

EXAMINERS' COMMENTS AND MARK PLAN

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PART 1: EXECUTIVE SUMMARY

Introduction

This report covers the November 2018 Case Study exam: Bespoke Monogramming Limited (BM). It is issued in conjunction with two illustrative scripts and related examiners' commentaries. The first script was in the first quartile of all assessed scripts; the second failed the exam. In reviewing these scripts, it is important to be aware that it is rare for a script to be uniformly 'good' or 'bad'. A successful script will present appropriate coverage of all requirements but may include errors of calculation or logic; an unsuccessful script may contain one or two appropriate sections and/or some good points but be let down by poor or incomplete text elsewhere.

Attached to this report are three appendices with examples of the sort of work that candidates did, or might have done, under 'financial analysis' in each requirement. The two illustrative scripts offer further insights in the area of financial analysis.

Overview of performance

75.7% of all candidates sitting the paper passed, compared with 76.0% in July 2018 and 75.2% in November 2016. The pass rate reflects the fact that this case was of a similar standard to all recent case studies.

The Advance Information (AI), including management accounting information up to 30 September 2017, informs candidates that the BM case concerns a company engaged in the design and production of monogrammed products (such as bathrobes and towels) for the luxury hotel, spa and cruise ship market. It has one main revenue stream. The candidate is in the role of Afon Crabbe, a final-year ICAEW trainee Chartered Accountant working in the business advisory department of Borax Beadle ICAEW Chartered Accountants (BB), reporting to the engagement partner Penny Price. BM is a recently-acquired client.

The AI identifies that in August 2015 BM suffered a major bad debt which had (and continues to have) a big impact on the business. The year to 30 September 2016 was a year of recovery and revenue growth of 7.3% (£349k, up from £4,795k to £5,144k). In 2017 revenue grew strongly: up by £1,517k to £6,661k (29.5%). BM relies on an overdraft (agreed limit of £250k). Because of increases in cost of sales and reducing gross margins, it has to work hard on its cash flow to stay within its limit. The management accounting information in the CS Exam shows that BM increased its revenue but gross margins were reduced again in 2018.

Requirements in the CS Exam followed on from the information provided in the AI. In summary, they comprised:

- (1) an analysis of the revenue, cost of sales, gross profit and operating profit for 2018, by comparison with 2017. There was also a request to explain bad debts and the allowance for doubtful trade receivables.
- (2) an evaluation of a new supplier proposal from Wisher for 2019 and 2020. It had to be evaluated against BM supplier criteria, together with an assessment of all the assumptions and business trust and ethical issues.
- (3) an evaluation of the contract with a new customer (MEC) to supply products to one of its cruise ship. The contract had to be assessed using BM's customer criteria and evaluated by considering commercial (financial, operational and strategic), business trust and ethical factors.

As in previous case studies, the exam rubric specifically told candidates that an executive summary was to be provided and that the report should be balanced between the three elements. This exam rubric is provided as an important guide to candidates and following that guidance is crucial to a candidate's success.

Tutor firms in their reviews have commented that "[t]his exam paper is consistent with past case study exams" and that "as long as [candidates] tailored their answers to what was in the Case, then this Case was no more problematic than any other."

The Case Study examiners consider that these tutor comments reflect an appropriate summary of this Case Study from the candidates' perspective and that this exam was of a comparable level with previous exams in assessing candidates' professional skills.

Successful candidates followed the instructions provided in the rubric, and the instructions in each of the three requirements, producing full and balanced answers to those requirements, including appropriate clearly-labelled appendices. Their reports were properly structured, covered all requested aspects and contained concise, relevant executive summaries, highlighting the key factors. Successful scripts provided logical, clear answers to each requirement and the top scripts were of an excellent quality.

Candidates who failed did so for a variety of reasons but, as always, a small number who failed appear to have misallocated their time between the three requirements. Some candidates who failed did not provide either appropriate analysis or adequate evaluation of assumptions. Others failed to apply adequate judgement in a particular section of the report, together with only basic conclusions and poor or general recommendations such as (in this case), the specifically useless such as: “BM should increase its prices”. (Would that giving clients financial advice or commercial recommendations could be so simple!)

Review of professional skills

Assimilating and using information (A&UI). Candidates provided clear evidence of being competent under this heading with good appendices in all sections and good integration of AI and EP information – particularly for the financial analysis calculations – and a sufficient use of relevant facts provided throughout the case. However, the business issues and wider context in all requirements posed problems for a number of candidates.

Structuring problems and solutions (SP&S). Most candidates demonstrated good analytical skills throughout their scripts: picking out the relevant facts; accurately calculating the impact; and then assessing the information derived. However, some weaker candidates provided poor-quality analysis, particularly for specific aspects of a requirement or calculation (such as considering assumptions); and, because of the importance of good analysis to any section of the report, it is difficult for a candidate to recover from inadequate analytical work.

Applying judgement (AJ). Good candidates demonstrated their ability to apply judgement by good evaluation of their analysis – particularly in Requirements 1 and 2. Weak candidates failed to demonstrate their judgement by not critically evaluating assumptions presented in the case or by not reflecting adequately on their own analysis. The ability to provide evidence of applying good judgement is a major differentiator in scripts.

Conclusions and recommendations (C&R). In most scripts the conclusions and recommendations were logically derived from the previous work in the relevant section of the report and were commercially focused. Weaker candidates often presented a smaller number of conclusions, and offered general or weak recommendations.

Review of requirements

Requirement 1 comprised financial statement analysis of the items requested from the statement of profit or loss. It also required a consideration of the allowance for trade receivables. Most candidates demonstrated the required level of competence in performing the financial analysis against prior year. As one tutor firm stated, “it was a very fair test, and strong analysis of the Advance Information would have prepared most students for the skills required to score well in this part of the exam”. Weaker candidates struggled to explain bad debts and doubtful trade receivables, which affected their judgements and recommendations.

Requirement 2 was to evaluate the proposal for a new supplier proposal from Wisher by calculating the revenue and cost of the proposal for two future periods. Candidates were also asked to assess the adequacy of the assumptions made and to consider this proposal against BM supplier criteria (Exhibit 10). Strong candidates provided the analysis and evaluation of all issues based on good preparatory work. Weaker students did the calculations but did not question assumptions appropriately. Their conclusions and recommendations were similarly weak.

Requirement 3 concerned the evaluation of a new customer proposal from MEC. Most candidates presented clear financial calculations in an appendix but performed less well on the commercial (financial, operational and strategic) analysis. Weaker candidates provided less convincing analysis of business trust and ethical issues and were less competent on related judgement. They failed to provide an appropriately balanced consideration of all the issues or to tie the information back to matters previously provided in Exhibit 9. Many had only weak conclusions and poor uncommercial recommendations.

Executive Summary (ES) and Overall Assessment Criteria. Most reports contained an ES which dealt with the different sections of the report, but many did not always focus on the key factors specific to each section. Good candidates demonstrated the ability to assess the BM scenario and write an appropriate, structured, relevant report. These reports used suitable tact, with reasonable spelling and grammar. Weak scripts were not well written and showed less evidence of a well-structured report in sections – possibly the result of poor planning.

Conclusion

BM dealt with a current business issue – that of corporate collapse and bad debts – and the issue of reducing gross margins. It was set at an equivalent level to previous cases. As one tutor firm stated, “This case will have provided a fair test of candidates’ professional skills and knowledge”. The examiners agree that the BM case was a fair assessment which rewarded thorough preparation and understanding of the AI, as well as good integration with CS Exam information. This was evident in the scripts of strong candidates. Those candidates who were poorly prepared, or could not adapt their analytical thinking, found this CS Exam testing.

PART 2: THE CASE STUDY EXAMINATION**Scenario for the paper (Advance Information)**

The Case Study relates to Bespoke Monogramming Limited (BM), an owner-managed company based on the outskirts of Cardiff (the capital city of Wales). BM is engaged in the design and production of monogrammed products (bathrobes and towels) for the hotel and related hospitality industry. The candidate is in the role of Afon Crabbe, a final-year trainee ICAEW Chartered Accountant working in the business advisory department of Borax Beadle (BB) reporting to the engagement partner Penny Price. BM is a new client.

Four weeks prior to the examination, candidates were provided with a 46-page package of information, containing a series of 14 exhibits:

- 1 About you, Afon Crabbe; your employer, Borax Beadle ICAEW Chartered Accountants (BB); and your client, Bespoke Monogramming Limited (BM)
- 2 The design and related production industry
- 3 BM: history and overview
- 4 Email from Ffion Deans to Penny Price: BM financial and operational history and review of management accounts for the three years ended 30 September 2017
- 5 BM: management accounts for the three years ended 30 September 2017
- 6 Email from Ffion Deans to Penny Price: review of BM business operations for the year ended 30 September 2017
- 7 BM: purchasing and inventory
- 8 BM: computer aided design and production (CADP)
- 9 BM: customer evaluation and making sales
- 10 BM: supplier evaluation and contracting for supplies
- 11 Email from Gayle Harries to BM board cc Penny Price: review of management accounts, corporate responsibility, commercial review
- 12 Email from Shelly Drapes to BM board cc Penny Price: customer review for the year ended 30 September 2017
- 13 Email from Viv Baines to BM board cc Penny Price: supplier review for the year ended 30 September 2017
- 14 Media articles

Analysis of Advance Information (AI)

By studying and analysing this Advance Information, candidates could establish an overall picture of BM. (Additional commentary by the examiners is provided in this font and in brackets.)

Exhibit 1 provides a brief background to the candidate Afon Crabbe, the firm Borax Beadle (BB) ICAEW Chartered Accountants and BM. (This exhibit identifies the range of work covered and necessary skills expected of the candidate. These include the skills of analysing and assessing clients' financial statements to identify issues and concerns relating to their financial activities; performing further calculations and financial analysis to identify and evaluate financial strengths and weaknesses of clients, their customers and suppliers; and analysing and evaluating commercial, business trust and ethical considerations on clients' future decisions and providing the necessary clear opinions and reasoned judgements on all issues.)

Exhibit 2 provides a summary of the design and related production industry and a brief summary of the bespoke monogramming industry. (In particular, it identifies the fierce competition which exists between the many small organisations (not identified) which operate in this industry and the need to supply high-quality goods and consistently good customer service.)

Exhibit 3 gives a brief history of BM and its four key business operations:

- purchasing and inventory
- computer aided design and production (CADP)
- customer evaluation and making sales
- supplier evaluation and contracting for supplies.

BM operates from leased offices and production space on a site in a business park on the outskirts of Cardiff which has good road, rail and air transport links. BM started conducting its monogramming operation on a series of eight CADP monogramming machines (whose individual output is 100 items per day). Gayle Harries, the founder and Managing Director of BM, identifies the strength and weakness of the company's operation: "BM sells a luxury product, which because of the bespoke monogramming process becomes totally customised. Because of that process, there is then only one buyer for these finished goods. Customer satisfaction is therefore paramount."

Exhibit 4 is an e-mail from Ffion Deans (FD) to Penny Price (PP) accompanying the BM management accounts for the three years ended 30 September 2017. It provides a general review of BM's previous financial history and of these management accounts, highlighting key points which cannot easily be discerned from them. The general review includes details concerning customers (drawn from the luxury hospitality industry); inventory (mainly base products and materials with little finished goods or WIP); and that all purchases are made in pounds sterling. In August 2015 BM suffered an unexpected major bad debt of £222k (Majestic). This write-off represented over 60% of BM's trade receivables and almost 20% of BM's operating costs. The impact on recurring revenue (more than £600k) was also significant. As a result of this BM needed to negotiate increased overdraft facilities (maximum £250k) and placed financial controls on all expenditure. It undertook a review of customers' creditworthiness and created a general 20% allowance for the impairment of year-end trade receivables in its management accounts. BM also conducted a review of its suppliers to evaluate any risks to its supply chain. (This summary financial story, provided by FD, explains the critical impact on operations and the financial statements caused by the Majestic bad debt. The accounting treatment of the bad debts and the creation of the 20% allowance for doubtful trade receivables must be fully understood by candidates together with other numerical information provided in later exhibits to enable a comprehensive understanding of BM financial story and transactions.)

Exhibit 5 provides five pages of BM's management accounts and notes for the three years to 30 September 2017, containing the following key information:

- BM achieved a small growth in revenue of £349k (7.3%) from 2015 (£4,795k) to 2016 (£5,144k) as it recovered from the impact of the Majestic bad debt; but there has been a very strong growth of £1,517k (29.5%) from 2016 to 2017 (£6,661k) as a result of investment in production facilities and a marketing drive. (Further analysis of revenue may be available through the notes below and subsequent exhibits.)
- Gross profit % has declined marginally over the three years from 25.0% (2015) through 23.1% (2016) to 20.5% (2017). (This decline indicates that BM experienced rising direct costs against the sales being made.)
- Absolute gross profit has improved in 2017 to £1,364k from being relatively static in the previous two years – at around £1,190k. (Given the large increase in sales this low increase in GP is of concern for BM viability.)
- There are steady percentage changes in operating costs by comparison with revenue, down from 24.4% (2015) to 17.9% (2017) – whilst the absolute figure for operating costs has remained relatively static at

under £1,200k (approximately) over the three years. (This steady percentage improvement has occurred following the Majestic bad debt experience in 2015 and the subsequent creation of the allowance for doubtful accounts receivable – indicating good control of other operating costs.)

- Operating profit has been improving significantly in absolute terms over the three years (from £29k in 2015 to £169k in 2017). Operating profit in percentage terms (against revenue) has improved but remains very low at only 0.6% in 2015; 1.2% in 2016; 2.5% in 2017. (Given the apparent firm control in operating costs, the main impact on OP% is the noticeable decline in GP% over these three years.)
- The statement of financial position indicates that after two lean years in 2015 and 2016, BM's investment of £230k in non-current assets in 2017 is a sign of increased trading confidence. (An analysis of the relevant note 3 (below) reveals more).
- In 2015 year-end inventory was £532k (almost 15% of cost of sales). Since that time, following the major re-appraisal of working capital control and operations, the level of inventory has dropped significantly to approximately 5.6% of cost of sales. (This indicates that BM now has good control of purchasing, inventory levels and cash flow.)
- There has been a major slackening of the accounts receivable against revenue over the three years. (This reflects the artificially low starting-point of the 2015 year-end receivables caused by the deduction of the Majestic bad debt balance of £222k. The year-end 2016 trade receivable (gross – before the 20% doubtful accounts receivable allowance) against revenue is approximately 49 days – above the 45 days suggested in **Exhibit 9**. The year-end 2017 trade receivable of £1,231k (gross) represents approximately 67 days. BM suggests there has been a surge in sales activity close to the 2017 year-end which may account for some of this increase but it may also indicate weaker controls by BM which, given its customer evaluation criteria and the need to control its overdraft, is a concern.)
- The level of trade and other payables is increasing steadily in absolute terms (from £744k in 2015 to £1,061k in 2017) – this has not changed significantly in percentage terms against relevant costs in the statement of profit or loss. (This increase in trade and other payables indicates that BM is paying its creditors reasonably promptly. This is important from a corporate credibility position – see further analysis below.)
- The statement of cash flows (SCF) – reconciling to the bank overdraft – indicates that the levels of cash being generated from operations are not that significant when compared with the impact of changes in the components of working capital. This means that control of each element of working capital (particularly trade receivables) is crucial (see comment above). Otherwise the investment in non-current assets in 2017 of £230k is the only significant item. It is worth noting that BM has not taken out any long-term loan to match its non-current investment. The bank overdraft remains at a similar level in 2016 (£1,386k). (The SCF tells an important story and requires detailed reading and understanding. It is worth noting that BM has not taken out any long-term loan to match its investment in non-current assets – as a result, that investment has drained working capital and is causing BM to continue in overdraft. The SCF should be reviewed again after the information on the notes to the accounts has been assimilated, together with other exhibits later in the case, to ensure full comprehension.)
- From the Notes to the accounts the following information can be seen:
 - Cost of sales: overall these costs are increasing against revenue each year, from 75.0% (2015) to 79.5% (2017), which is a worrying development. (Further detailed numerical analysis is possible but the main detail is that it is the cost of base products and monogramming materials that is increasing ahead of increases in revenue. For BM the issue is whether these costs can be controlled – or passed on.)
 - Other operating costs: overall the operating costs are decreasing as a percentage of revenue – down from 24.4% in 2015 to 22.0% in 2016 and 17.9% in 2017. (The analysis of operating costs rather than operating profit provides a more meaningful assessment of BM's ability to control its costs. It is also worth noting that the allowance for impairment of trade receivables (approximately 10% of operating costs) continues to be significant whilst the year-end trade receivables balance continues to increase.)
 - Non-current assets: information is provided for all of the three years since the beginning of October 2014, broken down into the major categories and showing the related depreciation. (This is an important note but its significance lies more in what is not happening rather than what is happening. There have been no substantial transactions (acquisitions or disposals) from October 2014 until the year ended 30 September 2017 – and the impact of that investment on cashflow is discussed above. The funding of non-current asset investment may need to be reviewed.)
 - Inventory: this has reduced from £532k in 2015 to £223k in 2016 and £295k in 2017. (This indicates that where BM can control its operations and costs internally it is effective and successful.)
 - Trade and other receivables: given the low and consistent level of other receivables, the major changes in this figure are in (net) trade receivables. (See further detailed analysis (above) concerning changes in gross trade receivables. Enforcement of BM's trading policy needs to be kept under close review.)
 - Trade and other payables: given the steady level of other payables, all changes in this category, in absolute terms, and against relevant purchases, relate to trade payables. (These changes appear to indicate that BM pays its trade suppliers slightly less promptly – but this could be due to timings of purchases. Given its overdraft, BM may be trying to manage its position by using extra trade credit. This can be risky.)

(As in any Case Study, all the financial information should be read and fully analysed **by candidates**, ahead of the exam itself, in order to understand the detailed financial story and current financial position of the business.)

Exhibit 6 is an e-mail from Ffion Deans to Penny Price, comprising an overview of BM's 2017 business operations. Because there is just one revenue stream, with a fixed price product, any further analysis of revenue mainly concerns volume of items produced and sold. As seen in the management accounts, the increase in revenue in 2017 of £1,517k (29.5%) over 2016 is a significant achievement – caused by BM's focused marketing and sales drive. However, the fact that cost of sales is increasing more rapidly means that GP margin continues to reduce – a matter of growing concern. (The exhibit also explains that some customers placed sales orders close to the year end which had an effect on year-end trade receivable balances – and there was a linked increase in activity with purchases and trade payables BM stayed below its agreed overdraft limit of £250k at all times.)

Exhibit 7 describes BM's purchasing and inventory – prepared by Carl Morgan (head of production, warehouse and transport). The main facts are that BM purchases only best-quality base products (with a gsm of 600 or above) which enables monogramming to occur without distortion. BM's inventory comprises only the purchased base products and cotton and silk thread monogramming materials. Finished goods – monogrammed products – are not held in inventory and are not valued in BM's accounts. (This short exhibit provides clear information about BM's attention to quality in its purchasing to avoid production problems. It also emphasises the problem of making bespoke products in the event of any failure to pay by customers – these products have no value to other buyers.)

Exhibit 8 describes BM's computer aided design and production (CADP) operation, highlighting BM's strength in providing customers with unique and highly-valued designs which are thoroughly tested and agreed by customers before production. It also provides an average production cost breakdown for an average BM product (This Exhibit provides information on current production capacity (1,200 items per day) and output. It also provides information showing how costs have increased over the past three years whilst the product selling price has remained at £50, thereby reducing contribution per product.)

Exhibit 9 describes BM's customer evaluation and sales process. It reviews the collapse of prestigious customer Majestic and presents a schedule of annual revenue and year-end receivables for 2016 and 2017. The detailed customer appraisal criteria are also presented together with two customer case studies and evaluations. (Candidates should have ensured that they understood the financial detail concerning revenue and accounts receivable and reconciled the total of the year-end receivables in this schedule with the figure for trade receivables in Note 5 of the accounts [the figure in Note 5 is net of the 20% allowance in the accounts]. Candidates must also have made sure that they understood the customer evaluation criteria, and in particular how the criteria are applied. The evaluation is summarised and justified in the two customer case studies depicted.)

Exhibit 10 provides information on BM's supplier evaluation and contracting for supplies. There is a schedule of annual purchases and year-end payables for 2016 and 2017, broken down by the major components of cost of sales (base products and materials) for UK and overseas suppliers. There is also a list of supplier evaluation criteria together with two case studies of suppliers and their evaluations. (Candidates should have ensured that they could reconcile the schedule of purchases in this exhibit with each component of the cost of sales in Note 1 of the management accounts [this would also require taking account of opening and closing inventory identified in Note 4]. They should also have made certain that they were fully familiar with the supplier evaluation criteria, how they are applied, and how the evaluations are derived and justified in the two supplier case studies presented.)

Exhibit 11 is an email from Gayle Harries to the BM Board summarising: the review on the 2017 management accounts; BM's corporate responsibility; and a commercial review considering financial, operational and strategic risks. (This exhibit identifies that the company has performed well in 2017 in terms of revenue and identifies the target for 2018 as £8 million. It also identifies its production level for 2018 as being 160,000 items. Despite relentless pressure on costs, BM is unable to raise prices, but is aiming to keep its overdraft down to £150,000 in the year to 30 September 2018. BM is involved in projects to create a sustainability chain and to increase the use of re-shredded cotton provided that it meets BM's quality standards. The financial, operational and strategic risk review covers the full spectrum of possibilities for this business.)

Exhibit 12 comprises an email from Shelley Drapes to the BM board and Penny Price providing a customer review for the year ended 30 September 2017. This review is a brief summary of the recent activity of each customer together with some predictions concerning future possible trade (in terms of growth or opportunities) in the year ahead, with that customer and any related businesses. (The information provided in this exhibit is important. It provides an indication of where BM believes that growth in revenue terms will occur for its business. It is a broadly positive review indicating that BM's business is expected to grow. It should be read in conjunction with Exhibit 11 to obtain a more complete picture of BM's future.)

Exhibit 13 comprises an email from Viv Baines to the BM board and Penny Price with details of a supplier review for the year ended 30 September 2017. The review presents and comments on the five major suppliers of base products and monogramming materials. (This exhibit provides details of these suppliers which indicate the strengths and weaknesses of the supply chain. Some of the problems that have occurred in the past year, such as the steady increase in prices from an overseas supplier, could also be seen as long-term threats. Some of the product and operational successes (such as the quality of the linen-cotton products supplied by Tooley) might also represent avenues for future opportunities. This information in this exhibit should be read in conjunction with Exhibit 11 to obtain a more complete picture of BM’s future.)

Exhibit 14 comprises a series of short and varied media articles concerning a number of topical issues.

- **Exhibit 14a** is an item from International Travel News concerning the “disappearance” of monogrammed products from luxury hotels, and similar establishments, throughout the world. (This article indicates the prize of possession of the type of products supplied by BM to luxury hotels – as well as the dubious ethics of some hotel and spa guests.)
- **Exhibit 14b** is from UK Trade News. It covers the cachet of unique souvenirs surrounding a specific high-profile event in the UK – that of the Royal Wedding in Windsor – and the prices that monogrammed items relating to such an event can command. (This is further evidence that high-quality monogrammed items are in demand for a wider audience. It also might have indicated the commercial importance of this particular event to BM as a supplier of monogrammed products to exclusive local hotels.)
- **Exhibit 14c** UK Financial Trader reports on the serious issue of the need for all UK organisations to identify that the source of receipts or transfers of funds through their organisations is legitimate. (This article highlights the issue of money laundering particularly in the luxury product market where some customers may be trying to make legitimate their proceeds of “somewhat shady deals from somewhat sunny places”. Candidates may need to be aware of this issue.)
- **Exhibit 14d** is a report in the Trader International describing how recycled cotton (previously known as “shoddy”) was becoming an increasingly important product and how the cotton recycling process was likely to become as important as paper recycling in the near future. (This article identifies the major issue of sustainability in any production process – in this case that of cotton – and how its acceptability (cotton “chic”) can change a marginal activity, such as re-shredding, into a mainstream, increasingly important activity.)
- **Exhibit 14e** is an International Monthly article describing the “price of working to unreasonable deadlines”. It concerns the detrimental effect of stress in the workplace and the need for companies to be fully aware of the negative impact this can have on employees (initially) and ultimately on the products or services delivered to customers. (The article suggests that there is an enormous hidden cost to companies which is not taken into account or given sufficient publicity.)
- **Exhibit 14f** is a report in UK Financial Journal concerning the surge of corporate collapse of many large companies in the UK in 2018 and the devastating effect that such collapses can have on suppliers – particularly smaller businesses. (The article reminds candidates of the important impact of corporate collapse on weak or unprepared companies. The solution suggested – insurance – is neither commonplace nor cheap.)

Information provided in the CS Exam

The CS Exam information contained nine pages of additional information by way of seven exhibits. The new documents provided to candidates were:

- **Exhibit 15** – Email from Penny Price to Afon Crabbe, 7 November 2018: BM Limited
- **Exhibit 16** – BM: draft management accounts for the year ended 30 September 2018
- **Exhibit 17** – Email from Ffion Deans to Penny Price, 7 November 2018: BM operations and financial performance for the year ended 30 September 2018
- **Exhibit 18a** – Email from Viv Baines to Penny Price, 5 November 2018: new supplier contract
- **Exhibit 18b** – Recent media articles
- **Exhibit 19a** – Email from Shelly Drapes to Penny Price, 2 November 2018: new customer contract
- **Exhibit 19b** – Recent media articles.

Examination requirements

Please draft for my review a report addressed to the BM board. The report should comprise the following.

1. A review of BM's draft management accounts for the year ended 30 September 2018 in comparison with the year ended 30 September 2017.

Your review should be based on the draft management accounts as set out in **Exhibit 16**. It should cover revenue; each element of cost of sales; gross profit; and operating profit. In your review you should refer to the additional information provided in **Exhibit 17** relating to the draft management accounts. You should also answer the questions raised by the non-accounting members of the BM board in relation to trade receivables (**Exhibit 17**).

2. An evaluation of the proposal to use Wisher as a supplier of base products (as detailed in **Exhibit 18a**).

Using the assumptions in **Exhibit 18a**, calculate BM's cost of sales, gross profit and operating profit, for each of the years to 30 September 2019 and 2020, if BM decides to use Wisher base products. You should evaluate (a) the adequacy of the assumptions and (b) the information about Wisher, referring where possible to BM's supplier criteria (**Exhibit 10**). You should include any business trust and ethical issues, taking account of the media articles in **Exhibit 18b**. Provide a clearly justified recommendation as to whether BM should use Wisher as a supplier for its base products.

3. An evaluation of the potential financial contribution and the issues surrounding the request to supply a new customer, MEC, with BM monogrammed products (**Exhibit 19a**), referring also to the matters identified in **Exhibit 19b**.

You should evaluate the financial, operational and strategic factors against BM's customer criteria (**Exhibit 9**). Include any business trust and ethical issues. You should provide appropriate calculations and commentary to support your evaluation.

On the instruction page, candidates are told that the report should be balanced across the three detailed requirements and must also include an executive summary. The time allocation suggested to candidates was:

Reading and planning	1 hour
Performing calculations and financial analysis	1 hour
Drafting the report	2 hours

Analysis of CS Exam information in Exhibit 15

With a total of nine pages of information to read in the Exam Paper, time should have been spent reading quickly through all the new material (**Exhibits 15-19b**), to assess the range of information contained in those exhibits. It would then have been essential to read **Exhibit 15** carefully to understand the requirements before starting a detailed read of the four pages of financial information and other EP information.

- Using the new financial information, candidates should assess the draft management accounts for the year ended 30 September 2018 (2018) in comparison with the year ended 30 September 2017. The exact financial analysis comprises an analysis of “revenue; each element of cost of sales; gross profit; and operating profit” in comparison with the equivalent 2017 results. The review should also refer to the additional information provided in **Exhibit 17**. Candidates should also answer “the questions raised by the non-accounting members of the BM board relating to trade receivables” (**Exhibit 17**)
- Evaluating the new Wisher proposal to supply base products meant considering the information as provided in **Exhibit 18a** (by both parties), concerning the financial expectations relating to this proposal as well as other Wisher factors. Specifically, candidates had to “calculate BM’s cost of sales, gross profit and operating profit, for each of the years to 30 September 2019 and 2020, if BM decides to use Wisher base products”. This meant constructing a projected statement of profit or loss (as per the BM draft management accounts) for this Wisher proposal using the information provided. Candidates had to “evaluate (a) the adequacy of the assumptions and (b) the information about Wisher, referring where possible to BM’s supplier criteria (**Exhibit 10**).” They were also instructed to “include any business trust and ethical issues, taking account of the media articles in **Exhibit 18b** and they had to “provide a clearly justified recommendation as to whether BM should use Wisher as a supplier for its base products.” This meant referring to BM’s current financial results and weaknesses together with BM’s existing corporate ethos and its supplier evaluation criteria – as presented in the AI.
- The third requirement entailed “the evaluation of the potential financial contribution and the issues surrounding the request to supply a new customer, MEC, with BM monogrammed products” (including any ethical or business trust issues)” as indicated in **Exhibit 19a and b**. Candidates were specifically requested to “provide appropriate calculations and commentary to support [their] evaluation.” (The appropriate template for the calculation had been provided in the AI **Exhibit 8**.)

With appropriate planning, candidates should have been able to complete these three main tasks, and write an executive summary, within the time available in order to produce a well-balanced report.

Analysis of CS Exam information in other exhibits (Exhibits 16-19b)

From reading the other new exhibits, candidates should have established the following.

Exhibit 16 comprises three pages showing the management accounts for the year to 30 September 2018 together with accompanying notes. This information show details of: revenue, cost of sales and gross profit for BM; non-current assets; trade and other receivables; bank loans and trade and other payables – including analysis by supplier. The 2018 accounts are in a similar format to the 2017 information presented in the AI and should not have posed any problem for candidates to assimilate. (This should have been a highly predictable exhibit – although the actual figures would not have been known in advance. Analysis of the actual results to 30 September 2018 would have been anticipated and would have been normal and essential preparatory work. Detailed analysis of the AI figures, given that there is effectively only one revenue stream, would have focused on the cost of sales, gross profit and operating profit and it is this analysis of the financial statements which is requested in the CS Exam.)

Exhibit 17 is an email from Ffion Deans (FD) to Penny Price (PP) providing additional detailed information concerning BM’s operations and financial performance for the year ended 30 September 2018. This is to be used in the financial statement analysis performed by the candidates in Requirement 1 and as contextual information for Requirement 2 and 3. This exhibit also contains details of questions raised by the non-accounting members of BM board relating to the “trade receivables write-off”. These questions include whether “the allowance of 20% on year-end trade receivables ... is too prudent” and a query “concerning the impact of writing off the actual trade receivable as a separate expense [from the allowance] ... making [BM’s] operating profit look much worse”. (The numerical performance analysis should have concentrated on the significant increase in BM’s revenue offset by the higher changes in cost of sales and therefore the decline in GP% in 2018 by comparison with 2017. As well as explaining the impact of the 20% allowance for doubtful trade receivables, candidates had to put these operating costs in the context of the actual financial performance of BM. They also needed to be diplomatic in the recommendations made – as well as trying to avoid exposing their own lack of understanding concerning this issue.)

Exhibit 18a comprises one page of information on the new supplier proposal concerning Wisher. There is a mixture of assumptions and information provided by both BM and Wisher: maintaining annual revenue at current

level (a simplifying assumption for any subsequent calculations); the supply of base products by Wisher to be 50% of BM base products (this seems a very high percentage); increased costs (by 20%) in the 9-month period to 30 September 2019 (any cost increases are problematic for BM); significant reduction in costs in the subsequent year (depends on future economies of scale); Wisher base products derived from re-shredded cotton (this sustainable source suits BM's ethos but causes quality control and production cost increases). Information concerning relative sizes of both businesses (allows evaluation under BM supplier criteria), transportation responsibilities (all additional but unspecified BM costs), terms of trade (tighter than other BM suppliers) and further similarities in corporate ethos are also provided. Other information relating to this proposal is included in **Exhibit 18b**. (Candidates had to calculate BM's cost of sales, gross profit and operating profit for each of the years to 30 September 2019 and 2020. This total calculation should follow the format of BM's statement of profit or loss in either the AI or CS Exam. Candidates were expected to be able to identify this format and insert the appropriate newly-calculated figures easily. The financial and operational assumptions given had to be assessed, as well as any that were missing. Candidates also had to "include any business trust and ethical issues taking account of the media articles in **Exhibit 18b**".)

Exhibit 18b comprises two short media articles. One relates to the expansion of cotton re-shredding operations throughout Europe in the future manufacture of cotton products. The second raises the question of the safety of re-shredded products. (From the AI, candidates would have been aware of BM's active interest in this sustainable method of manufacturing base products. These articles confirm the positive and negative aspects of this change towards a new manufacturing process. Both articles are easy to assimilate and to incorporate into the discussion concerning Wisher's manufacturing process and products.)

Exhibit 19a is an email from Shelly Drapes to Penny Price providing details concerning a new customer MEC, and its proposal for BM to supply it with products under two possible alternative arrangements. There is both numerical and descriptive information concerning this proposal which has to be analysed and appraised in the context of BM's production costs – as provided in the AI – and its customer evaluation criteria. (Candidates have to assess this proposal using different criteria: primarily a numerical and financial calculation of the impact of accepting this proposal under both alternatives. Candidates must also consider all the operational factors: base product quality and production impact; design creation and agreement; delivery locations and deadlines – all from both a standard commercial perspective and in the light of BM's experience with similar customers. Candidates must also assess MEC, as far as possible, against the BM customer evaluation criteria and assess the additional risks highlighted by the articles in **Exhibit 19b**. The proposal needs to be assessed and a recommendation made.)

Exhibit 19b comprises two media articles. The first concerns the increase in a new type of customer in the UK market for luxury goods – the billionaire oligarch – and those who are the discreet suppliers to these customers. The second article focuses on the international business location and choice of supplier made by the MEC cruise operator. Both articles raise concerns over the activities of organisations which involve significant international operations that are difficult to monitor. (These articles develop issues introduced previously in the AI and should have served to raise awareness (or remind candidates) of the matters involved in these instances. Candidates need to be aware of what those interacting with such businesses need to consider in their commercial dealings: the loyalty to suppliers of such customers, the sources of their wealth, the need for supplier discretion, all set against the need to act transparently and to consider their own position and reputation in those interactions. These all impact BM in assessing this new customer.)

All the information provided in the CS Exam follows on from the financial and commercial story told in the AI. The main facts are that the growth in BM revenue by £1,832k from £6,661k to £8,493k is a growth of 27.5% – above the target growth of £8 million (20%). With BM's product prices assumed to have been held during the year, the revenue increases are due to increases in volumes. BM margins have declined from 20.5% to 18.3% because of the comparative increase in cost of sales and the impact of this is reflected in operating profit margins – down from 2.5% to 1.6%. Operating profit has also been affected by the Titanic bad debt write-off and the increase in the allowance for doubtful trade receivables. (There is a need for careful, integrated financial analysis of the BM results to analyse all changes and the application of logical judgement to that analysis. There is also the need for a clear explanation of bad debts and the allowance for doubtful trade receivables to the non-accounting members of the BM board.)

The story, which is established in the financial statements, is further developed in the scenarios for Requirements 2 and 3. In Requirement 2, candidates have to assess, using structured financial data analysis, a new supplier proposal which affects the major issue facing BM – that of increasing cost of sales whilst sales prices remain static. There is a need to apply good judgement in assessing the assumptions concerning the Wisher proposal and to make a clear recommendation. Requirement 3 needs a structured financial, operational and strategic review of the new customer proposal from MEC, an organisation with specific requirements and factors which need to be addressed and evaluated. Information provided in the CS Exam and some information

already supplied in the AI concerning all these issues must be used. Both Requirement 2 and Requirement 3 included the consideration of business trust and ethics.

The individual requirements describe the process of analysis which should be followed in developing the report.

For **Requirement 1** the financial statement analysis of the management accounts for BM for the year to 30 September 2018 had to be focused on the main elements as requested. This financial analysis should have been a straightforward exercise numerically given that revenue analysis related to only one type of product and thus was not complicated. Candidates should have looked for the key changes in cost of sales and gross profit – based largely on assessing Note 1 of the 2018 management accounts by comparison with the equivalent information in **Exhibit 5** from the AI. The accompanying explanatory notes in **Exhibit 17** to the management accounts had to be considered against information from **Exhibits 12 & 13** and should have been a straightforward exercise to review, assess and integrate into a report. (The specific issue that some non-accounting members of the board may not understand the issue of bad debts and the allowance for doubtful trade receivables and their impact on operating profit and the BM overdraft requires understanding followed by clear explanations. For a badly-prepared candidate who does not understand, or cannot explain the issue succinctly, this section may not have been as easy as it should have been.)

Requirement 2 required some very basic financial data analysis to calculate a projected BM statement of profit or loss for the new Wisher supplier proposal for the years 2019 and 2020. The calculations are based on the assumptions provided by Wisher and developed by BM. Candidates should have evaluated each assumption. The most important factors were the percentage (50%) of BM supplies that Wisher wanted to make together with the 20% increase in base product costs that a switch to Wisher's re-shredded product would cause – which would make the supplies in the initial period very questionable financially. The massive reduction in Wisher product costs in the subsequent period – leading to a very positive result for BM – is also highly questionable. Most of the other commercial factors provided as information in the CS Exam are positive and in accordance with BM's supplier criteria and corporate ethos. (The calculations, based on BM's statement of profit or loss, are straightforward but provide mixed information. There are also other factors to be considered and evaluated. Professional judgement – particularly on the immediate financial impact versus the longer-term gain – is essential. In assessing the commercial situation, would BM want to reduce by 50% base product supplies from its established suppliers, for base products from one single unproven supplier? The risk would be huge. For Wisher to supply a smaller percentage would make much more sense financially and operationally. A sensible evaluation of financial, operational and commercial criteria, including any business trust factors, with a clear conclusion and recommendations, is needed.)

Requirement 3 required the evaluation of the new MEC customer proposal with its specific criteria. Candidates should have used the numerical information provided for the two options proposed to assess the new contract, its profitability and its materiality using a structured template provided in the AI. It is essential to BM to ensure that all operational issues, and the possible problems, are considered in context against the value of this initial contract in terms of the contribution from each option. (Candidates should have calculated the contribution for both options, decided which of the two might be the best and then critiqued the other MEC criteria (or assumptions) before arriving at a final conclusion and offering recommendations. It meant identifying and evaluating the commercial, business trust and ethical issues, which required a logical and integrated review of AI customer criteria and CS Exam information.)

Summary of grades available

Grades were awarded under four main topics: Review of BM's financial performance; Evaluation of Wisher proposal; Evaluation of MEC proposal; Executive summary and Overall Assessment Criteria. For each topic, under each of the four Professional Skills, there were a number of 'boxes' representing specific areas in which the skill was to be demonstrated. At each box, one of five available grades was awarded: CC (Clearly Competent); SC (Sufficiently Competent); IC (Insufficiently Competent); ID (Insufficiently Demonstrated); NA (Not Attempted). The number of boxes per topic and skill (below) reflects an even balance between the three main requirements, as indicated in the CS Exam rubric.

	A&UI	SP&S	AJ	C&R	Total
Review of BM's financial performance and appendix	3	3	3	2	11
Evaluation of Wisher proposal and appendix	3	3	3	2	11
Evaluation of MEC proposal and appendix	3	3	3	2	11
	9	9	9	6	33
Executive summary					6
Overall Assessment Criteria					1
					40

PART 3: COMMENTARY ON CANDIDATES' PERFORMANCE

Professional skills

Assimilating and using information (AU&I)

All requirements needed numerical analysis or calculations to be presented. As a result, it was essential that candidates prepared a structured financial appendix, or separate calculation to present that information in a concise appropriate format. In order to assess all appendices / calculations in an equivalent way the assessment of each appendix / calculation is presented as the first box in each requirement, under AU&I, on the marking grid. This means that there are three boxes under A&UI for each requirement. As always in each of the three requirements, candidates had to make extensive use of financial and non-financial information from both the AI and EP in order to build their answers.

Requirement 1 needed candidates to demonstrate A&UI skills by way of (1) an appendix, (2) the initial financial statement analysis work in the report and (3) the identification of appropriate relevant wider context issues for BM. Candidates were universally very strong on the first two boxes but frequently lacked the necessary focus to identify the relevant business issues and wider context for the third box. (These included BM's customer resistance to price rises and the profile of BM's suppliers – UK and overseas.)

Similarly, for Requirement 2, candidates needed to demonstrate A&UI skills with (1) an appropriate numerical appendix using the BM statement of profit or loss as the structure for the calculations, (2) the initial key criteria numerical analysis of that financial data in the report, and (3) the identification of relevant business and wider context issues in relation to this matter. Almost all candidates demonstrated good numerical A&UI skills for the first two boxes, with an appropriate appendix and initial analysis. Candidates were marginally less strong on business and wider context issues. (Examples could have included commentary on costs of overseas supplies and the BM overdraft.)

In Requirement 3 box (1) the appendix – using the structure from **Exhibit 8** – was appropriately presented by the vast majority of candidates who achieved full credit for this aspect of their report. Similarly, for box (2) the initial numerical analysis in the report, most candidates achieved very high competency grades. However, box (3), the presentation of relevant business issues and wider context, was frequently very poorly focused with only a handful of candidates identifying the relevant issues. (These include: BM's experience with cruise customers; the problem of delivery of orders to customers (DWC); BM's rigorous testing of base products for quality assurance.)

The key messages for candidates concerning A&UI are:

- presenting a clearly derived summary of the financial or numerical context for a scenario by way of a well presented, structured appendix is a skill which all candidates should possess – for each requirement
- including the relevant business issues and wider context for each section of the report is essential to identify the relevant scenario and circumstances for the matters under review in that section
- using information from both AI and the CS Exam in compiling each section of the report is an essential aspect of each section, regardless of whether or not there has been a specific reference made to an exhibit in the CS Exam.

Structuring problems and solutions (SP&S)

Most candidates demonstrated good skills in structuring problems and solutions. This is because they followed the structure and steps indicated in each requirement and performed the analysis which they had to do. SP&S is the core component in each section of the report and the assessment criteria follow the requirement instructions in each section. In Requirement 1 it is financial analysis of the statement of profit and loss and the explanation of bad debts and allowances for doubtful debts. In Requirement 2, it is the analysis of the new supplier Wisher's proposal, including a review of assumptions and an evaluation using supplier criteria and analysis of business trust and ethical issues. For Requirement 3, it is an analysis of the MEC new customer proposal: calculating two options and considering the new customer contract in commercial terms (financial, operational and strategic) and against established customer evaluation criteria (including any business trust and ethical issues).

Stronger candidates worked through the steps of each requirement logically dealing with the points requested in appropriate detail. Weaker candidates were less precise and often included excessive or irrelevant detail or omitted some aspects of the analysis. This could be seen to apply in all sections but as always in the financial analysis section, weak candidates appeared too absorbed in unnecessary pre-prepared analysis (such as over-analysing trade receivables) – despite the restricted information and a clearly detailed requirement. In addition, explaining the bad debts and allowance for doubtful trade receivables issue in Requirement 1 caused some

difficulty in SP&S despite it being a basic topic. Requirement 2 was the most consistently well-answered SP&S section with large numbers of candidates securing clear passing grades across the three boxes. However, the scripts of weaker candidates continue to display an inability to identify and critique the assumptions – although these would have to have been used in their initial calculations. It is hard to understand such weaknesses. In Requirement 3, a very large number of the candidates started by using appropriate numerical analysis but then failed to identify, question or analyse in sufficient detail the commercial, business trust and ethical concerns.

The key messages for SP&S are:

- candidates must ensure that they work through each step requested in the requirement when analysing any financial or numerical information (or their own calculations) for each section of the report
- candidates must identify and critically analyse any assumptions relating to the matters under review in that section
- candidates must identify and address all commercial issues and any business trust and ethical concerns in each section of the report
- a candidate's weaknesses in SP&S will affect the subsequent sections of AJ and C&R – although a strength in SP&S does not always carry into AJ and C&R.

Applying judgement (AJ)

Strong candidates applied good judgement built on the analysis which they had conducted. Weaker candidates failed to demonstrate good skills in AJ. Mostly they failed to develop their analysis by not evaluating the information or assumptions given or failed to question the critical factors from their own analysis in the appropriate depth. For AJ in Requirement 1 this included an appropriate evaluation of the analysis of revenue with a range of points from strong growth in a competitive market to a failure to increase prices being unsustainable (a key point). There was also the evaluation of the importance of each component of cost of sales and operating costs and the control over each element, which stronger candidates achieved. However, the judgement relating to the evaluation of bad debts and the allowance for trade receivables was often feeble (and in weak candidates usually totally wrong). In Requirement 2, there was some good evaluation of the numerical and financial analysis and other commercial considerations but the evaluation of the assumptions was frequently very poor and badly developed. It was a more welcome fact that the evaluation of the business trust issues was adequate. In Requirement 3, the evaluation and judgement relating to the MEC contract should have followed a logical commercial evaluation pathway: evaluation of the financial criteria and impact; evaluation of operational and strategic issues; evaluation of ethical and business trust issues. Strong candidates performed well on each of these boxes. Weaker candidates did sufficiently well on financial evaluation but they struggled with other aspects of the commercial evaluation and were poor on the ethical and business trust points.

The key messages for AJ are:

- candidates must ensure that they evaluate each step of the analysis requested in the requirement, both financial and non-financial, for each section of their report in a critical, logical process
- candidates are expected to critically evaluate any assumptions relating to the matters under review in that section
- candidates are expected to evaluate the specific commercial issues and any business trust and ethical concerns in each section of the report
- an ability in AJ is fundamentally important in determining overall success in the CS Exam. A failure to formulate and communicate good judgement in the report usually correlates with a failure overall.

Conclusions and recommendations (C&R)

Good candidates provided logical, clear conclusions – under a heading – which extended the previous analysis and judgement in that section. Good candidates also provided clear commercial recommendations which were appropriate to the business circumstances in the section being written.

Weaker candidates did not usually provide enough clear conclusions and those that were provided were not fully developed or presented under a heading. Similarly, weaker candidates made poor, frequently generalised recommendations, with no development, depth or justification from the analytical work, such as “BM should increase its selling price” – as if the BM board would never have thought of that, and which flew in the face of all case scenario information. (The fact is that the current situation is unsustainable and that must be spelt out).

The key messages for C&R are:

- conclusions must be clearly drawn, under a heading, from the SP&S and AJ, for each section of the report
- recommendations must be specific and logical relating to the context of each section of the report.

Requirement 1: BM financial analysis

The main financial statement analysis requirement was well answered by the vast majority of candidates, with appropriate use of a well-structured appendix. The opening paragraph of this requirement provided a clear pathway for structuring the financial statement analysis comprising “revenue; each element of cost of sales (COS); gross profit (GP) and operating profit (OP)” (abbreviations added). The company only has one revenue stream and its sales price appears not to change so the analysis is largely focused on costs and those details are in **Note 1 and 2** to **Exhibit 16**. All candidates should have been able to assimilate and assess this information and respond rapidly to this requirement. In addition, **Exhibit 17** presented further key facts relating to the required analysis.

Most candidates were well prepared for this type of analysis. In the overwhelming majority of scripts clear analytical appendices were prepared and the question was appropriately answered. Nevertheless, candidates attempt short cuts (by omitting key information) in the appendix and some over-analyse the information (by preparing additional irrelevant schedules). In the critical case of omission – in some foolhardy attempt to save time (but losing points for the appendix) – some candidates prepared columnar appendices without showing the base figures for the two years and only presented the absolute change and percentage changes relating to each heading. This is a meaningless piece of information which a reader would have to recalculate to understand. It is a false economy of time to omit this basic information and candidates lost marks accordingly. At the other end of the spectrum, some candidates were determined to analyse not only what they were not asked to analyse but for which there was no information in the CS Exam. A prime example of this was a schedule showing all of BM’s individual trade receivables for 2017 with the days outstanding calculated. Sadly, the examiners did not present any equivalent information for 2018 which these candidates could use, nor ask for this analysis – it was thus a futile time-wasting exercise.

Using **Notes 1 and 2** of **Exhibit 16** and the explanations in **Exhibit 17** should have meant that candidates could easily analyse and evaluate events for the year to 30 September 2018 and identify that the main BM problem (of static prices and increasing cost of sales) has continued. As one candidate explained, “BM has had an impressive increase in revenue of 27.5%, through increased sales volume up from 133,000 to almost 170,000 items. However, BM’s static price may be driving its increasing sales and that must be assessed and addressed because margins are falling”. Weaker candidates lacked this clarity of analysis and evaluation. Very few candidates achieved passing grades in AJ because they lacked consistent clear evaluation of BM’s revenue and cost information.

The specific request to answer a series of questions concerning bad debts and the allowance for doubtful trade receivables proved to be an awkwardly revealing task for a significant proportion of candidates. A multitude of errors of understanding were revealed – particularly in the evaluation of this issue. “The allowance for doubtful trade receivables has no impact on profit or cash” with the recommendation that “all BM board members must attend a course on understanding financial accounts” The expression “physician heal thyself” comes to mind, especially in terms of tact. This section of this requirement proved to be a good differentiator between candidates.

Requirement 2: Evaluation of new supplier proposal (Wisher)

This requirement assessed candidates’ ability to calculate, analyse and evaluate the proposal for Wisser to supply BM with 50% of its base products going forward. Both Wisser and BM had provided information based on that proposal and there were numerous financial and non-financial factors to consider. The template for the calculation was BM’s statement of profit or loss which had to be adjusted for these future changes. This should have meant that the calculations were straightforward for a sensible candidate. This proved to be the case as most appendices prepared were universally clear and correct.

Candidates also had to “assess the adequacy of the assumptions and the information about Wisser... and provide a clearly justified recommendation”. Using both the normal questioning of all assumptions in these requirements and the supplier evaluation template from the AI (and with all the details in **Exhibit 18a** and **18b**), there was no shortage of assumptions and issues to consider. Good candidates, having performed correct calculations, then evaluated all assumptions, and considered those aspects of the proposal which were clearly risks for BM. Weak candidates did not provide adequate critical analysis of the assumptions, which meant that they failed to apply appropriate judgement in this part of requirement. However, both the analysis and evaluation of the business trust and ethical issues were performed well by the majority of candidates. As one tutor firm stated, “Given that the Advance Information illustrated BM’s 7 point criteria for evaluating suppliers and that there were two newspaper articles supplied in the exam paper on the supplier and its supply chain (with associated ethical issues), this part of the requirement should have been straightforward for most students.”

Good candidates demonstrated their skills throughout this section of their report, and scored good marks. Weaker candidates struggled with context, judgement and recommendations and performed less well.

Requirement 3: Evaluation of new customer (MEC) proposal

Requirement 3 was an evaluation and assessment of the new customer proposal from MEC. Two options were presented: Option 1 continues with the normal BM product costs but with a 30% mark-up proposed by MEC to arrive at the sales price per product. Under Option 2, MEC would supply the base product and BM could mark-up on all other costs by 50%. Candidates could have used the structure of an example from **Exhibit 8** in the AI as the template for any product cost calculation. The vast majority of candidates did so using that template as the basis for creating their appendix and either used the 2017 figures (as per Exhibit 8 – adjusted for the MEC criteria) as the basis for the calculation or updated those figures for the 2018 cost changes. Amongst those that did not follow the template a good number produced more idiosyncratic appendices – which did not gain as many points. Bafflingly, a very small number produced no figures at all in this part of the report. A great number of candidates presented no wider context information at all.

With most candidates having created a good appendix it should have been a reasonable process for them to proceed through the commercial (financial, operational and strategic) and BM customer analysis and evaluation of the MEC proposal. Unfortunately this route was not followed universally and there was a clear divergence in the quality and focus of answers between those who followed that process and those who did not. The weakest element of the report was the analysis of the financial elements, but the operational and strategic review and the ethical and business trust elements were of better quality. Good students also demonstrated sufficient judgement over the facts supplied by correctly identifying that although BM had the capacity, the complexity of the other operational issues should cause BM to exercise caution.

Most candidates concluded appropriately but good recommendations were relatively rare throughout.

Executive summary (ES)

All candidates wrote some form of an executive summary. Unfortunately not all executive summaries were of a sufficient standard. Good executive summaries were aimed at the BM board – and covered the three aspects of the report concisely and identified the most important factors in each section. In the review of BM's financial performance, this included identifying the point that BM's downward trend on margins was not sustainable. The next section included the fact that the second period of the Wisher proposal is critical in any decision but it depends on unpredictable economies of scale in the re-shredding process. The final section needed to contain numerical information on both options to support the analysis of the MEC proposal. Good scripts presented each section of the ES as a précis of the whole context of the relevant scenario: the original analysis in the report, the judgements made, and a summary of the conclusions and recommendations from each section. Good summaries contained the essential numerical information in the ES extracted from the body of the report.

Weak candidates had an ES that was poor in terms of focus on the key issues or factors for each section. These candidates failed to present the relevant facts – and especially the key facts or figures – concerning the items considered to be important from the report. These are indicated in the previous paragraph. There is also the problem that summarising a weak section of the main report leads to a weak part of the ES. There was also evidence of poor planning and time management by a minority of candidates.

Overall Assessment Criteria (OAC)

Most candidates produced a properly drafted document with the appropriate headings, paragraphs and sentences. The majority of scripts had an appropriate disclaimer of liability from Borax Beadle. Most scripts were appropriate for BM board use and were formal, tactful and ethical. Most candidates had reasonable spelling and grammar (markers always stretch this point). As always, a minority made inappropriate statements, particularly concerning the understanding of bad debts and the allowance for doubtful trade receivables (which **none** of the BM board would have considered acceptable). Fortunately, reading the scripts of strong candidates provides reassuring evidence of the high quality of those candidates. They demonstrate the necessary professional skills, across their reports, needed to be a successful ICAEW member and these scripts were a great pleasure to read.

R1: Analysis of BM's management accounts

Year ended 30 September	2018	2017	Change	Change
	£000s	£000s	£000s	%
Revenue	8,493	6,661	1,832	27.5
Cost of sales	(6,941)	(5,297)	(1,644)	31.0
Gross profit	1,552	1,364	188	13.8
Operating costs	(1,416)	(1,195)	(221)	18.5
Operating profit	136	169	(33)	(20)

Analysis of Cost of sales	2018	2017	Change	Change
	£000s	£000s	£000s	%
Base products	3,982	2,895	1,087	37.6
Monogramming materials	1,925	1,450	475	32.7
Total materials	5,907	4,345	1,562	35.9
Production labour	433	370	63	17.0
Production overheads	601	582	19	3.3
	6,941	5,297	1,644	31.0

Analysis of Operating costs	2018	2017	Change	Change
	£000s	£000s	£000s	%
Administrative staff & overheads	879	785	94	12.0
Marketing and distribution	373	303	70	23.1
Provision for doubtful debts	86	107	(21)	-
Bad debts	78	-	78	-
	1,416	1,195	221	18.5

Appendix R2: Analysis of Wisher proposal

Profit or loss Year ended 30 September	Using	Notes	Projected	
	Actual 2018 £000s		2019 £000s	2020 £000s
Revenue	8,493	1	8,493	8,493
<u>Cost of sales</u>				
Base products	3,982	2	4,281	3,783
Monogramming materials	1,925	3	1,925	1,925
Production labour	433	4	433	433
Production overheads	601	5	661	661
Cost of sales	(6,941)	6	(7,300)	(6,802)
Gross profit	1,552	7	1,193	1,691
2018 Operating costs (OC)	(1,416)	8	(1,416)	(1,416)
Operating (loss)/profit	136	9	(223)	275
or				
<i>Adjusted operating costs</i>				
No change in revenue = no to change in TR allowance			86	86
No specific bad debts			78	78
Reduction from 2018 OC			164	164
Adjusted operating costs			(1,252)	(1,252)
Operating (loss)/profit			(59)	439

Workings for base product

Base product 2018 = £3,982k

		Inc/(Dec)	Total	Wisher
20% increase for 50% for 9 m	increase = 20% of £1,991k x 9/12	299	4,281	1,792
Save 50% of 3/12 purchases	decrease = 30% of £1,991k x 3/12	(498)	3,783	

Notes

- 1) Sales are kept the same but that assumption is OK because most expenses would change in proportion
- 2) Base product increases for Period 1 are probably prudent (9 months)
Base product reductions for Period 2 (12 months) may be optimistic
- 3) Monogramming material costs move in line with revenue
- 4) Production labour remains static in the calculation but that may be an understatement (transport / quality control)
- 5) Production overheads increase of 10% is probably just a guess
- 6) CoS increase in Period 1 by £299k + £60k = £359k in total
CoS reduction in Period 2 = -(£498k) + £60k = net (£438k) leading to much higher GP
- 7) Gross profit is very low in 2019 (Period 1) at £1,193k and significantly better in 2020 (Period 2) at £1,691k
- 8) Operating costs are assumed to remain constant – per 2018 (but see above: bad debt /TR allowance)
- 9) Operating loss occurs in 2019 and large operating profit in 2020

R3: Analysis of MEC proposal

Costs and sales price	Using	Notes	Option 1	Option 2
	2017			
	£		£	£
Base products	22.0	1	22.0	-
Monogramming materials	11.0	2	11.0	11.0
Production labour	3.0	3	3.0	3.0
Production overheads	4.0	4	4.0	4.0
Total monogramming cost	40.0	5	40.0	18.0
Mark-up (contribution)	10.0	6	12.0	9.0
Sales price	50.0	7	52.0	27.0

Costs and sales price	£8,493k Assuming £50 per item	2018	Notes	Option 1	Option 2
	=169,860 Or approx. 170k				
		£		£	£
Base products	3,982	23.4	1	23.4	-
Monogramming materials	1,925	11.3	2	11.3	11.3
Production labour	433	2.6	3	2.6	2.6
Production overheads	601	3.5	4	3.5	3.5
Total monogramming cost	6,941	40.8	5	40.8	17.4
Mark-up (contribution)			6	12.2	8.7
Sales price			7	53.0	26.1

Notes: Option 1

1. The information concerning all costs is taken either from AI Exhibit 8 (average production costs per item), or by using 2018 total revenue and dividing by £50 per item, to find the number of items produced and sold
2. Monogramming material costs are expected to remain the same in this ongoing process
3. Production labour is shown as being the same
4. Production overheads remain the same as all other similar monogramming
5. Total monogramming costs are the base for the mark-up / contribution calculation
6. Mark-up per item is 30% (£12 or £12.2) on cost (margin 23%) – a higher contribution per item than Option 2
7. The total figure gives a much higher sales price per item than Option 2.

Notes: Option 2

1. Base product costs do not apply to Option 2
2. Monogramming material costs are expected to remain the same in the new process – but with untried base products these could be higher
3. Although production labour is shown as being the same it could be higher with any re-runs
4. Production overheads could increase (testing may fail) and production may be disrupted
5. Total monogramming costs are the base for the mark-up / contribution calculation – these could be low
6. Mark-up per item is 50% (£9) on cost – (margin 33.3%) but a lower contribution per item than Option 1
7. Sales price appears lower and beneficial to MEC

November 2018 - Bespoke Monogramming Ltd

First Marking

DATE		CANDIDATE NO.	
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TIME		MARKER NUMBER	
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	ES	Req 1	Req 2	Req 3	TOTAL
CC					
SC					
IC					
ID					
NA					
Total	7	11	11	11	40

BM	Bespoke Monogramming	BP	Base Products
W	Wisher	MM	Monogramming Materials
MEC	Mediterranean Exploration Corp	PL	Production Labour
DWC	Deep Wave Cruises	PO	Production Overheads
BD/DD	Bad Debt / Doubtful Debts	AS&O	Admin Staff & Overheads
TR	Trade Receivables	M&D	Marketing & Distribution
OC	Operating Costs		

TEAM LEADER		CHECKER SIGNATURE	
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Changes made?

ID = Insufficiently Demonstrated IC = Insufficiently Competent SC = Sufficiently Competent CC = Clearly Competent	1 ♦ 2 ♦ 3 ♦ 4 ♦
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R1 - Review of BM's financial performance

ES.OAC.1

- ♦ Appropriate layout eg headings, paragraphs, sentences

- ♦ Appropriate disclaimer of liability from BB

- ♦ Suitable language eg formal, tactful, ethical

- ♦ Reasonable spelling and grammar

NA

ID

IC

SC

CC

ES.R1.1

- ♦ Revenue: qualitative comment on change **with fig**

- ♦ COS/GP/GP%: qualitative comment on change **with fig**

- ♦ OC/OP/OP%: qualitative comment on change **with fig**

- ♦ GP% **concerning** downward trend / OP% near to breakeven

NA

ID

IC

SC

CC

ES.R1.2

- ♦ Static prices **with** increasing costs is **unsustainable**

- ♦ Comments on targets (revenue / volume / bank overdraft)

- ♦ Concludes/recommends on **impact** of bad debt/prov DD

- ♦ Other commercial recommendations

NA

ID

IC

SC

CC

R2 - Evaluation of Wisher proposal

ES.R2.1

- ◆ Concludes on 2019 operating loss **with fig**
- ◆ Concludes on 2020 operating profit **with fig**
- ◆ **Significant** contract / BM reliant on W / impact on BM suppliers
- ◆ Concludes on evaluation of assumptions

NA	ID	IC	SC	CC
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ES.R2.2

- ◆ Economies of scale from 2020 crucial to make deal attractive
- ◆ Concludes on way forward
- ◆ Concludes on Wisher business trust/ethics
- ◆ Commercial/business trust/ethics recommendations

NA	ID	IC	SC	CC
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R3 - Evaluation of proposal to supply MEC

ES.R3.1

- ◆ Concludes on Option 1/Option 2 **with figs**
- ◆ Concludes on relative size / cashflow impact / GP%
- ◆ Concludes on timescale / delivery costs
- ◆ Concludes on BP quality / capacity

NA	ID	IC	SC	CC
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ES.R3.2

- ◆ Concludes that MEC/Option 2 is **too risky** for Dec start
- ◆ Perform Due Diligence on MEC
- ◆ Concludes on MEC business trust/ethics
- ◆ Other commercial recommendations

NA	ID	IC	SC	CC
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CC	
SC	
IC	
ID	
NA	
Total	7

REQUIREMENT 1 - Review of BM's financial performance

ASSIMILATING & USING INFORMATION	STRUCTURING PROBLEMS & SOLUTIONS
<div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;"> R1.AUI.1 Appendix 1 </div> <ul style="list-style-type: none"> ♦ Well presented table eg £, % ♦ Analysis of revenue / volume / customer ♦ Analysis of COS elements ♦ Analysis of GP / OP <div style="border: 1px solid black; padding: 5px; margin-top: 20px; display: flex; justify-content: space-between;"> NA ID IC SC CC </div>	<div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;"> R1.SPS.1 Financial analysis: revenue (report) </div> <ul style="list-style-type: none"> ♦ Target: £8m/20% exceeded ♦ Royal Wedding: significant impact / £750k / one-off ♦ Boreal/Cosset: inc predicted / up 40%/£266k / up 15%/£130k ♦ DWC: up 1% / below predicted inc (30%) / delivery problem <div style="border: 1px solid black; padding: 5px; margin-top: 20px; display: flex; justify-content: space-between;"> NA ID IC SC CC </div>
<div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;"> R1.AUI.2 AI/CS Exam info (report/appendix) </div> <ul style="list-style-type: none"> ♦ Overall revenue: up £1,832k / up 27.5% ♦ Overall COS: up £1,644k / up 31.0% ♦ Overall GP: up £188k / up 13.8% OR Overall GP%: down 18.3% v 20.5% ♦ Overall OP: down £33k / down 19.5% OR Overall OP%: down 1.6% v 2.5% <div style="border: 1px solid black; padding: 5px; margin-top: 20px; display: flex; justify-content: space-between;"> NA ID IC SC CC </div>	<div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;"> R1.SPS.2 Financial analysis: COS/OC (report) </div> <ul style="list-style-type: none"> ♦ BP: up £1,087k/37.5% / 10% inc o/seas supplier (Fomenta) ♦ MM: up £475k/32.8% / 10% inc o/seas supplier (Cassio) ♦ PL: up £63k/17.0% / net of £50k apprenticeship subsidy ♦ PO: up £19k/3.3% / inc efficiency ♦ AS&O: up £94k/12.0% / reason unknown / example ♦ M&D: up £70k/23.1% / increased marketing effort <div style="border: 1px solid black; padding: 5px; margin-top: 20px; display: flex; justify-content: space-between;"> NA ID IC SC CC </div>
<div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;"> R1.AUI.3 Business issues / wider context </div> <ul style="list-style-type: none"> ♦ History of growth / good quality products ♦ Customers: prices static / competitive market ♦ Suppliers: UK and overseas / supplier power ♦ Bank overdraft (£158k) exceeds target (£150k) ♦ Uncertainty in movement of sterling <div style="border: 1px solid black; padding: 5px; margin-top: 20px; display: flex; justify-content: space-between;"> NA ID IC SC CC </div>	<div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;"> R1.SPS.3 Identification of bad/doubtful debt issues </div> <ul style="list-style-type: none"> ♦ TR: 2015 significant BD / £222k (out of £351k) / Majestic w/o ♦ Bad debts £78k / allowance for TR £86k ♦ 20% is a significant percentage / appears prudent ♦ Prov DD: allowance which attempts to mitigate future risk ♦ Allowance impacts OP but not cash ♦ 7 point customer evaluation / expected TR days 45 days <div style="border: 1px solid black; padding: 5px; margin-top: 20px; display: flex; justify-content: space-between;"> NA ID IC SC CC </div>

APPLYING JUDGEMENT

CONCLUSIONS AND RECOMMENDATIONS

**R1.AJ.1
Evaluation of revenue analysis**

- ♦ Rev growth: 27.5% v 29.5% / **good** in competitive market
- ♦ Excl Wedding: rev up £1,082k/16% / not met (£8m) target
- ♦ Like-for-like comparisons difficult due to one-off events
- ♦ Growth: driven by volume / (170k) > production target (160k)
- ♦ Comment on customer **mix** / new customers / mktg **success**
- ♦ Static prices **with** increasing costs is **unsustainable**

NA	ID	IC	SC	CC
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**R1.AJ.2
Evaluation of COS/OC analysis**

- ♦ BP/MM: significant proportion of total costs
- ♦ BP/MM: UK purchases becoming better value for money
- ♦ BP/MM: comment on change in supplier mix
- ♦ PL/PO: actual inc **£113k** / extra CADP depn
- ♦ GP%: costs not being passed on / **worrying** downward trend
- ♦ OP%: comment on operating cost control

NA	ID	IC	SC	CC
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**R1.AJ.3
Evaluation of bad/doubtful debt issues**

- ♦ TR more diverse (eg Henry Six £177k out of £1,231k)
- ♦ BD/Prov DD together impact OP **significantly** (£164k)
- ♦ BM need to balance prudence v reality of BD experience
- ♦ BD unpredictable / risk of trading / insurance expensive
- ♦ Bad debt impacts cash received going forward
- ♦ Inc in TR days / > expected / credit control weakening

NA	ID	IC	SC	CC
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**R1.CR.1
Draws conclusions (under a heading)**

- ♦ Revenue: qualitative comment on change **with fig**
- ♦ COS/GP/GP%: qualitative comment on change **with fig**
- ♦ OC/OP/OP%: qualitative comment on change **with fig**
- ♦ Concludes on **impact** of BD/prov DD

NA	ID	IC	SC	CC
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**R1.CR.2
Makes recommendations**

- ♦ Further revenue analysis by customer
- ♦ Investigate DWC delivery problems
- ♦ Critical to address static prices / find cheaper/UK suppliers
- ♦ Consider BD insurance / improve credit control
- ♦ Review 20% DD allowance
- ♦ Other commercial recommendations

NA	ID	IC	SC	CC
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CC	
SC	
IC	
ID	
NA	
Total	11

REQUIREMENT 2 - Evaluation of Wisher proposal

ASSIMILATING AND USING INFORMATION	STRUCTURING PROBLEMS & SOLUTIONS
<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> R2.AUI.1 Appendix 2 </div> <ul style="list-style-type: none"> ◆ Well presented and clearly derived ◆ Calculates COS for both 2019/2020 ◆ Calculates GP for both 2019/2020 ◆ Calculates OP for both 2019/2020 <div style="border: 1px solid black; padding: 5px; margin-top: 10px; display: flex; justify-content: space-between;"> NA ID IC SC CC </div> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> R2.AUI.2 AI/CS Exam info (report/appendix) </div> <ul style="list-style-type: none"> ◆ Revenue: £8,493k same for both years ◆ BP: £3,982k / £23.42 per unit ◆ BP: uses 3m/9m split ◆ BP: 20% inc in 2019 / 9m=12m cost in 2020 ◆ MM/PL: £1,925k + £433k / £11.32 + £2.55 per unit ◆ PO: 10% inc / £661k / £3.89 per unit <div style="border: 1px solid black; padding: 5px; margin-top: 10px; display: flex; justify-content: space-between;"> NA ID IC SC CC </div> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> R2.AUI.3 Business issues / wider context </div> <ul style="list-style-type: none"> ◆ Wisher wants to supply 50% of BM base product ◆ Wisher has limited financial history / new company ◆ Currently only three BP suppliers ◆ Increasing BP costs from o/seas supplier (Fomenta) ◆ Strategy to use more reshredded cotton / actively testing ◆ Reshredded cotton may be a fire risk <div style="border: 1px solid black; padding: 5px; margin-top: 10px; display: flex; justify-content: space-between;"> NA ID IC SC CC </div>	<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> R2.SPS.1 Identification of GP/OP (report) </div> <ul style="list-style-type: none"> ◆ GP for 2019 with fig ◆ GP for 2020 with fig ◆ Operating loss for 2019 with fig ◆ Operating profit for 2020 with fig ◆ Identifies GP%/OP%/mark-up <div style="border: 1px solid black; padding: 5px; margin-top: 10px; display: flex; justify-content: space-between;"> NA ID IC SC CC </div> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> R2.SPS.2 Assumptions </div> <ul style="list-style-type: none"> ◆ Revenue: eg prudent given growth / optimistic no Royal Wedding ◆ BP 20% inc: comment with reason eg figures from Wisher ◆ 2020 economies: comment with reason eg may not materialise ◆ PL static: comment with reason eg pay rises/subsidy ◆ PO 10% inc: comment with reason eg additional quality checks ◆ OC static: discussion of figure identified <div style="border: 1px solid black; padding: 5px; margin-top: 10px; display: flex; justify-content: space-between;"> NA ID IC SC CC </div> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> R2.SPS.3 Wisher comments incl business trust/ethics </div> <ul style="list-style-type: none"> ◆ BM has responsible attitude to environment / corporate ethos ◆ Product not yet tested for quality / flammability not tested ◆ Wisher ability to supply quantities of BP not known ◆ Wisher is in Cardiff / BM responsible for collection ◆ BM would be significant customer / 40% of Wisher sales ◆ Wisher strict trading terms (30 days) <div style="border: 1px solid black; padding: 5px; margin-top: 10px; display: flex; justify-content: space-between;"> NA ID IC SC CC </div>

APPLYING JUDGEMENT	CONCLUSIONS AND RECOMMENDATIONS
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R2.AJ.1 Evaluation of Wisher proposal
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- ◆ Significant contract / calc of relative size / overreliant on W
- ◆ Operating loss would be unsustainable / impact solvency
- ◆ Inc OP from 2020 addresses low margins / OP% > 1.6%
- ◆ Adverse impact on existing supplier relationships
- ◆ Unknown acceptability of off-white/reshredded material
- ◆ Changes in assumptions will impact GP/OP/decision

NA	ID	IC	SC	CC
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R2.AJ.2 Evaluation of assumptions
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- ◆ Revenue: not critical as COS linked to volume
- ◆ BP: 20% extra cost drives the operating loss in 2019
- ◆ Economies of scale: crucial to make deal attractive
- ◆ PL/PO: extra staff/costs needed for collection process
- ◆ PO: BM little experience using reshredded cotton
- ◆ OC: BD may not recur / DD prov may change

NA	ID	IC	SC	CC
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R2.AJ.3 Evaluation incl business trust/ethics
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- ◆ In line with ethos / sustainability of materials
- ◆ Short timescale to do testing (Jan 2019 start)
- ◆ Switching to Wisher for 50% of base product is very high risk
- ◆ Low carbon footprint / quick delivery / easy to resolve issues
- ◆ Wisher overreliant on BM / diversifies current suppliers
- ◆ T&C may indicate W financial strain / impact on BM cashflow

NA	ID	IC	SC	CC
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R2.CR.1 Draws conclusions (under a heading)
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- ◆ Concludes on 2019 operating loss **with fig**
- ◆ Concludes on 2020 operating profit **with fig**
- ◆ Concludes on assumptions
- ◆ Concludes on evaluation of Wisher incl business trust/ethics
- ◆ Concludes on way forward

NA	ID	IC	SC	CC
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R2.CR.2 Makes recommendations
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- ◆ Market research on new product / back-up for costs
- ◆ Perform Due Diligence on Wisher
- ◆ Negotiate T&C (eg payment terms / price (<20%))
- ◆ Negotiate starting with less than 50% of supply
- ◆ Perform quality tests on reshredded cotton BP
- ◆ Other commercial recommendations

NA	ID	IC	SC	CC
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CC	
SC	
IC	
ID	
NA	
Total	11

REQUIREMENT 3 - Evaluation of proposal to supply MEC

ASSIMILATING & USING INFORMATION

STRUCTURING PROBLEMS & SOLUTIONS

R3.AUI.1 Workings / report

- ♦ Well presented and clearly derived
- ♦ Calculation for BM (Option 1) supplying BP
- ♦ Calculation for MEC (Option 2) providing BP
- ♦ Calculates GP%

NA	ID	IC	SC	CC
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R3.AUI.2 AI/CS Exam info (report / workings)

- ♦ BP: £22/£23.4 for Option 1 £0 for Option 2
- ♦ MM/PL/PO: £11/£11.3 + £3/£2.6 + £4/£3.5
- (OR Option 1 - 2017 £40 / 2018 £40.8)
(OR Option 2 - 2017 £18 / 2018 £17.4)
- ♦ Mark-up: Option 1 correctly uses 30% (£12/£12.2)
- ♦ Mark-up: Option 2 correctly uses 50% (£9/£8.7)

NA	ID	IC	SC	CC
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R3.AUI.3 Business issues / wider context

- ♦ Margins being squeezed / difficult to raise prices
- ♦ BM has experience with cruise customers
- ♦ Previous problem with delivery to DWC
- ♦ BM supply quality product / do rigorous testing

NA	ID	IC	SC	CC
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R3.SPS.1 Analyses financial calculations (report)

- ♦ Option 1: costs based on existing process / more certain
- ♦ Option 1: higher £ contribution / selling price > £50
- ♦ Option 2: reduces cash outflow as no BP to buy
- ♦ Option 2: higher % contribution
- ♦ Initial contribution from 1,200 order:
Option 1 £14.4k-£14.7k Option 2 £10.4k-£10.8k

NA	ID	IC	SC	CC
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R3.SPS.2 Operational and strategic issues

- ♦ Quality of MEC BP unknown
- ♦ Timing/quantity of MEC BP unknown
- ♦ No cost of delivery included with either option
- ♦ Product required by 15 Dec / locations notified at short notice
- ♦ Rapid/repeated changes in monogram designs expected
- ♦ 1,200 is approx 1 day production

NA	ID	IC	SC	CC
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R3.SPS.3 Comment on ethical/bus trust issues

- ♦ Approached by intermediary
- ♦ Recently registered UK company / no references provided
- ♦ Cruise ship mainly used as personal asset of MEC MD
- ♦ MEC claims >£300m revenue / MEC much larger than BM
- ♦ MEC has reputation for lack of loyalty to suppliers
- ♦ MEC bank is based abroad (Switzerland) rather than UK

NA	ID	IC	SC	CC
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APPLYING JUDGEMENT

CONCLUSIONS AND RECOMMENDATIONS

**R3.AJ.1
Evaluates financial impact**

- ♦ Calculation of relative size of initial order / **small** order
- ♦ Considers/uses up-to-date (2018) figures for calculation
- ♦ Considers future revenue from additional work
- ♦ Payment terms worse than normal / impact on cashflow
- ♦ **Mark-ups** not yet agreed / compares **GP%** to other work
- ♦ Negotiating T&C may be difficult / MEC are demanding

NA	ID	IC	SC	CC
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**R3.AJ.2
Evaluation: operational/strategic issues**

- ♦ Poor quality will mean production problems/extra costs
- ♦ Delays receiving BP could create difficulties/costs
- ♦ Delivery to specific locations could be significant cost
- ♦ May be insufficient time for testing/production/delivery
- ♦ Short deadlines could be stressful for BM staff
- ♦ Production capacity appears sufficient for additional work

NA	ID	IC	SC	CC
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**R3.AJ.3
Eval/recs: ethical/business trust issues**

- ♦ Establish working relationship/contract with MEC
- ♦ Consider money laundering risk / reputational risk
- ♦ Establish business arrangement between MD & MEC
- ♦ MEC: Due Diligence / doesn't meet customer criteria
- ♦ MEC may not provide repeat business
- ♦ BM would prefer UK bank

NA	ID	IC	SC	CC
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**R3.CR.1
Draws conclusions (under a heading)**

- ♦ Concludes on Option 1/Option 2 **with figs**
- ♦ Concludes on operational/strategic issues
- ♦ Concludes MEC/Option 2 is **too risky** for Dec start
- ♦ Concludes on ethical/business trust issues re MEC

NA	ID	IC	SC	CC
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**R3.CR.2
Makes recommendations**

- ♦ Negotiate T&C (eg mark-up, payment terms)
- ♦ Confirm quality/quantity of BP from MEC
- ♦ Consider logistics/cost of delivery to ship location
- ♦ Assess possibility of future/ongoing contracts
- ♦ Consider order book/pipeline for capacity
- ♦ Other commercial recommendations

NA	ID	IC	SC	CC
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CC	
SC	
IC	
ID	
NA	
Total	11