very much involved in the business, and at 72 years old, he may resist this change. Similarly when Emily mentioned Big Data to Nigel, he just shrugged his shoulders and walked away from the conversation.
- Competitor knowledge – TBC may already be lagging behind its competitors, hence the reason for TBC's recent falling profits and margins. Competitors may now have an advantage over TBC in its access and analysis of data.

### **Marking scheme**

*Up to 4 marks for each slide with supporting notes:*

- *Slide 1*
  - *Definition of Big Data (1 mark)*
  - *Variety (1 mark)*
  - *Velocity (1 mark)*
  - *Veracity (1 mark)*
  - *Volume (1 mark)*
- *Slide 2 – Challenges for TBC. Up to 1 mark per explained challenge up to a maximum of 4 marks. Points could include but are not restricted to:*
  - *Higher cost. Significant investment required.*
  - *Staff skills. Staff would need to be recruited/trained.*
  - *Board. Persuasion would be needed as Board seem unsure/uninterested*
  - *Competitor knowledge – TBC behind.*

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

<b><i>How well has the candidate demonstrated professional skills as follows:</i></b>	<b><i>Not at all</i></b>	<b><i>Not so well</i></b>	<b><i>Quite well</i></b>	<b><i>Very well</i></b>
<i>Communication</i>	<i>No attempt to present ideas clearly using the slides format and the use of supporting notes to explain each point.</i>	<i>Some attempt to present points using the required slide format, but slides and notes are not sufficiently clear.</i>	<i>A reasonable attempt to clearly present key points in the slides and then provide corresponding explanations in the notes.</i>	<i>Excellent professional presentation. Slides contain suitable and well-presented points and there is a clear link to well-explained supporting notes.</i>
	<i>0</i>	<i>1</i>	<i>2</i>	<i>3</i>