

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Integrative Business Solutions (IB)

EXAMINATION DATE: 14 December 2018

Section 1

About the company in the case study

As with previous IB examinations, Candidates received Advance Information (AI) documents approximately three weeks before the examination date to undertake research, analysis and preparation. The AI documents contained 47 pages and 14 Exhibits. The document contained information, including financial data, on a hypothetical company named Bean Friends Forever Pte Ltd (BFF), which was a healthy food bakery start-up owned by a young entrepreneurial couple. BFF had been relatively successful and the AI provided information on the start-up financial and operational activities of the company, as well as describing how the business had grown into a chain with six outlets.

The Examination Day Documents (EDD) were given to the Candidates on the examination day itself. The EDD had 20 pages and seven additional Exhibits. The EDD completed the case study scenario introduced in the AI and set out the requirements for the report that the Candidates were required to draft. Candidates were expected to combine their pre-reading and analysis of the AI, their other pre-examination research and the new information in the EDD to address the issues raised in the requirements and demonstrate their ability to work diligently and accurately under time pressure. There were four broad requirements to address as stated below with the relevant marks allocation:

- Requirement 1 – An Executive Summary 15 marks
- Requirement 2 – Financial Performance and Controls 30 marks
- Requirement 3 – Realising a Return on Investment 35 marks
- Requirement 4 – Strengthening the Competitive Position 20 marks

The structure of the AI and EDD as well as the minimum performance expected by the Examination Team from the Candidates were similar to previous IB examinations, as was the level of difficulty and the domain knowledge required.

General comments on the overall performance of Candidates

It can be seen from the scripts that most Candidates prepared for the examination by doing the necessary analysis and research. Some Candidates had prepared elaborate tables and references in anticipation of the EDD Requirements. Candidates would have done better by being more specific in applying their knowledge and drawing on their analysis of the case facts when advising the client. In many instances, the pre-prepared answers were too general to provide evidence that the Candidates understood and knew how to resolve the issues at hand.

Candidates can still do a lot better by having better time management. It is essential to take a systematic approach to addressing the EDD Requirements by identifying the best course of action and clearly stating how their recommendation applies to the facts. This approach is superior to attempting to answer a requirement with “standardised” or generic comments from pre-prepared notes. Some Candidates copied whole chunks of their pre-prepared answers and pasted these into the e-Exam software as their answer (in most instances scoring very low marks, if at all, for that component).

Candidates should also be careful to align their answers with the allocation of marks. It was clearly evident that some Candidates had done extensive preparation but then gave an overwhelming and extensive (but mostly irrelevant) solution where the advice/recommendation required carried few marks.

Candidates should seek to develop their strategic perspective and incorporate the knowledge and skills gained from their practical work experience. A notable number of Candidates articulated superficial and generic explanations without giving a more thorough strategic summary of the issues at hand. This observation was most notable in Requirement 2(b) where Candidates performed the worst. For example, these Candidates were not able to articulate the strategic implications of the quantitative analysis of the company’s financial performance, and instead gave a plain vanilla analysis of the numbers.

Candidates are reminded that headings within a report break up the text and make the structure of the report easier to understand – and this makes the report easier to read (and will garner more marks). Where a section within the report requires a recommendation or to reach a conclusion, it is useful to have a sub-heading within that section titled: 'Recommendation' or 'Conclusion'.

While the SAC strongly encourages Candidates to form study groups and attend tuition classes, trying to force fit pre-prepared solutions to the scenarios and events in the EDD is likely to result in a poor performance and possibly even failure. In this regard, Candidates are reminded that plagiarism, collusion, and all forms of cheating in an examination will be subject to misconduct disciplinary rules, which may result in failure of the module and/or being excluded from becoming a Chartered Accountant of Singapore.

Section 2

Analysis of individual questions

Requirement 1(a) – Executive Summary (15 Marks)

This Requirement asked Candidates to prepare an Executive Summary of the issues they raised in response to Requirements 2, 3, and 4. Generally, Candidates could have been better prepared for this standard requirement of writing an executive summary in this paper. It is obvious that some Candidates did not have time to attempt this Requirement properly, suggesting that time management continues to be an issue. Candidates could have prepared the layout/format in the weeks leading up to the exam and filled in the necessary details after answering

Requirements 2 to 4. For example, Candidates could have pre-filled in the addressee and sign-off box in their pro forma layout (i.e. have a proper format ready in advance of the examination) – easy marks could have been obtained through more efficient preparation as marks are being awarded for appropriate format/layout of the Executive Summary. In addition, early preparation helps Candidates focus on writing an Executive Summary that is coherent and professional.

What Went Well?

Candidates who did well were succinct and to the point, with enough detail to support the findings and justifications for their recommendations, for example, using key numbers and facts. The best Candidates used headers and tables effectively, even in the Executive Summary. Candidates who did well also linked the issues in Requirements 2 to 4 and drew out the common and compounding impacts and implications arising on a holistic basis. There will always be some inter-relationship between the different Requirements in the EDD, so do not treat each requirement in isolation. Where appropriate, include one or two paragraphs in your Executive Summary about how the Requirements inter-relate with each other.

What did not go so well?

Candidates who did not do so well omitted to justify their advice, for example, only mentioned that the offer to buy the company was too low without stating why – easy marks were thrown away. Some Candidates took a ‘short-cut’ by cutting and pasting many parts of the answers to other Requirements without summarising them. There was also too much clutter in some of the Executive Summaries, while some other Candidates did not include key points. This is unacceptable when communicating with clients, particularly where judgement and professional scepticism are needed.

Similar to last year, some Candidates were ambivalent in their analysis and recommendations or gave very general answers that were not specific to the various Requirements posed. Some Candidates did not even make any recommendations on key issues like strategic options going forward, choosing instead to caveat their report by saying more work on the consultant’s part was necessary.

Requirement 2 – Financial Performance and Controls (30 Marks)

Requirement 2(b) (16 marks)

Generally, Candidates were able to point out supplies/ingredients and labour cost as the two main contributors to the disappointing performance, while a certain portion of Candidates tried to argue rental and other costs (e.g. utilities) were contributing factors, they did not seem to understand these costs were either fairly static or immaterial and therefore unlikely to cause a significant effect on the financial performance of the business.

Quite a few Candidates went far too in-depth using models such as PESTLE, SWOT, Porter Five Forces coupled with extensive research (e.g. using Breadtalk to answer the Requirement). This tactic resulted in weaker Candidates dumping lots of text into their answers, which shows that these Candidates either did not understand the Requirement and/or failed to plan, strategise and analyse how best

to respond. In fact, a lot of the answers could be found in the AI and EDD. Candidates must be very clear about what the Requirement is asking and apply analytical thinking to respond in a concise manner. An extreme case of ineffective exam technique in relation to the time spent versus marks allocated was an example of one Candidate submitting 16 pages of answer script for this Requirement part (several other Candidates had eight to nine pages, which was also excessive given the marks allocated to this Requirement part). More 'text' does not necessarily mean more marks. Candidates are well advised not to include everything that they think or know (or have pre-prepared), but include only what they believe is the best option. The markers are interested in how you articulate what is/are the best option(s) and if your thought-processes are reasonable.

Very few Candidates discussed and pointed out the ineffectiveness and lack of experience in operational matters of Timmy (the senior manager and a shareholder) contributing to the disappointing performance. Further, not many Candidates identified the actual issues (e.g. unprofitable e-commerce and key ratios (such as sales per outlet, cost of sales) in their answers. Instead, unnecessary ratios like return on assets and return on equity which did not directly impact or contribute to the performance were calculated.

Again, some Candidates were guilty of just dumping lots of text into their answer scripts but did not effectively answer the question. Candidates need to understand that they must incorporate their working experience into their answers, demonstrate ability to think critically, and to always adopt an analytical mindset in order to qualify as a Singapore Chartered Accountant.

Requirement 2(c) (14 marks)

What Went Well?

- Most Candidates did well on cryptocurrencies, listing down the risks of such instruments;
- Most Candidates secured easy marks for listing down basic internal controls, with a fair number of Candidates also explaining/elaborating on these basic controls; and
- Most Candidates were adequately prepared and secured enough points to pass this Requirement.

What did not go so well?

- Very few Candidates addressed the controls to mitigate fraud from illicit selling of bakery products, even though this was flagged in the AI and again in the EDD as an issue of concern;
- Candidates tended to lose marks because they did not link their responses to the case study but simply just "listed" down standard internal controls/responses from their learning materials;
- Often there was little or no commentary surrounding the broader/strategic aspects of the case (for example, were gross profit margins declining because of higher wastage?); and

- While most Candidates correctly advised the BFF Board not to accept cryptocurrencies, few Candidates articulated the low risk appetite of the Board as a driving factor.

Requirement 3 – Realising a return on investment (35 Marks)

There were three distinct but interrelated components to this Requirement. The first being to provide advice on an appropriate dividend policy.

Requirement 3(d) – Dividend Policy (5 marks)

What Went Well?

- Most Candidates were able to recommend a suitable dividend policy (not paying a dividend was also defensible).

What did not go so well?

- Despite recommending a suitable dividend policy, many Candidates did not apply the facts provided to justify their recommendation as reasonable and sustainable; and
- Some Candidates applied valuation models which wasted a lot of time for a 5-mark question.

Requirement 3(e) – Tax Position (15 marks)

Candidates were to advise on the Singapore income tax and stamp duty implications for various stakeholders in respect to three independent proposals. Generally, this Requirement was poorly attempted, although Candidates scored better for the second and third proposals presented.

What did not go so well?

- Many Candidates did not elaborate on badges of trade;
- Some Candidates mentioned the exemption available under S13Z of the *Income Tax Act*, but this exemption is only applicable to companies and not individual shareholders selling shares; and
- A number of Candidates missed discussing the Mergers & Acquisitions (M&A) allowance entirely, although those Candidates that did refer to the M&A allowance generally scored well.

Requirement 3(f) – Fair Valuation (15 marks)

This requirement focused on the M&A valuation offer for BFF. The topic of valuation was previously covered in the Business Value, Governance and Risk (BG) module. Most Candidates were able to suggest if the offer was fair by applying different valuation methods (such as discounted cashflow (DCF), Seller's Discretionary Earnings (SDE), etc.) and included detailed computations in the appendices (basic illustrations of profit trends, asset mix and possible synergies). However, only a handful of Candidates presented an appropriate breakdown of the deal including the foreign shareholder's position, off-balance sheet intangibles (recipes, brand,

customer loyalty, etc.), the asset structure (such as leases in a F&B context) and the significance of the owner (i.e. Sunny as the master baker) in a small/medium-sized enterprise (SME) context. Many Candidates also overlooked performing sensitivity analysis on the valuation. Some Candidates illustrated but very few articulated the tax implications relating to this Requirement part.

Most Candidates seemed to miss this requirement part related to the qualitative aspects of valuation rather than a discussion on different valuation methods. Again, some Candidates just dumped the definitions into their answer scripts without stating how these methods were relevant to the case, while others simply attached their computations as appendices but did not refer to these numbers in the body of the report.

Candidates who scored well were able to capture the key points, and clearly demonstrated a strong understanding of corporate valuation.

Question 4 – Strengthening BFF’s Competitive Position (20 Marks)

Looking to the future, this requirement asked Candidates to advise on the viability of centralising the kitchen (allowing the company to service all its bakery outlets and begin wholesaling) and/or to open a concept café. In addition to providing a clear recommendation to the Board regarding which project or projects to undertake, if any, Candidates were to indicate the management and risk issues that might arise with these projects.

All requirement parts were open-ended, however many Candidates did not present their recommendations in a succinct manner. As noted previously, too many Candidates just cut and pasted their pre-prepared notes in full into their answer scripts resulting in an incoherent report without direction or clear recommendations for the proposals put forward.

Investing in both a concept café and a central kitchen would probably be more than BFF could manage successfully (given its current management, people, resources and cash reserves). It was also defensible to recommend not investing at all or to invest in a smaller central kitchen (costing less to establish and operate) or even outsource the kitchen. Those Candidates that did well for this Requirement part, wrote with conviction and justified their recommendation. Their analysis of the facts and their conclusion projected an image of being the best possible solution for BFF.

As this was the final Requirement in the EDD, it is likely that some Candidates were running short of time thereby negatively impacting the overall quality of their report.