

## SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

**MODULE:** Integrative Business Solutions (IB)

**EXAMINATION DATE:** 21 December 2020

### **Section 1**

#### **About the company in the case study**

Volar is a privately owned by Ng family luxury department store with over 30 years history in Singapore with stores in prime shopping districts. Despite challenges facing consumer retail sector, Volar rolled out experiential retail concepts to differentiate its value proposition and strengthen its brand which helped Volar to succeed in bringing footfall back up at its stores in the past couple of years and remain profitable. The case looked at Volar's current business, its strategies and growth model despite growing online amidst ecommerce and external nuances such as the coronavirus pandemic.

As with previous IB examinations, Candidates received Advanced Information (AI) documents approximately three weeks before the examination date to undertake research, analysis and preparation, in some cases forming discussion groups. The AI documents for this exam comprised of 49 pages and 12 exhibits, which included:

- Financial performance.
- Information about the company's operations, department store market in Singapore and ecommerce evolution in the sector with focus on high end retail business and new target segment GenX and Millennials.
- Some information and financial projections for Volar's growth strategies and footfall of the 2 key outlets in Orchard and Suntec.
- Some information on escalated importance of online model with the coronavirus pandemic.

The Examination Day Documents (EDD) were given to Candidates on the examination day itself. The EDD consisted of 26 pages and 7 additional exhibits, of which 3 covered more detailed financial and management reporting. The other 4 exhibits provided are:

- rent and lease which is covered in one of the requirements.
- logistics and supply chain of Volar.
- 3 options which Volar's management to evaluate reacting to the pandemic situation.

The exam required Candidates to combine their knowledge of the AI and their research with the additional information provided in the EDD to answer the questions. In broad terms, the requirements were as follows:

Requirement 1 – An executive summary (10 marks)

Requirement 2a – Financial performance and position of Volar (15 marks)

Requirement 2b – Competitive nature of department stores sector in Singapore using Porter’s Five Forces model, similar with past IB sitting (10 marks)

Requirement 2c – Strategies that allowed Volar’s sustainable business in difficult retail environment (10 marks)

Requirement 3a - Evaluation of strategic online sales (6 marks)

Requirement 3b - Financial projections and acceptability of the strategic online sales (17 marks)

Requirement 3c - Financial reporting and tax implications on the modification to a lease agreement (9 marks)

Requirement 3d - Financial reporting implications of subletting (3 marks)

Requirement 4a - Budgeted cash flows or forecast for 3 business options, similar with previous sittings (14 marks)

Requirement 4b - Ethical considerations of the 3 options, consistent with previous sittings (6 marks)

The structure of the AI and EDD, the level of difficulty and the domain knowledge required of the examinations were similar to the previous exam session with a minor change on the structure of the questions whereby there were more sub parts which allows Candidates to provide more precise answers for each requirement.

### **General comments about the overall performance of Candidates**

Overall performance in the exam was similar previous sittings and most candidates were able to attempt all questions. Candidates appeared to be familiar with the information in the advanced information and understood the business issues and challenges facing Volar quite well. There was evidence that some lacked the knowledge on accounting treatment in financial reporting and tax implications on the modification to lease agreement. There were good demonstration of challenges facing the sector and impact of the coronavirus pandemic.

Candidates have shown better time management, probably due to the question structure with concise sub parts. Some Candidates still failed to earn bonus marks for signing off the Executive Summary and providing recommendation on business options.

## **Section 2**

### **Analysis of individual questions**

#### **Requirement 1**

Many Candidates described what was covered in the other requirements without giving a true executive summary, for example “Requirement xx gives an analysis of the performance of Volar for the period ended xxx.” Compared to the previous exam sessions, a greater proportion of Candidates included appropriate sign off earning the bonus mark, although a small number of Candidates signed off with their actual names instead of what was assigned in the question. Some Candidates also did not

summarize all the requirements in the executive summary losing marks on incompleteness in their answers.

## **Requirement 2**

Requirement 2a: Analyse the financial performance and position of Volar for the year ended 31 March 2020 using relevant financial measures and non-financial indicators

Most Candidates earned marks for the computation on the performance analysis. Notably, Candidates focused very heavily on balance sheet ratios like inventory turnover (less important) while very little emphasis was given on more pressing ratios related to the decline in profitability and cash flow.

Requirement 2b: Evaluate the competitive nature of the department stores industry in Singapore using Porter's Five Forces model. Your answer should include a quantitative analysis of Volar's competitors

Very few Candidates noticed the question requirement on quantitative analysis and did not calculate anything at all. Responses given were mostly only non-quantitative.

Requirement 2c: Analyse the strategies adopted by Volar that have enabled the company to succeed to date in the difficult retail environment.

Generally, Candidates answer sufficiently to get a pass.

## **Requirement 3**

Requirement 3a: Evaluate the proposed strategy for online sales

Overall performance was borderline. Many Candidates used the framework of "Suitability, Feasibility and Acceptability" but did not show awareness of key points within the case to integrate within the framework. For example, many Candidates missed out that the website was "desktop only" or that it did not use third-party vendor web sites. A few Candidates missed out on discussing the usage of outsourced vendors AIS and Nimblevan.

Requirement 3b: Draft financial projections based on the assumptions in the proposed strategy for online sales and discuss the acceptability of the project

Most Candidates passed this question, however, there were few strong scripts. On the quantitative aspect, most Candidates performed well and were mindful of the first period being 6 months. It was observed that some Candidates stumbled over the computation of the gross margins. Candidates were instructed in Exhibit 15 that "the gross profit margins for each line will be the same as the budget for the stores". However, several Candidates used the overall average gross margin for physical stores within Appendix 11 instead. Since the revenue mix for the website and

physical stores are different, this approach for calculating gross margin led to errors. Several candidates also neglected computing tax when deriving final profits.

As for the question to discuss on acceptability of the project, many Candidates did not know how to discuss the acceptability based on the financial projections. Most of the Candidates discussed acceptability based on qualitative factors (such as data breaches and etc) but the question clearly asked for it to be based on financial projections.

When Candidates examined financial acceptability, they often placed it as a mere one-liner on profitability, neglecting cashflows and cost relationships. Many Candidates also lacked breadth and depth in examining and challenging the assumptions, showing that they were likely unaware of the high weightage on the discussion elements.

Requirement 3c: Financial reporting and tax implications in relation to the modification to the lease agreement on the Orchard Road store

Candidates fared poorly for this question. When discussing the financial reporting and tax implications, many Candidates missed out on explaining why a common consideration need not be included. For example, why would the variable rent amount not be included in the lease liability? Why would stamp duties not be required? This skill of noting and explaining the conspicuous absence of a common consideration is vital for the professional domain. Some Candidates did extensive calculations despite clear instructions not to, which led to misallocating precious time.

Requirement 3d: Financial reporting implications of sub-letting of space

Overwhelmingly, Candidates struggled to apply the relevant accounting standard SFRS(I) 16 *Leases* for this question. This could be due to a lack of familiarity with concessions or due to the broadness of the question.

**Requirement 4**

Requirement 4a: Budgeted cash flow for each of the three options

Several Candidates attempted to jump straight into the preparation of cash flow by working out a flux against the original financial statements and ended up getting lost in their computations or with extremely complex calculations which did not earn them any marks. A very small number of Candidates worked out the revised Profit and Loss before preparing the cash flow and these candidates generally scored well. Candidates provided very brief discussions which were superficial.

Requirement 4b: Ethical considerations and underlying implications of the three options

Except for some Candidates who ran out of time and left this question blank, most Candidates answered this question well. The ones who did best had a systematic approach in examining each option and considering its relevant stakeholders. Some Candidates took all the 3 options and discussed the common threads within, such an approach inevitably meant that they left out certain key points.