



# *ICAEW tutor conference 2018*

**STRATEGIC BUSINESS MANAGEMENT**

# *Agenda*

- Introduction - progression from Certificate and Professional Levels
- Overview of SBM Syllabus areas - including ethics
- Professional skills update project
- CBE
- How the questions are designed
- How the scripts are marked - Views from the markers
- How to answer Advanced Level exams – and how to fail!
- Exercise – marking

# Certificate Level

**ADVANCED  
LEVEL**

Case Study

Corporate Reporting

Strategic Business  
Management

**PROFESSIONAL  
LEVEL**

Business Planning:

Business Strategy

Audit and Assurance

Financial  
Accounting and  
Reporting

Financial  
Management

Tax Compliance

**Self study bookkeeping module**

**CERTIFICATE  
LEVEL**

Accounting

Assurance

Business  
and Finance

Law

Management  
Information

Principles of  
Taxation

# *Professional Level*

**ADVANCED  
LEVEL**

Case Study

Corporate Reporting

Strategic Business  
Management

**PROFESSIONAL  
LEVEL**

Business Planning

Business Strategy

Audit and Assurance

Financial  
Accounting and  
Reporting

Financial  
Management

Tax Compliance

Self study bookkeeping module

**CERTIFICATE  
LEVEL**

Accounting

Assurance

Business  
and Finance

Law

Management  
Information

Principles of  
Taxation

# *Advanced Level*

**ADVANCED  
LEVEL**

**Case Study**

**Corporate Reporting**

**Strategic Business  
Management**

**PROFESSIONAL  
LEVEL**

**Business Planning**

**Business Strategy**

**Audit and Assurance**

**Financial  
Accounting and  
Reporting**

**Financial  
Management**

**Tax Compliance**

**Self study bookkeeping module**

**CERTIFICATE  
LEVEL**

**Accounting**

**Assurance**

**Business  
and Finance**

**Law**

**Management  
Information**

**Principles of  
Taxation**

# *Progression to Strategic Business Management (SBM)*

- Technical progression – new topics
- Skills progression
- Ethics
- Importance of brought forward knowledge

# *SBM – Overview*

- Exam format (3½ hours)
- 2 questions (100 marks)
- Each exam will contain questions requiring integration of knowledge and skills, including ethics
- Open book exam – any written or printed materials

# *Strategic Business Management– Syllabus*

<b>Topic</b>	<b>Weighting</b>
Strategy	30 - 40%
Finance, financial risks, valuations for businesses and securities, investment and distribution decisions	25 - 35%
Ethics	5 - 10%
Corporate reporting issues	15 - 20%
Assurance issues	10%



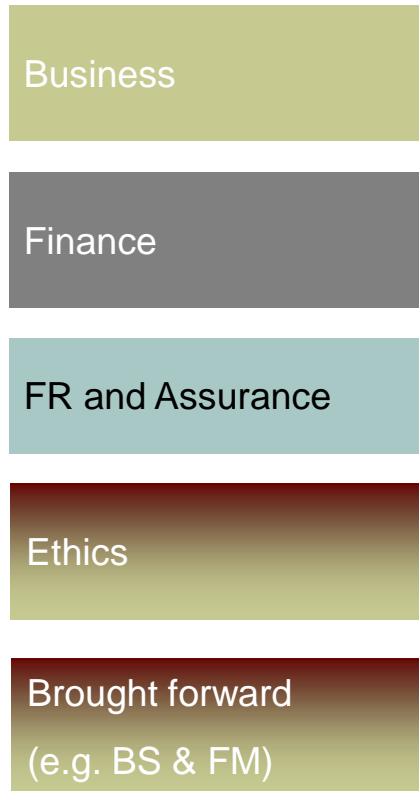
# *Strategic Business Management*

<b>Question</b>	<b>Approximate mark allocation</b>	<b>Description</b>
<b>1</b>	<b>60%</b>	Mini case. Scenario based question in context of business and financing issues. Can include corporate reporting and/or assurance.
<b>2</b>	<b>40%</b>	Scenario based question in context of financing and business issues. Can include corporate reporting and/or assurance.

**Ethics may feature in either question**

# *Strategic Business Management*

## Main syllabus areas



## Skills

**Assimilating and  
using** information

**Structuring  
problems and  
solutions**

**Applying  
judgement**

**Conclusions,  
recommendations  
and  
communication**

## Questions

Q1 – mini case  
Approx. 60%

Q2  
Approx. 40%

# **Brought forward knowledge**

- Business Strategy
- Financial Management
- Financial Accounting and Reporting
- Audit and Assurance

# ***SBM Syllabus – Business topics***

- Business strategy
- Performance management
- Strategic marketing and brand management
- Business risk management
- Corporate governance
- Data analysis (including Big Data & data analytics)
- Information strategy
- HRM
- Supply chain management
- Operations management

# ***SBM Syllabus – Finance topics***

- Business and securities valuation
- Capital structure
- Financial reconstruction and financial distress
- Equity instruments
- Fixed interest
- Derivatives
- Financial risk management
- International financial management
- Investment appraisal (including multi currency appraisal)
- Treasury and working capital management
- Small and medium company financing

# *SBM Syllabus – Financial reporting*

- FR stems from business and financing issues
- Limited scope
- SBM LMs are stand alone from CR – guide to detail required
- Brought forward knowledge relevant from FAR

# *SBM Syllabus - Assurance*

- Forward looking
- Assurance - rather than statutory audit
- Due diligence
- Forecasts (e.g. for share issue or loan request)
- Agreed upon procedures
- Arises from business or finance context

# *Ethics (SBM)*

- Ethical dilemma
- Identify ethical issues (professional scepticism)
- Identify ethical actions
- Balanced approach
- SBM – Role typically the accountant in business
- Detached requirement



# *Ethics*

- Apply professional scepticism (questioning mind)
- Ethics can be embedded in scenario – although requirement will refer to ethical issues
- Use ethical language and principles (not just generalised opinions)
- Refer to ethical codes where appropriate
- Weak answers:
  - identify one issue only
  - fail to identify the perspective
  - Take a one-sided view (unbalanced)
  - do not use ethical framework
  - do not use ethical language

# *Taxation - SBM*

- No specific UK tax
- Tax treatment for the jurisdiction in the scenario will be given in the question

## EXAMPLES

- Tax treatment for investment decision could be given in question for candidates to determine cash flows for investment appraisal (in SBM paper)

# *Overview of Professional skills update*

Background

Project undertaken by ICAEW identified 5 key professional themes:

- Adaptability
- Insight
- Collaboration
- Perspective
- Learning and reflection

Resulted in a reconsideration of the 7 professional development skills which form the skills development required to be completed by ICAEW students.

# *Updated professional development skills*



# *Updated professional development skills*

## **What does this mean for the technical exams?**

Exam skills development grids revised but still grouped under the same four headings:

- **Assimilating and using information**
- **Structuring problems and solutions**
- **Applying judgement**
- **Concluding, recommending and communicating**

No change to the way exams are set

No change to the way the exams are marked

Advanced Level **always used** skills to direct marking team and produced indicative skills in the published mark plan.

# *Exam skills development grids – examples in SBM paper for November 2017*

For example – **Adaptability** seen as a key theme from research conducted by ICAEW with employers.

- Question 1A required a valuation at two separate dates: (i) investment in MBO and (ii) exit from MBO. Adaptability is needed in adjusting from one date to the other and seeing the latter date requires much more straightforward calculations.
- Question 2B required candidates to see that the hedging loss was the mirror image of normal FOREX losses on hedged items. Therefore candidates needed to adapt their thinking to the opposite impact of the exchange rate movements on the hedged instrument, rather than movements more that normally observed on the hedged item.

## *Updated skills grids – linked to exam questions*

The updated exam skills development grids will continue to form a key part of the design and marking of questions – see the ICAEW web page.

- <https://www.icaew.com/en/learning-and-development/campaigns/professional-skills-update>

# *Skills in summary*

Skill	Can the candidate:
Assimilating and using information	Use information, provide analysis, appreciate its significance.
Structuring problems and solutions	Define the problem, develop solutions to fix it.
Applying judgement	Identify significant factors/issues, apply a sceptical and critical approach.
Drawing conclusions and making recommendations	Formulate reasoned recommendations and opinions, set out advice, options, reservations based on valid evidence.



# ***SBM and CBE 2018***

- All CBE exams from July 2018
- Style/structure of exam paper not affected
- Follow advice in most recent ICAEW CBE Guide on website
- **CANDIDATES SHOULD PRACTISE PRODUCING ANSWERS USING CBE ICAEW RESOURCES**

## ***SBM and CBE 2018***

- All narrative and workings on answers must be visible – examiner cannot interrogate cells
- Quality of typing/proofing: text must be understandable
- If using formulae in cells for calculations (consider including workings)
- Clarity of tables – rows should be labelled

# *Questions & Answers*



# *Steps in writing the paper*

Team of writers and reviewers

ICAEW exam boards

Academics and practitioners

Away days and moderation

Student moderators

First draft circulated

ICAEW exam review board with the Case Study team

Syllabus and skills

Scenario - circulated by writers

# *Marking process*

- Scoris - on line marking
- Design of papers is a joint process
- Two separate marking teams – common examiner and moderator
- Marking grid refined on the basis of initial assessment of student performance – later published as the ‘tutor marker guide’
- Markers’ meeting - 2 pre-meeting scripts, 1 common script marked at the meeting
- Standardisation and seeding scripts

# *The marking process*

- Markers have no information regarding centres
- Marginal scripts and random scripts second marked by examiner
- Seeding and standardisation scripts
- ICAEW provide limited information during the process – statistics on variation from average by marker and seeding performance by marker

## *After the marking process is completed*

Data made available to the examiner to prepare a report for the assessment committee including:

- Average marks per question for each marker
- Average mark for each marker
- Mark distribution for each marker
- Pass rate for each centre
- Pass rate for first/second attempt candidates
- Alpha student pass rates (discriminator)

## *Advice to candidates*

- Identify the big issues
- Look for links between issues
- Look for embedded points (gateway marks)
- Apply professional scepticism
- Apply realism
- Answer requirements in order within a question
- Answer the question; the whole question; and nothing but the question



# *How to approach Advanced Level exams*

## Skills

“It’s not so much what you know – it’s what you do with what you know”

- Marks available for demonstrating knowledge and understanding; but
- More marks for using knowledge, applying skills in context of scenario.
- Open book – examiners know this! – avoid “knowledge dumping”

# How to fail

- Poor layout
- Disorganised workings – use headings
- No conclusions (sitting on fence) or concluding by assertion without justification
- Generic answers unrelated to the scenario
- Accept at face value assertions made by characters in the question (professional scepticism)
- Merely repeating information given in question

# How to fail

- Missing out parts of questions (if you write nothing, you get nothing)
- Inability to link information/data/models to resolve a problem
- Inability to link to models to resolve an issue
- Answering requirements within a question in random order – the order of the requirements are designed to help candidates
- Lack of realism in giving advice
- Conclusion by assertion
- Identifying generic risks – not using the word ‘because’ to explain.

# How to fail

- Significant gaps in brought forward knowledge
- Poor language skills – evidenced by very brief explanations – and limited identification of range of issues
- Not seeing ethical issues from different perspectives – or seeing the ethical issue from the wrong perspective
- Not following the suggested layout of the answer given in the question
- Poor time management
- Failing to read all requirements and all of scenario before starting to write

## *Chinese proverbs*

“Time spent sharpening your axe, is not time wasted in cutting down the forest.”

“When reading, don’t let a single word escape your attention; one word may be worth a thousand pieces of gold.”

# *Questions & Answers*



# Results and statistics – July and November 2017 pass rates

	Corporate Reporting	Strategic Business Management
July 2017	(n = 2,769 ) <b>79.8%</b>	(n = 2,522) <b>86.5%</b>
November 2017	(n = 2,895) <b>83.2%</b>	(n = 2702) <b>85.3%</b>

# Average marks by Question - SBM

	1	2	Total
July 2017	59.3%	61.7%	<b>60.5%</b>
November 2017	61.2%	54.7%	<b>58.7%</b>



# ***SBM Nov 2017 question 1 – Gemstone Jewellery***

## **Summary of scenario**

- Candidate works for venture capital firm, ICF, specialising in providing finance for MBOs.
- Potential client for ICF is the management team for GJ, which owns retail jewellery shops.
- The management team wishes to acquire the share capital of GJ as part of a structured deal, with ICF and the bank.
- A business plan and operating data are provided.
- An ethical issue for FD who is a member of the buy-out team and will also work in parent company after the MBO.

# ***SBM Nov 2017 question 1 – Gemstone Jewellery***

## **Requirements**

- Prepare a forecast for the value of the equity of GJ at two different dates, with supporting explanations.
- Explain the key potential benefits and risks of the MBO for key stakeholders.
- Set out the key financial, commercial and operational due diligence procedures.
- Explain the financial reporting implications for GJ arising from each of the strategies identified.
- Set out the potential ethical issues arising from the matter identified and state appropriate actions.

# ***Q1: Requirement (A) - Valuation***

## ***How did candidates perform?***

A common errors or weaknesses were:

- Including 2017 free cashflows in valuation (not just future CF)
- Depreciation incorrect (some shops now operating leases)
- Sale and leaseback
- Enterprise and equity values confused
- Confusion over dates of valuation (ie 2017 and 2020)
- Thin, or no, supporting explanations as required by question

# ***Q1: Requirement (B) – Benefits/risks of MBO***

## ***How did candidates perform?***

Generally well attempted.

Most addressed: the acquisition price; ownership %; interest rates on loans; strategy of the MBO team.

Weaknesses tended to be omissions, including:

- Future governance structure role for ICF
- Risks – business and operating for ICF
- Financial gearing and other financial risks

# *Q1: Requirement (C) – Due diligence*

## *How did candidates perform?*

Generally well attempted.

Weaknesses were:

- Not explaining specific procedures
- Talking generally about financial, commercial and operational due diligence (with no reference to procedures)

# ***Q1: Requirement (D) – Financial Reporting***

## ***How did candidates perform?***

Generally reasonably attempted.

Sale and leaseback often correct.

Weaknesses included:

- Narrow scope of answers (sometimes only sale & leaseback)
- Missing easy marks (*low hanging fruit*)

# *Q1: Requirement (E) – Ethics*

## *How did candidates perform?*

Mixed responses.

Better candidates emphasised conflict of interest and transparency as key ethical issues.

Weaknesses included:

- TEF framework in a rather wooden manner (equal emphasis)
- TEF framework limiting, not enabling – no other ethical principles
- Not separately identifying the ethical actions for ICF, Kevin and Geoff, as required

# *SBM Nov 2017 question 2 – Hayfield*

## **Summary of scenario**

- Candidate works for firm of business advisors.
- Client (Hayfield) manufactures equipment for construction industry
- Actual profit was below budget
- Loss made on FOREX hedging. FR treatment an issue.
- Expansion – new product (tractors) new market (South Africa)
- Two strategies – joint arrangement or wholly-owned subsidiary



# ***SBM Nov 2017 question 2 – Hayfield***

## **Requirements**

(a) Prepare

- A statement reconciling actual profit and budgeted profit
- Explanation of the reconciling factors and provide a conclusion

(b) Explain:

- Why a loss made on FOREX hedging
- FR treatment of the loss on FOREX hedging

(c) Evaluate two strategies expanding in South Africa

(d) Explain the FR treatment of two expansion strategies

(e) Explain the assurance risks and identify procedures for expansion strategies

## ***Q2: Requirement (A) – Profit reconciliation statement How did candidates perform?***

Answers were generally weak.

Generally poorly structured.

Weaknesses included:

- No reconciliation of budget profit to actual profit
- Statement that adjusted each line of the SPL
- Not computing the 6 stated reconciling factors (incorrect or not attempted)
- Sales volume or FOREX variances poor
- Providing no notes/explanations, despite requirement

## ***Q2: Requirement (B) – FOREX hedging loss How did candidates perform?***

Answers were generally weak.

Weaknesses included:

- Discussion as though loss on was on hedge item, not hedge instrument
- Vague and ambiguous statements eg “loss was due to a change in exchange rates”
- Alarming a failure to understand that FOREX changes are in different directions for revenues and costs
- For FR treatment confused as to whether fair value of CF hedge

***Q2: Requirement (C) – South Africa expansion  
How did candidates perform?***

Answers were generally good.

Most covered joint arrangement and subsidiary well.

Many used models.

Well structured

***Q2: Requirement (D) – South Africa FR treatment  
How did candidates perform?***

Mixed responses.

Weaknesses included:

- Discussed subsidiary, but not a foreign subsidiary
- No mention of IAS21.
- Confusion of: joint operation; joint arrangement; joint venture
- Wrong treatment for a joint operation (eg equity accounting or associate)

***Q2: Requirement (E) – South Africa Assurance  
How did candidates perform?***

Answers were generally good.

Weaknesses included:

- Very general answers
- Only one or two risks identified
- Basic, and only tangentially relevant, procedures

# *Questions & Answers*



## *Marking some actual scripts*

- Question paper November 2017
- Mark plan
- Tutor mark plan (confidential)
- Marking grids
- Two hand written scripts
  - Practice Script A
  - Practice script B



# *Marking session*

Samples scripts

- Not the best! And not the worst!
- Selected to highlight both good and bad exam technique

# *Marking session*

<b>Question 1 – Gemstone Jewellery</b>	<b>Max</b>	<b>Head room</b>	<b>Candidates</b>	
			A	B
<b>1A Valuation</b>	22	26		
<b>1B Benefits risks MBO</b>	12	13		
<b>1C Due diligence</b>	7	8		
<b>1D Financial reporting</b>	8	9		
<b>1E Ethics</b>	9	9		
	<b>58</b>	<b>65</b>		

# *Marking session*

<b>Question 2 - Hayfield</b>	<b>Max</b>	<b>Head room</b>	<b>Candidates</b>	
			<b>A</b>	<b>B</b>
<b>2A Reconciliation statement</b>	16	18		
<b>2B FOREX hedging loss</b>	7	8		
<b>2C South Africa – benefits and risks</b>	7	8		
<b>2D South Africa – FR</b>	6	7		
<b>2E South Africa – Assurance</b>	6	6		
	<b>42</b>	<b>47</b>		

# *Questions & Answers*



