

Read, reflect and answer

Looking back at 2017's Business Planning, and Business Strategy and Technology exams, Professional Level examiners give *Vital* an overview of the key professional skills you need to show, and what to avoid, to pass your exams in 2018



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BUSINESS PLANNING: INSURANCE

Evidence of professional skills are important in the Business Planning examinations.

Two of the most common weaknesses exhibited in the September 2017 Business Planning: Insurance exam were:

- failure to address the requirement; and
- inclusion of information not relevant to the question.

These problems do not relate to knowledge or understanding, but rather to the application of professional skills.

ICAEW exam questions are not worded haphazardly. Considerable effort goes into producing clear requirements, so there's no cryptic or hidden element. Students who fail to identify exactly what is being asked of them will not produce successful answers.

The section of the syllabus skills development grid, Structuring problems and solutions, includes: "Identify and apply relevant technical knowledge and skills to analyse a specific problem." Successfully achieving this is dependent on correctly establishing the precise problem in the requirement. This necessitates an identification of:

- instruction verbs used, such as explain, analyse or describe;
- other directions, for example "using the information in exhibit 2" or "ignore the effect of taxation"; and
- key information affecting the scope of your answer, for example "from the perspective of..." or "for the year ending ..."

The second issue of including irrelevant material in answers can also arise from a failure to read and understand the requirement; such as providing an answer explaining how something is done when the requirement asks you to explain why. It can also be the consequence of failing to "Filter information provided to identify critical facts", an element in the Assimilating and using information section of the skills framework. The importance of this skill is particularly acute in the scenario-based questions that make up Business Planning exams.

A prime example of this issue from the September 2017 Business Planning: Insurance exam was the significant minority of students who covered currency risk in their answers to question two. The question contained the information that both the insurer's products and its investment assets were denominated in the same currency. These critical facts rendered currency risk irrelevant.

In order to avoid these pitfalls, the



THE SECOND ISSUE OF INCLUDING IRRELEVANT MATERIAL IN ANSWERS CAN ALSO ARISE FROM A FAILURE TO READ AND UNDERSTAND THE REQUIREMENT; SUCH AS EXPLAINING HOW SOMETHING IS DONE WHEN IT ASKS YOU TO EXPLAIN WHY

most obvious step you can take is to read exam questions extremely carefully. As you tackle each requirement, only begin your answer when you are certain of what is necessary. In September's Business Planning: Insurance exam there was evidence of common failures in this respect; for example requirement three of question one referred to catastrophe bonds liability, yet many students provided answers treating this as an asset. Also, the final requirement of question one was to "identify and explain any ethical issues for GM (the audit firm) arising from Giles's (the client) request for advice...", yet some students provided answers from Giles's perspective or, inexplicably, provided the advice itself.

We have considered just two elements of the skills development grid; many others are important to exam success. The development of professional skills is an important aspect of accountancy training. In an age where availability of information is rarely a limiting factor, possession of the skills necessary to filter information, apply it to a specific task in order to reach a reasoned and supported conclusion is a valuable asset.

BUSINESS PLANNING: BANKING

There are now six past exams that you can use in your preparation for Business Planning: Banking. Past exams, and

examiner's comments within the marks plan, are invaluable resources. Examiner's comments highlight common errors that students made and often provide guidance on how to approach similar questions in the future.

The Business Planning: Banking exam tests your application of both technical knowledge and professional skills. It is intended to bridge the gap between Professional and Advanced Level and it will test you in scenario-based questions. You will have to extract the information you need, and there are very few marks for rote-learning of rules. Instead you need to demonstrate the following skills.

Assimilating and using information

Spinnaker Bank in the September 2017 exam required the identification and explanation of audit risks in the context of the proprietary trading in the question. Students needed to use the information provided: a draft statement of financial position; some ratios; and five explanatory notes. There was a great deal of information to be used yet some students gave extremely short answers. At the other end of the scale, there were some answers that gained 100% of the marks because students worked their way through the information provided and discussed each explanatory note, each ratio and any important balance sheet items in turn.

Structuring problems and solutions

Business Planning: Banking questions will be framed in a variety of scenarios and will not necessarily be similar to the previous sitting or year. When you attempt Pavel Bank from the December 2016 exam, you need to read it carefully to understand the scenario. The question is not credit analysis of a potential borrower, which some students expected it to be. Instead, it is the analysis of a potential takeover target, another bank (Tivo). This question needed directed analysis with the purpose borne in mind (should Pavel buy Tivo). Successful students understood this and applied their analysis skills in the correct context by looking at performance, leverage and liquidity.

Applying judgement

You must demonstrate professional scepticism and question information given to you. The first question of June 2017 (Friar) contained assertions from Friar's treasurer about the calculation of the liquidity coverage ratio. Good answers needed to question the treasurer's statements and recalculate the ratio correctly.

Concluding, recommending and communicating

Communication skills are key throughout the Business Planning: Banking exam to articulate your thoughts clearly and concisely. Recommendations are often sought, and the discussion of relevant issues is much more important than the conclusion you arrive at.

For example, the second question in September 2017 asked students to recommend whether the bank should foreclose on its loan to Cocoa Nuts or offer forbearance terms. Good answers discussed flexibility, potential new contracts, previous unreliability of management, the overall outcome for different stakeholders, valuation of assets and other factors. Struggling students mentioned one or two issues and drew their conclusions a little prematurely.

In summary, you need to demonstrate your skills to analyse information, be sceptical and communicate your analysis and conclusions clearly. No mean feat, but with some preparation and hard work you should succeed.

BUSINESS STRATEGY AND TECHNOLOGY

In Business Strategy and Technology, multiple skills are developed and assessed. The exam has a very high level of skills assessment compared with purely technical content, in a roughly 75:25 ratio. Each requirement on the exam assesses a mixture of skills and knowledge. How the marks are split varies, but students can usually assume that a large proportion of marks depend on showing skills.

Assimilating and using information

This is the core skill that underlies each requirement. In the Question 1 mini-case, understanding the situation then identifying and using relevant information to prioritise issues is key. There is a lot to assimilate in different formats: March 2017 had a short scenario then the requirements, then four separate ‘exhibits’ of information, one of which was a graph; the June 2017 exam had a long scenario - broken up by key headings - with only one exhibit.

To really understand the information, read everything through then stop briefly to identify what is going on. It may be the company is in decline, as in the March 2017 case; or is thriving but in need of adjustment, as in June 2017; or is facing uncertainty and change, or a big decision as in the September 2017 exam. Ensuring you understand the business context, including elements of uncertainty



YOU NEED TO DEMONSTRATE YOUR SKILLS TO ANALYSE INFORMATION, BE SCEPTICAL AND COMMUNICATE YOUR ANALYSIS AND CONCLUSIONS CLEARLY

or specific issues, makes it easier to identify the relevant information for each requirement.

It’s also important to manage your time and work effectively by operating to the brief and answering each requirement fully; these are core skills in themselves, and the exam is designed to assess how well you stay on task.

Structuring problems and solutions

You must make sense of, or structure, a range of data - numerical and in word form, financial and non-financial - to define and analyse the key issues and problems in the scenario (and their causes). Typically there is a lot of numerical data in the scenario and at least one exhibit. Some of the data may already be structured - for instance, KPIs in September 2017 - but you must perform data analysis to understand what is relevant and then develop and illustrate your answer. If you have properly established what is going on, then you will understand that, for March 2017’s company in decline, calculations for the causes of both revenue and profitability decline are

highly important, while for September 2017’s company making a key decision, the achievability of the budget is key. It will also help you identify any information gaps, frame questions to clarify the information provided or ask for more data.

By structuring the problems you will also be developing evidence-based solutions. In March 2017 the analysis of data led directly to discussion of future corporate strategy, which then led to finding an initial solution in terms of the sales and profit margin needed for new products in the year ahead.

Applying judgement

Having structured data and performed calculations, in your written discussion you should apply your judgement: don’t simply state in words what is there to be seen in the numbers.

A core skill is to think critically so you can integrate your numerical and descriptive analysis and assess how information - for instance, financial and operating data - interacts. You can then identify any bias or varying quality in the data and also any assumptions you have had to make in the face of evidence gaps. In September 2017 a key point to pick up was the effect of seasonality on the budget - when extrapolating six-months’ data to a full year, an assumption of non-seasonality should have been stated.

Another skill is to identify issues that relate not only to each other but also to the broader business environment. Retaining an overview is again key. In June 2017 the balance of financial and operating risks for the package holiday company was critical, and data analysis showed that getting it right depended on accurately estimating demand. This led straight into the next requirement: a discussion of how a business proposal - data analytics of website data - could have an impact on the business.

In evaluating options and providing reasons for the selection of an option, application of judgement is key. In March 2017 the final requirement was discussion of three alternatives. It was important to judge based on the evaluations to date and on relevant conclusions from earlier requirements, to reach a consistent and coherently justified decision.

Concluding, recommending and communicating

This final stage of skills development involves applying technical knowledge, experience and evidence to support reasoning and draw realistic conclusions. In March 2017 the final requirement sought calculations for proposed new

SKILLS FROM BUSINESS PLANNING: TAXATION SKILLS DEVELOPMENT GRID

Assimilating and using information

Assimilate information provided by internal and external sources	The question included information about individual companies, which had to be read and assimilated to determine what was relevant to the question asked. As is usual in Business Planning: Taxation, this information was included in the body of the question and attached exhibits.
Recognise and explain key ethical issues for an accountant undertaking work in taxation	Ethics and law will always make up between 5-10% of the marks on each exam. In this question, exhibit 2 concerned transfer pricing issues, which may have been motivated by personal gain.

Structuring problems and solutions

Provide descriptive analysis and explanations	Providing a descriptive analysis of the scenario in the question and explanations of its implications.
Integrate different taxes and jurisdictions	The scenario required the consideration of any relevant tax costs and also the commercial implications of non-tax costs, across jurisdictions.
Evaluate taxation impact of a transaction	The report asked for an evaluation of the tax implications and costs of the migration of two companies.
Integrate descriptions with calculations in a form appropriate for the user	The answer was in a report format, integrating tax calculations to demonstrate the tax effects of given transactions.
Apply technical knowledge to perform relevant, accurate calculations in a logically structured way	The migrations of the companies had implications in terms of the tax due on migration and the mitigation of this tax if claiming appropriate reliefs.
Identify and explain ethical and legal issues	The issues in 1.2 asked for the evaluation of how ethical issues would affect a proposed course of action.

Applying judgement

Applying scepticism to the integrity of information provided in the scenario having regard to its source	Exhibit 2 was prepared by the CEO and considered a course of action which may have been unethical and classified as tax evasion, but which was dressed up as being for commercial reasons. It was appropriate to be sceptical in this context, given the CEO stood to gain financially by his actions.
Evaluating the effects of future events	The CEO was considering moving the tax residence of Tea plc to a foreign jurisdiction in the future, this would have tax implications for the reliefs claimed on any current migrations and would have to be factored into any current explanations.
Identifying key linkages between information provided in a scenario and possible tax treatments	The scenario provided information about the migration of two companies and the financial information needed to calculate the tax costs of migration on these companies.
Exercising own ethical judgement in assessing the consequences of various courses of action	Part 1.2 required an ethical judgement to be made on the course of action suggested by your client.

Conclusions recommendations and communication

A report/memorandum in response to a specific technical or ethical issue and in accordance with client requirements	The question stipulated an answer in the form of a report to the CEO of the companies concerned (a client).
A review of advice or proposed tax strategies making recommendations supported by calculations or analysis of tax issues identified	The question asked for “the tax implications and tax costs of the relocation of... companies”. This required the students to review the proposed tax strategy of the client and make recommendations based on their numerical and written evaluation of the scenario.

products, then an assessment of the growth strategies related to them. To make a valid recommendation the defined criteria - the board’s targets and need for future growth - should be referenced as well as the calculations.

In this exam, communication skills are assessed because you need to present analysis and recommendations in accordance with instructions clearly and concisely. You should explain and link points, use the relevant format where specifically required (eg, a report, as in March 2017), and write with a professional tone that is suitable to the recipient.

BUSINESS PLANNING: TAXATION

Students often ask “what makes Business Planning: Taxation different from Tax Compliance?”. The differences are:

The subject matter of the exam

In Business Planning: Taxation we cover virtually the same tax knowledge as in Tax Compliance, but with some additional knowledge on more complex areas, and the level of knowledge required is often in more depth than in Tax Compliance. To be certain about the contents of the syllabus for Business Planning: Taxation you should look at the ACA syllabus for the exam and the tax technical knowledge grids, which are available at icaew.com/examresources

Skills required in the exam

The Tax Compliance and Business Planning: Taxation syllabus grids provide guidance on the relative weighting between knowledge and skills in each exam.

The emphasis in the Business Planning: Taxation exam is on 65-75% of the marks being available for demonstrating skills as opposed to 25-35%, which is the requirement for Tax Compliance.

Using question one of the June 2017 Business Planning: Taxation exam as an example, the table (left) demonstrates how skills are assessed in this exam.

Question one June 2017

Business Planning: Taxation exam
This question required students to differentiate between the different tax residence statuses of individual companies in a group, and to reach conclusions about the tax implications of those companies, together with evaluating a scenario that had ethical implications.

To see the skills this assessed refer to the box, left. ●

View a variety of exam resources and support at icaew.com/examresources