

# Examiner's report

## P3 Business Analysis March 2016



### General Comments

The examination is in two sections. The first section has one question and is worth fifty marks. This question is compulsory. The second section (section B) has three questions each worth twenty five marks. The candidate has to answer two of these questions.

Performance in the March 2016 examination was in line with previous sittings. Question one (the compulsory question) was answered relatively well, although many candidates failed to properly and accurately use and interpret the data provided in the scenario. This led to unsatisfactory answers to part b of this question. Many candidates also made many irrelevant points in their answer to the first part of the question resulting from them not properly reading the requirement.

Most candidates chose to answer narrative questions two and four in section B, avoiding the calculations of question three. Question two, the most popular question, was answered relatively well. Question four was answered less well, particularly the part on pricing. As well as being unpopular, question three was also answered poorly, with most candidates failing to achieve a pass mark in this question.

Three particular issues are worth highlighting.

- Study the question requirements carefully, particularly if there is an example showing the content and detail required in the answer.
- Be prepared to bring forward knowledge and techniques from syllabuses that feed into P3. Question three was from a syllabus area of P3 traditionally associated with management accounting.
- Familiarize yourself with the technical articles on the ACCA web site that are relevant to this paper.

### Specific Comments

#### Question One

The first part of the compulsory question asked candidates to 'analyse current issues' in four departments described in the scenario, in the context of the value chain. This analysis was worth twenty marks. An example of the content and level of detail required in the answer was provided as an appendix to the scenario. This example was about twelve lines long and focused on current issues, it did not consider how those current issues might be tackled. This was the concern of the third part of the compulsory question.

However, despite this detailed guidance, many candidates analysed the problems and suggested solutions. This was both time-consuming, leading to long answers that filled pages of the answer book, and pointless, because no marks could be given for these suggestions. Please read the questions carefully and, where examples are provided, please study and follow them.

The second part of the compulsory question asked candidates to evaluate the financial case for pursuing two production alternatives. Specific reference was made to a table in the scenario, where relevant data was summarised. Some candidates manipulated this data very accurately and

gained most of the twelve marks on offer for this part question. Others failed to understand the data properly before undertaking an analysis that was flawed and imprecise. However, more worryingly, too many candidates resorted to general textual answers that stated the obvious 'the inventory figure of this type of production is higher than the inventory figure of that type of production', 'the raw material cost of production of this alternative is almost twice that of the other alternative'. Very little credit could be given for such disappointing answers. Employers will expect qualified accountants to be able to accurately analyse relevant data, coming up with meaningful values and recommendations. The P5 examination will also require such skills.

The final part of this question asked candidates to analyse how the company could re-structure parts of the value chain. Again, an example of the level of detail required was provided in an appendix to the scenario. Generally, this was well answered, although candidates who had provided solutions in the first part of the question must have realised that they were now repeating a lot of information. However, this time, credit could be given where it was due. There were fourteen marks for this part question. Professional marks were also awarded for the structure, tone, coherence and clarity of the candidate's answer to question one.

Overall, question one was answered relatively well. The lowest marks were generally for the financial case, with many candidates scoring four marks or less. Many answers were just too long, usually because they focused on solutions rather than issues (in the first part of the question) and description rather than values (in the second part of the question). This undoubtedly contributed to the time management problems that candidates experienced and reported in this paper.

## **Section B**

### **Question Two**

This question examined two areas of the syllabus that have been regularly examined in the past – strategy lenses and the cultural web. The first part of this question asked candidates to examine the evidence (if any) of each of the strategy lenses in the strategic development to date in the company described in the question scenario. The three lenses were listed in the preamble to the question; design, experience or ideas. This part question was worth ten marks. Most candidates answered this question relatively well, making reasonable connections to the scenario.

The second part of the question asked candidates to analyse the current culture of the company using the cultural web and to assess which elements will undergo change when the current CEO is succeeded by his son. In this instance the elements of the cultural web were not listed in the question and so marks were available for correctly identifying and describing elements of the model. This part question was worth fifteen marks. Most candidates who attempted this question were able to recall the constituent parts of the cultural web and to apply it reasonably well to the scenario.

Overall, question two was the most popular optional question and was well answered by most candidates. However, some candidates were unfamiliar with one or both of these concepts, even though they have been examined regularly in the past.

**Question Three**

This question was firmly anchored in management accounting. It concerned a company which was considering three options for improving profitability.

- 1) Outsourcing production of a certain product
- 2) Ceasing production of a certain product
- 3) Accepting a one-off contract for a certain product.

The first part of the question asked candidates to use marginal costing to evaluate each of these options. Most candidates who elected to answer this question did not answer this part particularly well. Often they were comfortable with only one of the options (usually option 1 or option 2) but were unable to give any meaningful answer to the other options. Consequently, marks were low, usually four or five out of the fifteen marks available for this part question. Candidates do not appear to be comfortable in answering questions set in this area of the syllabus.

The second part of the question asked candidates to discuss the qualitative and non-financial issues of each of the three options. Candidates demonstrated good understanding here, describing the possible quality problems associated with outsourcing and the loss of cross-selling opportunities. This part question was worth ten marks.

Overall, this question was avoided. Candidates preferred to answer questions two and four in Section B of the paper which were narrative. This is a shame, because relatively easy marks could have been picked up by making a few calculations, followed by a reasonable conclusion. For example, in the first option, three marks could have been gained by:

- Correctly calculating the in-house profit margin
- Correctly calculating the outsourced profit margin
- Concluding that the product should be outsourced based on marginal costing principles alone

**Question Four**

Question four asked candidates to evaluate how the principles of intelligence, individualisation, interactivity, integration and independence of location could be exploited when marketing a new range of products. Candidates answered this part of the question reasonably well, although some were clearly unaware of what these principles actually were. Intelligence is NOT to do with the intelligence of employees in the company, integration is NOT to do with tuning web sites to reflect cultural and language requirements. This part question was worth fifteen marks and was reasonably answered.

The second part of the question asked candidates to describe a strategic approach to establishing prices in the product described in the scenario. Economic and non-economic factors had to be taken into consideration. This was worth ten marks.

There is a relevant article on the ACCA web site describing an appropriate approach. It suggests that influences on prices can be summarised by the following diagram:



Answers based around costs, competition, customers and controls scored well. However, too many answers were unfocussed and instead concentrated on Porter's basis of competition, which led to a few relevant points (and marks) but such answers seldom gained enough marks to pass this part question.

Overall, the first part of this question was answered relatively well by candidates who understood the meaning of the principles. The second part of the question was answered less well. Many candidates scored four marks or less in this part of the question.