



Think Ahead

Performance Management (PM) March/ June 2023 Examiner's report

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for those sitting the exam in the future.

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General comments

This examiner's report should be used in conjunction with the published March/June 2023 sample exam which can be found on the [ACCA Practice Platform](#).

In this report, the examining team provide constructive guidance on how to answer the questions whilst sharing their observations from the marking process, highlighting the strengths and weaknesses of candidates who attempted these questions. Future candidates can use this examiner's report as part of their exam preparation, attempting question practice on the [ACCA Practice Platform](#), reviewing the published answers alongside this report.

The Performance Management (PM) exam is offered as a computer-based exam (CBE). The model of delivery for the CBE exam means that candidates do not all receive the same set of questions. In this report, the examining team offer detailed debriefs of selected questions from each section of the exam.

- Section A objective test questions – we focus on four specific questions that caused difficulty in the March/June 2023 sittings of the exam.
- Section B objective test case questions – here we look at one case from syllabus area C in detail.
- Section C constructed response questions – here we provide commentary on two questions, providing guidance on answering these questions and where exam technique could be improved.

Section A

In this section we will look at **FOUR** Section A questions which proved to be particularly difficult for candidates.

Example 1

Which TWO of the following statements about shadow prices are true?

Options:

- A. If demand and labour hours are the constraints at the optimum solution, both will have a shadow price of zero
- B. The shadow price is the maximum amount a company will pay for one more unit of a scarce resource
- C. If a resource has a shadow price greater than zero, obtaining one more unit of that resource will alter the optimum solution
- D. A resource which is critical to the optimum solution cannot have a zero shadow price

What does this test?

- ✓ The understanding of shadow prices in limiting factor analysis

What is the correct answer?

- ✓ The correct answer is **C and D**

A shadow price is the maximum premium, over the normal price, that an organisation would be willing to pay for an extra unit of a scarce resource. It can also be viewed as the additional contribution that would be generated from that one extra unit of scarce resource. If a resource is in plentiful supply, then additional units of the resource would yield no additional contribution and therefore have a shadow price of zero.

“If a resource has a shadow price greater than zero, obtaining one more unit of that resource will alter the optimum solution” is true. If a resource has a shadow price greater than zero then it is scarce and obtaining one more unit of it will impact the contribution earned at the optimum solution.

“A resource which is critical to the optimum solution cannot have a zero shadow price” is true. If a resource is critical, supplying one more unit will alter the optimum solution, therefore it will have a shadow price above zero.

“If demand and labour hours are the constraints at the optimum solution, both will have a shadow price of zero” is false. The resources at the optimum solution will be critical and will have a shadow prices greater than zero.

“The shadow price is the maximum amount a company will pay for one more unit of a scarce resource” is false. This was often selected as being correct. The shadow price is the **premium**, over and above the normal price, that an organisation would pay for one more unit of the scarce resource. If a resource normally costs \$15 per unit and one more unit of the resource would generate additional contribution of \$3, then the shadow price is \$3, not \$18.

Example 2

A company makes product M and to meet demand of 2,000 units, it has budgeted to use the following resources per unit of product X:

Material A	1.2 kg at \$10 per kg
Material B	1.3kg at \$9 per kg
Labour	2.5 hours at \$15 per hour

Variable overheads are allocated at a rate of \$5 per kg of material B used.

Fixed overheads are \$80,000 and are absorbed based on the quantity of material A used.

What is the standard full cost per unit of product X (to two decimal places)?

\$ _____

What does this test?

- ✓ The understanding of standard costing

What is the correct answer?

- ✓ The correct answer is **\$107.70**

The requirement asks for the standard full cost; therefore, all variable and fixed costs must be included. The direct costs of materials A and B and labour are straightforward to calculate from the information provided in the question. Variable overheads are based on the quantity of material B, so can be calculated as $(1.3\text{kg} \times \$5) = \6.50 . So, the total variable cost per unit is:

		\$
Material A	1.2 kg x \$10	12.00
Material B	1.3 kg x \$9	11.70
Labour	2.5 hours x \$15	37.50
Variable overheads	1.3 kg x \$5	6.50
Total variable cost		67.70

Fixed overheads are given at a total level so fixed overhead per unit must be calculated, $(\$80,000/2,000) = \40 per unit.

The standard full cost per unit of product M is therefore $\$67.70 + \$40.00 = \$107.70$.

Example 3

Grey Co has two divisions, Division A and Division B. Division A manufactures component T500 which it sells to Division B and to external customers. Division A has an annual capacity to produce 20,000 units of component T500 and has estimated external sales of 12,000 units of component T500 for the current year.

Each unit of component T500 costs \$20 to make (made up of \$15 of variable cost and \$5 of fixed cost). Division A sells component T500 to external customers for \$22 each.

Division B needs to purchase 14,000 units of component T500 in the current year.

Assuming that decisions are made in the best interest of the company, what is the minimum TOTAL cost which Division B would expect to pay to Division A for supplies of component T500 for the current year (to the nearest whole \$)?

\$ _____

What does this test?

- ✓ The understanding of transfer pricing

What is the correct answer?

- ✓ The correct answer is **\$252,000**

Division A has the capacity to manufacture 20,000 units of component T500 each year. In the current year, it has estimated external sales of 12,000 units. This leaves spare capacity of 8,000 units; however, Division B needs 14,000 components.

As decisions are to be made in the best interest of the company, division A will sell the 8,000 units from spare capacity to Division B at variable cost of \$15 per unit only.

The other 6,000 units required by division B would need to be sold at \$22 each, which is the price which would be charged to external customers.

Therefore, the total cost is calculated as follows:

8,000 units x \$15 = \$120,000

6,000 units x \$22 = \$132,000

Total cost \$252,000

The remaining 6,000 units would be available to sell externally at \$22 per unit.

Example 4

Which TWO of the following statements are consistent with the theory of constraints?

Options:

- A. There should be a small amount of buffer inventory held prior to the bottleneck
- B. Raw materials should be converted into sales as slowly as possible
- C. Operations prior to the bottleneck should operate at a faster level than the bottleneck
- D. Conversion costs and investment costs are kept to a minimum

What does this test?

- ✓ The understanding of the theory of constraints

What is the correct answer?

- ✓ The correct answer is **A and D**

The theory of constraints specifies that a small amount of buffer inventory should be maintained prior to the bottleneck activity so that the bottleneck never has to be slowed down or delayed, therefore statement A is correct.

Raw materials should be converted into sales as quickly as possible, therefore statement B is incorrect. In throughput accounting, profit is determined by the rate of throughput, i.e., how quickly raw materials can be converted to sales and therefore cash. The higher the rate of throughput, the higher the throughput accounting ratio.

Operations prior to the bottleneck should operate at the same speed as the bottleneck so that the use of the bottleneck is optimised, therefore statement C is incorrect.

Conversion and investment costs should be kept to a minimum is correct. The lower the conversion and investment costs, the higher the throughput accounting ratio.

Section B

In this section we will look in detail at a case covering pricing decisions from syllabus area C – Decision-making techniques.

Racquetz Co

Racquetz Co is based in the country of Eastland and currently makes and sells racquets for children for three different sports: badminton, tennis and squash. The company has recently been trying to forecast expected sales and costs for the next three years.

20X1

Sales demand for 20X1 is expected to be in the ratio 4:2:1 for badminton, tennis and squash racquets respectively.

The following budgeted information is available:

	Badminton	Tennis	Squash
	\$/racquet	\$/racquet	\$/racquet
Sales price	21	30	24
Variable costs	11	15	16

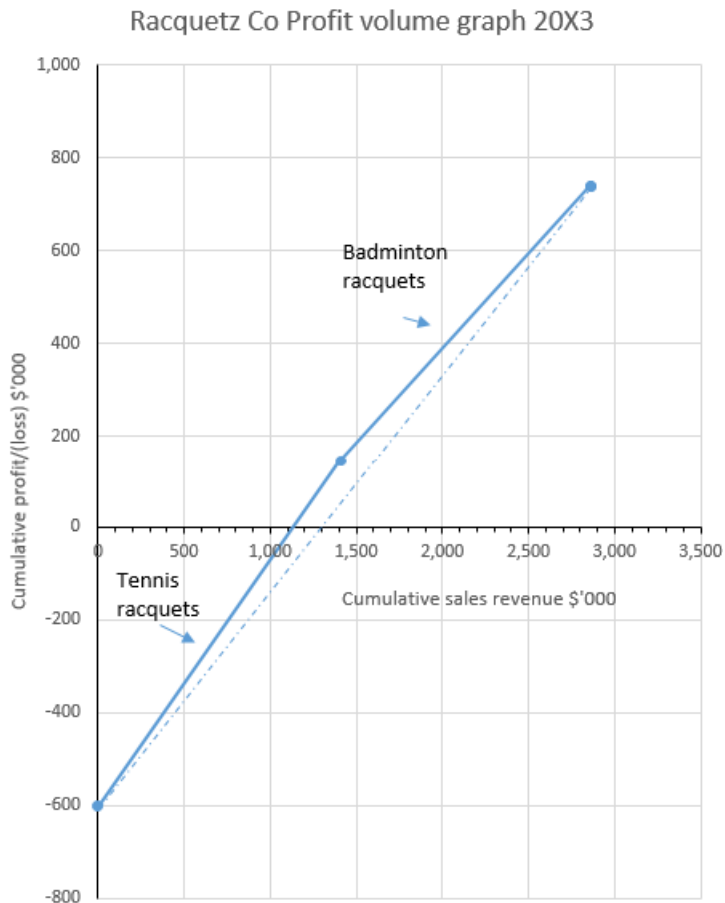
At the end of 20X1, Racquetz Co will stop making squash racquets.

20X2

The Tennis Association Foundation, funded partly by the government, is planning an investment in the sport in order to encourage more children to take up tennis. This funding will lead to an increased number of children's tennis facilities being available in 20X2 and a corresponding rise in the sale of tennis racquets. The sales volume ratio for the year is expected to be 3:5 for badminton and tennis racquets respectively, with a weighted average contribution to sales (C/S) ratio of 52.21%. Racquetz Co has budgeted to sell badminton racquets for \$22 per unit and tennis racquets for \$32 per unit. Fixed costs are expected to be \$604,750 for the year.

20X3

The Badminton World Championships are held every two years in a different country. In 20X3, they will be held in Eastland and Racquetz Co will be selling its badminton racquets at the event. This means that the proportion of badminton racquet sales is expected to be higher than usual in 20X3. A profit volume graph for 20X3 has been drawn as follows:



Question 1

For 20X1, calculate the forecast weighted average contribution to sales (C/S) ratio for Racquetz Co.

Options:

- A. 53.6%
- B. 44.0%
- C. 56.0%
- D. 46.4%

✓ The correct answer is **D: 46.4%**

To calculate the weighted average contribution to sales ratio, divide the total contribution for all products with the total sales revenue for all products. The sales volume ratio of 4:2:1 should be used for the quantities of each product. It is easier to do this calculation using a table.

	Badminton racquets	Tennis racquets	Squash racquets	Total
Sales mix	4	2	1	
Contribution per unit	10	15	8	
Total contribution	40	30	8	78
Sales revenue per unit	21	30	24	
Total sales revenue	84	60	24	168

C/S ratio = $78/168 = 46.4\%$

Distractors:

Option A used the weighted average variable cost over the weighted average sales revenue: $((11 \times 4) + (15 \times 2) + (16 \times 1)) / 168 = 53.6\%$

Option B did not weight the contribution or the sales revenue: $(10 + 15 + 8) / (21 + 30 + 24) = 44.0\%$

Option C used variable costs over sales revenue and did not weight the variable costs or the sales revenue: $(11 + 15 + 16) / (21 + 30 + 24) = 56\%$

Question 2

In 20X2, assuming that the racquets are sold in a constant sales mix based on the budgeted sales volume ratio, what is the sales revenue Racquetz Co needs to achieve in order to break even (to the nearest \$'000)?

Options:

- A. Badminton racquet revenue: \$338,000 and tennis racquet revenue: \$820,000
- B. Badminton racquet revenue: \$472,000 and tennis racquet revenue: \$686,000
- C. Badminton racquet revenue: \$434,000 and tennis racquet revenue: \$724,000
- D. Badminton racquet revenue: \$92,000 and tennis racquet revenue: \$224,000

✓ The correct answer is **A: Badminton racquet revenue: \$338,000 and tennis racquet revenue: \$820,000.**

Firstly, calculate the total sales revenue required to break even. This can be calculated as: fixed costs/C/S ratio. Use the weighted average C/S ratio, which is given in the question, of 52.21%.

Total sales revenue required to break even = $\$604,750 / 0.5221 = \$1,158,303$

The next step is to calculate the split of this total for each product. This is based on the proportion of total sales revenue for each product. As in question 1, the sales volume ratio should be used as the quantity for each product.

	Badminton racquets	Tennis racquets	Total
Sales mix	3	5	
Sales revenue per unit	22	32	
Total sales revenue	66	160	226

Sales revenue from badminton racquets: $\$1,158,303 \times 66/226 = \$338,265$

Sales revenue from tennis racquets: $\$1,158,303 \times 160/226 = \$820,038$

The answers should be rounded to the nearest \$'000.

Distractors:

Option B calculated the correct breakeven sales revenue, but used revenue per unit to proportion this to each product:

Sales revenue from badminton racquets: $\$1,158,303 \times 22/54 = \$471,901$

Sales revenue from tennis racquets: $\$1,158,303 \times 32/54 = \$686,402$

Option C calculated the correct breakeven sales revenue, but used the sales volume ratio to proportion this to each product:

Sales revenue from badminton racquets: $\$1,158,303 \times 3/8 = \$434,364$

Sales revenue from tennis racquets: $\$1,158,303 \times 5/8 = \$723,939$

Option D incorrectly calculated the breakeven sales revenue by multiplying the fixed costs by the C/S ratio instead of dividing, but correctly apportioned using the total sales revenue:

Total sales revenue required to breakeven = $\$604,750 \times 0.5221 = \$315,740$

Sales revenue from badminton racquets: $\$315,740 \times 66/226 = \$92,207$

Sales revenue from tennis racquets: $\$315,740 \times 160/226 = \$223,533$

Question 3

In 20X2, assuming that the racquets are sold in a constant sales mix based on the budgeted sales volume ratio, what is the total sales revenue Racquetz Co needs to achieve to make a profit of \$450,800 (to the nearest \$'000)?

Options:

- A. \$295,000
- B. \$551,000
- C. \$863,000
- D. \$2,022,000

✓ The correct answer is **D: \$2,022,000**

This question requires the calculation of the total sales revenue required to make a profit of \$450,800. This can be calculated as: (fixed costs + required profit)/C/S ratio. The weighted average C/S ratio of 52.21% given in the question should be used.

Total sales revenue required to make a profit of \$450,800 = $$(604,750 + 450,800) / 0.5221 = \$2,021,739$. The answer should be rounded to the nearest \$'000, so \$2,022,000.

Distractors:

Option A deducted the target profit from fixed costs instead of adding it: $(604,750 - 450,800) / 0.5221 = \$295,000$

Option B multiplied by the C/S ratio rather than dividing: $$(604,750 + 450,800) \times 0.5221 = \$551,000$

Option C omitted the fixed costs: $\$450,800 / 0.5221 = \$863,000$

Question 4

Based on the profit volume graph for 20X3, which of the following statements are true?

1. The C/S ratio of badminton racquets is higher than the C/S ratio of tennis racquets.
2. If the racquets are sold in a constant mix, the break-even revenue is approximately \$1,300,000.
3. The total contribution for 20X3 is approximately \$740,000.
4. Fixed costs are approximately \$600,000.

Options:

- A. 1, 2 and 4
- B. 2 and 4 only
- C. 2, 3 and 4
- D. 1 and 3

✓ The correct answer is **B: 2 and 4 only**

The best way to tackle this type of question is to consider each statement while examining the graph.

Statement 1: The shape of the graph shows that this is false. The graph is bow-shaped which assumes that the company sells its most profitable product first and then its next most profitable product, and so on. The higher the C/S ratio, the steeper the gradient of the line and the higher the profit of a product, therefore the chart shows that tennis racquets are more profitable than badminton racquets as they have a higher C/S ratio.

Statement 2: The straight line on the graph assumes a constant sales mix and the line crosses the x axis at the breakeven point. The line crosses the x axis at approximately \$1,300,000 therefore statement 2 is true.

Statement 3: The top of the line can be read on the y axis as \$740,000, but this is the approximate profit for 20X3, not the contribution, therefore statement 3 is false.

Statement 4: Both the bow shaped line and the straight line cross the y axis at \$600,000 which is the fixed cost amount therefore statement 4 is true.

Question 5

Which of the following facts about Racquetz Co mean that the use of CVP analysis is limited for planning and decision-making?

1. Racquetz Co will give discounts on sales prices at the Badminton World Championship event.
2. Every six months the tennis and badminton racquets are redesigned and given a new model name.
3. All of Racquetz Co's costs are either fixed costs or variable costs and there are no semi-variable costs.

Options:

- A. 1, 2 and 3
- B. 1 only
- C. 1 and 2 only
- D. 2 and 3 only

✓ The correct answer is **C: 1 and 2 only**

It is important to read the requirement carefully here as the question is looking for facts which means that the use of CVP will be **limited**.

Statement 1: CVP analysis assumes that racquet sales prices will be the same at all levels of activity. This is not the case for badminton racquets if discounts are being given at the World Championship event, therefore statement 1 is true.

Statement 2: CVP analysis assumes that variable costs per racquet are the same at all levels of output. As the racquets are improved, the variable costs per racquet are likely to change and economies of scale may also be achieved. Therefore statement 2 is true.

Statement 3: CVP analysis assumes that costs can be divided into a component that is fixed and a component that is variable. This assumption is true for Racquetz Co therefore statement 3 is false as this is not a limitation.

Section C

In this section we will look in detail at TWO constructed response questions from different syllabus areas. The full questions and solutions have been published and are available on the [ACCA Practice Platform](#).

Vegan Co

PM March/June 2023 (22/23 syllabus)

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1 of 3

Close All Flag for Review

The following scenario relates to five requirements.

Vegan Co is based in Zeeland and manufactures a wide range of non-meat and non-dairy products, which it supplies to retailers. Its mission is:

"To produce high quality, cruelty-free products sourced from local ingredients."

Vegan Co uses a just-in-time system and holds no inventories. Its best-selling product is soya milk and for the month of November, production levels were as follows:

	Budgeted production level (units)	Actual production level (units)
Soya milk	440,000	480,000

The main ingredients used in soya milk are soybeans and sugar, both of which are grown within 50 km of Vegan Co's premises. Vegan Co markets its soya milk on this basis, making it appeal to customers committed to caring for the environment.

Extracts from the standard cost card per unit of soya milk for November are shown below:

Ingredient	Quantity	Cost per kg
Soybeans	0.200 kg (200 grams)	\$5.90

(a) For EACH ingredient (soybeans and sugar), calculate the following variances for the month of November:

- (i) Material price planning variance. (3 marks)
- (ii) Material price operational variance. (3 marks)
- (iii) Material usage planning variance. (3 marks)
- (iv) Material usage operational variance. (3 marks)

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This question is from section D of the syllabus, Budgeting and Control, specifically focussing on variance analysis with planning and operational variances. There are two broad requirements – the first a traditional variance calculation, the second asking candidates to assess the performance of two managers, using both the variances calculated and any other information.

Requirement (a) – 12 marks

For EACH ingredient (soybeans and sugar), calculate the following variances for the month of November:

- (i) Material price planning variance. (3 marks)
- (ii) Material price operational variance. (3 marks)
- (iii) Material usage planning variance. (3 marks)
- (iv) Material usage operational variance. (3 marks)

This should not have been an unexpected requirement. Variance calculations such as this have regularly been tested. Although the list of variances which could be asked for seems long and daunting at first, they all follow similar patterns, and question practice should be enough to ensure that these questions provide a ready source of marks.

As it happens this proved to be the case for the majority of candidates faced with this question. Most were familiar with both the layout and technique required to calculate the variances. The fact that many candidates were able to pick up over 9 of the 12 marks available highlights the importance of spending time learning these

calculations. A good mark here is a massive step in the right direction towards a passing grade, and definitely achievable.

The full solution can be found on the [ACCA Practice Platform](#), and it shows the correct approach to the calculations which should be studied.

Rather than repeat these workings, here are a few key tips for getting the most out of a planning/operational variances question.

- **Revise the standard figures** – as mentioned, a significant proportion of candidates knew the correct calculation, but many did not correctly calculate the revised figures – revising the actual figures instead of the standards. Remember the idea of planning and operational variances is that we have more information – the revised amounts are the standards we **would have** used, had we known this information at the time of budgeting. As a result, it must be the original standards that are revised.
- **Label variances as Adverse (A) or Favourable (F)** – these calculations are performed in the spreadsheet software, and many candidates left them as positive or negative, without specifying which variances were adverse or favourable. Markers can't assume that a negative figure denotes an adverse variance or that a positive figure denotes a favourable variance, this needs to be made clear.
- **Standard Quantities are at Actual Production levels** – one of the key calculations is the standard quantity of material. It is important to remember what this means – the **expected** quantity of material used to make the **actual** level of production. In the case of soybeans, we expect to use 0.2kg to make one unit (this is the standard amount), so to make 480,000 units, we would expect to use $0.2 \times 480,000 = 96,000\text{kg}$ – this is the standard quantity. We calculate this so we can compare the expected quantity to the actual quantity fairly – there is no point comparing the expected amount of material to make the budget of 440,000 units to the actual quantity to make 480,000 units.
- **Name the variances** – it's important to show the marker what has been calculated. In this case, marking them as (i), (ii) etc is enough, but sometimes candidates are asked to calculate two variances as part of the same question – they must be labelled clearly in order to receive full credit.

Requirement (b) – 8 marks

(b) Assess the performance of both the production manager and the purchasing manager for the month of November.

Note: There are up to two marks available for additional calculations.

Again, not an unfamiliar looking requirement – variance questions are often split between calculation and discussion in this way.

It should be noted that the main method for assessing performance in this question is to use the variances calculated in (a). Without an answer to (a), this makes (b) more difficult, again showing the importance of being able to produce the variance calculations. If a mistake was made in (a), for example calculating an adverse variance when the correct answer was favourable, this will not affect a candidate's ability to obtain marks for the discussion – conclusions may be different from the suggested solutions but will score marks as long as they are valid based on the incorrect calculation presented in (a).

Answers to (b) were disappointing in comparison to (a), primarily because candidates did not go into enough detail, or use the information in the scenario. Markers are looking for more than comments that adverse variances are bad and favourable variances are good – they want to see that candidates understand the managers' ability to affect the variances and what they show about the decisions which have been made.

The requirement asks about the performance of the production and purchasing managers, so the answer should be split accordingly. The purchasing manager buys the material, so should be assessed on the prices paid for materials, while the production manager is responsible for how much material is used in production.

Most candidates were able to rule out using planning variances to assess performance as these are not controllable – however it's important to be clear about this – credit will be given for stating why variances are not being used to assess performance, but nothing can be given if they are simply ignored with no explanation.

In terms of the detail, written requirements like this are where the scenario becomes crucial. A basic point would be to say, 'The material price operational variance for soybeans was \$36,660A, which shows that the purchasing manager has paid more per kg of soybeans than expected, showing poor performance.' This point would be given credit, but the scenario tells us more about the suppliers – Vegan Co only use suppliers local to them (within 50km), so this limits the purchasing manager's choice. Using that information turns a 1-mark point into 2 marks. It is easy to skim over the detail in the scenario but important to read it carefully to enhance answers and gain more marks.

Similarly, for the production manager the scenario mentions the government regulations – it is essential that a business complies with these, so an important measure to assess their performance is to check that the mix (which the scenario states the production manager is responsible for) is correct. This also allows candidates to pick up the extra calculation marks mentioned in the requirement.

It is often easy to miss these subtleties under exam pressure, which is why practising previous questions is so important – they also show how important the scenario is in guiding candidates on what to discuss and calculate – there are very few irrelevant pieces of information in the scenarios.

Trot Co

PM March/June 2023 (22/23 syllabus) 3 of 3

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The following scenario relates to one requirement.

Trot Co is an owner-managed travel company operating in the country of Veeland where the domestic currency is Veeland \$ (V\$). It offers a range of package holidays to customers and the holiday price it charges to customers includes flights, transfers to and from resorts and accommodation costs.

The market is extremely competitive. Until recently, the company only offered holidays to Europe. However, following a consistent 5% annual decline in the European holiday market over the last two years, Trot Co decided to extend its coverage to North America from the beginning of 20X7. Flights to North America from Veeland are longer than flights to Europe from Veeland.

It is now the end of 20X7 and the following information is available:

At the beginning of 20X7, following the company's expansion into North America, Trot Co made an arrangement with a North American television station to place an advert every month. Each advert costs V\$600. At the same time, Trot Co reduced its level of advertising in Veeland.

Six months ago, political unrest in Veeland caused the V\$ to fall in value by an average of 25% against all other currencies. Trot Co pays for all flights, immediately when the customer makes a booking, in V\$.

(a) Discuss the performance of Trot Co for 20X7.

Note: There are 6 marks for calculations and 14 marks for discussion. (20 marks)

Paragraph

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This question is from section E of the syllabus, Performance Measurement and Control and is focused on performance analysis in private sector organisations. This syllabus area is often examined in section C of the exam, and it is therefore important to practise this type of question.

The focus is on application and understanding rather than technical knowledge so exam technique and time management are important in this type of question. As with any long question it is worth reading the first paragraph to see the type of business the question is about. This can give you some useful information about the business and the market in which it operates. Trot Co is based on a travel company offering package holidays. It operates in a competitive market and has recently expanded into a new location.

From an exam technique point of view, it is useful to read the requirement before reading the rest of the scenario. This question has just one part for 20 marks, so the approach taken, and the structure of the response needs to be considered.

Discuss the performance of Trot Co for 20X7 (20 marks)

Note: There are 6 marks for calculations and 14 marks for discussion.

A good approach to this type of question is to firstly analyse the requirement by considering the following steps:

1. **Identify the verb** – the verbs used in the requirements not only indicate what to do but often how much detail to go into. Here the requirement is asking for a discussion.

Discuss is defined: *Consider and debate/argue about the pros and cons of an issue. Examine in detail by using arguments in favour or against.*

Therefore, thought needs to be given to any conflict, comparison and contrast that can be discussed and how information in the scenario can add depth and reasoning to any points made.

2. **Look for extra requirements** – a note is given that marks are available for calculations. It is important that calculations in a performance analysis question add value to the discussion, they should be calculations which are relevant to the numerical information provided AND they must be calculations of interest based on the other information in the scenario.
3. **Look at the number of marks** – there is one 20-mark requirement, but it is broken down into 6 marks for calculations and 14 marks for discussion. This should give an indication of the number of calculations to perform and the time to spend on these and on the discussion. More time needs to be spent on the discussion, so it is important not to get carried away with too many calculations. For 6 marks, 12 calculations could gain full marks here.
4. **Presentation – Headings and tables** – split the answer up wherever possible. With just one requirement a clear structure is needed. The information provided in the scenario will help decide what these headings should be so thought can be given to this whilst reading through the scenario. Calculations can be prepared in a table to give clear space for showing workings and any results which can be compared.

The rest of the scenario provides a commentary on what has happened during the year and candidates were also provided with extracts from Trot Co's financial statements for two years.

The commentary covers activity in the following areas:

- Market decline and new market expansion
- Advertising in both locations
- Fall in value of the currency and booking payment timescales
- Salary and employee dismissal costs
- Asset purchase and funding

	20X7		20X6	
	V\$	V\$	V\$	V\$
Revenue:				
Europe	512,000		640,000	
North America	256,000		0	
		768,000		640,000
Less cost of sales:				
Flights	138,240		128,000	
Accommodation	384,000		256,000	
Transfers	96,000		64,000	
		(618,240)		(448,000)
Gross profit		149,760		192,000
Less expenses:				
Office rent	20,400		20,000	
Salaries	52,500		50,000	
Advertising	15,300		10,200	
Administration	12,600		14,000	
Finance costs	12,960		8,100	
Miscellaneous	48,000		12,000	
		(161,760)		(114,300)
Net profit/(loss)		(12,000)		77,700

Using the commentary and the highlighted financial information of interest, appropriate headings would be:

- Sales and markets
- Cost of sales and gross profit
- Salaries and miscellaneous
- Advertising
- Administration costs
- Financing
- Net profit margin

Performance – calculations

Many candidates recognised that year-on-year increases or decreases could be calculated and would provide a good basis for discussion. For these to be worthy of marks they needed to be shown as percentages and not an absolute increase or decrease. Care must be taken when calculating percentage increases and decreases to use 20X6 figures as the basis period. Also, ratios could be calculated for gross profit margin and net profit margin. Costs as a percentage of sales for each period were also relevant calculations.

Some candidates tried to perform calculations for which the required information wasn't available such as return on capital employed (ROCE), asset turnover and gearing. Some calculations would also require adjustments to be made to make them meaningful, for example, interest cover and operating margin. Most candidates

were able to provide some calculations with many gaining full marks although disappointingly some did no calculations despite it being clearly highlighted in the note to the requirement that marks were allocated to them.

Performance – discussion

Sales and markets

There was good scope for discussion in this area and it was important to pay attention to the significance of the change in revenue generated in the year 20X7. European sales have fallen by 20% despite the market decline being 5%. A good candidate response explained that this was a significantly higher decline in revenue from this market and therefore poor performance and that this could be partially caused by the reduction in advertising in Veeland and loss of greater market share in a competitive market. A poor response simply stated the 20% fall was caused by the 5% market decline which cannot be the case. Overall, there is a 20% increase in revenue in the year which must be due to the success of the expansion into North America which exceeds the loss from the European market. The advertising strategy in North America has been successful in the launch of holiday packages to this new location. Despite this success in gaining market in a new location a number of candidates referred to this expansion as a failure without recognising what the revenue position would have been had there not been the revenue from North America.

Cost of sales and gross profit

There is plenty to calculate and discuss in this area. An increase in cost of sales of 38% despite just a 20% increase in revenue will be the cause of the 22% decline in the gross profit margin (GPM) from 30% to 19.5%. A good candidate response was able to link these together and explain that an increase in cost of sales would be expected with higher volumes but in this case, it was much higher than revenue which reflects in a lower GPM. Changes in each of the components of cost of sales could be used to justify the higher cost of sales and a good response used the detail in the scenario to explain why these costs were higher.

Disappointingly, very few candidates recognised that the impact of the decline in currency was because there was a timing difference between the customer booking and paying for their accommodation and transfers and Trot Co settling this charge with the supplier. Without this time delay the currency decline would not have caused the higher costs as it would have been passed on to the customer. Many candidates were able to recognise higher costs due to the longer flights to North America.

It was important to use the information in the scenario to discuss **why** the costs had increased and to think about the impact both volumes and other information provided had.

Salaries and miscellaneous

Although most candidates explained the 5% increase in salaries due to the pay rise many failed to recognise this was a pay rise of 10% mid-year so the full 5% could be explained by this rise. Those candidates who recognised the compensation payment was part of the large increase in miscellaneous and discussed the one-off nature of this cost gained good marks here.

Advertising

This could have been discussed with the sales revenue change year-on-year and the discussion of the success of the North American advertising. In addition, the loss in the market due to the reduction in European advertising could have been discussed. A good response discussed the success/challenge caused here and that the impact was a relatively small increase in advertising costs despite an expansion into North America.

Administration costs

This area was well discussed with the reduction in administration cost caused by the success of the new booking system. A good candidate response was able to discuss that this was not in line with the expected 50% reduction as it was only implemented in the last quarter and the future impact will be greater. Unfortunately, a high number of candidates did not recognise that it would not be expected to reduce these costs by the full 50% because it was not available for the full year.

Financing

Most candidates were able to discuss that the increase in finance costs could be explained by the higher interest rate and the finance fee. Some were able to take this discussion further and look at the change in finance costs excluding the finance fee recognising that this was a one-off cost.

Net profit margin (NPM)

Trot Co has gone from a net profit to a net loss, this will mean the NPM for 20X7 is a negative number and to gain the mark here it needed to be presented as a net loss. The discussion could be expanded here to exclude the one-off costs and discuss the 20X7 profit without the compensation payment and finance fee. Those candidates who provided this were able to address the owner's comments with a strong, reasoned conclusion that the North American expansion was successful and future periods should provide better performance.

Overall, many candidates failed to give a strong enough discussion of the performance and simply stated the increase/decrease in their figures and stated whether the figures were better or worse than the previous year. To gain marks, discussion was required about the cause of the measures, the links between them and the impact the decisions and events during the year had on the performance of Trot Co. Those who focused purely on calculations, without considering the scenario information provided, were limited in the marks they could gain.