



ICAEW tutor conference 2019

STRATEGIC BUSINESS MANAGEMENT

Agenda

- Introduction - progression from Certificate and Professional Levels
- Overview of SBM Syllabus – Changes from 2018
- Setting the questions and designing examinations
- How to answer SBM exams – and how to fail!
- How did candidates perform in November 2018
- The marking process – review of two candidate scripts
- CBE – errors and difficulties

Certificate Level

**ADVANCED
LEVEL**

Case Study

Corporate Reporting

Strategic Business
Management

**PROFESSIONAL
LEVEL**

Business Planning:

Business Strategy

Audit and Assurance

Financial
Accounting and
Reporting

Financial
Management

Tax Compliance

Self study bookkeeping module

**CERTIFICATE
LEVEL**

Accounting

Assurance

Business
and Finance

Law

Management
Information

Principles of
Taxation

Professional Level

**ADVANCED
LEVEL**

Case Study

Corporate Reporting

Strategic Business
Management

**PROFESSIONAL
LEVEL**

Business Planning

Business Strategy

Audit and Assurance

Financial
Accounting and
Reporting

Financial
Management

Tax Compliance

Self study bookkeeping module

**CERTIFICATE
LEVEL**

Accounting

Assurance

Business
and Finance

Law

Management
Information

Principles of
Taxation

Advanced Level

**ADVANCED
LEVEL**

Case Study

Corporate Reporting

**Strategic Business
Management**

**PROFESSIONAL
LEVEL**

Business Planning

Business Strategy

Audit and Assurance

**Financial
Accounting and
Reporting**

**Financial
Management**

Tax Compliance

Self study bookkeeping module

**CERTIFICATE
LEVEL**

Accounting

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**Business
and Finance**

Law

**Management
Information**

**Principles of
Taxation**

Progression to Strategic Business Management (SBM)

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

SBM – Overview

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

Strategic Business Management– Syllabus

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

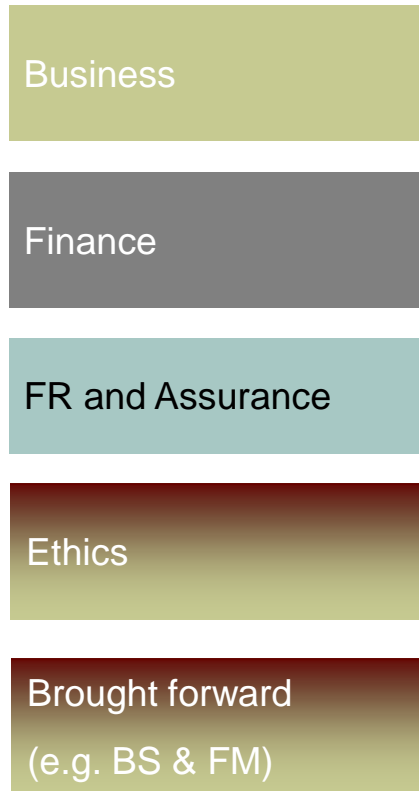
Strategic Business Management

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

Ethics may feature in either question

Strategic Business Management

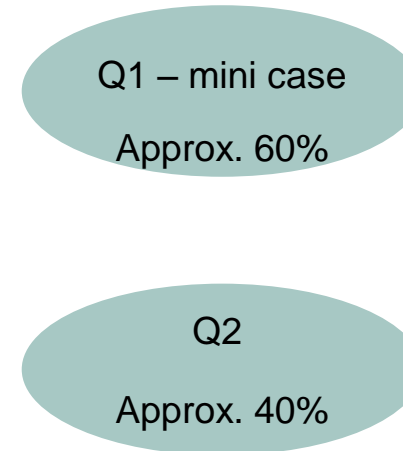
Main syllabus areas



Skills



Questions



Brought forward knowledge

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

SBM Syllabus – Business topics

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

SBM Syllabus – Finance topics

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

SBM Syllabus – Financial reporting

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

SBM Syllabus - Assurance

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

Ethics (SBM)

- Ethical dilemma
- Ethical issues for specific individuals and/or organisations
- Identify ethical issues/principles Identify ethical actions
- Balanced approach
- SBM – Role typically the accountant in business
- Detached requirement

Ethics

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

Taxation - SBM

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

EXAMPLES

- Tax treatment for investment decision could be given in question for candidates to determine cash flows for investment appraisal.

Overview of Professional skills update

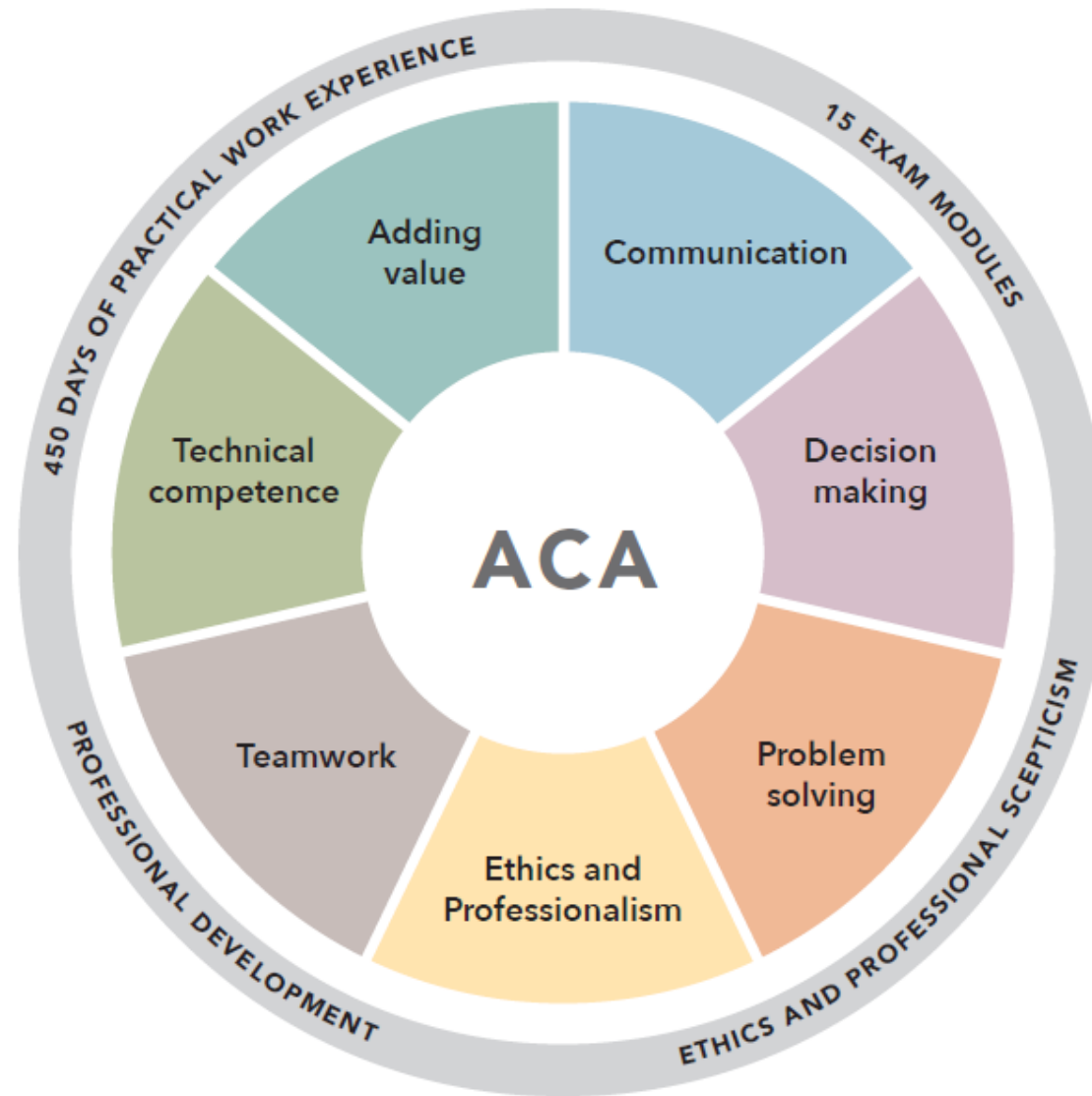
Background.

Project undertaken by ICAEW identified 5 key professional themes:

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

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

Updated professional development skills



Updated professional development skills

The exams form part of the bigger professional skills picture.

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

At SBM (and CR) these skills are:

- Part of the formulation and fabric of the question design
- Identified explicitly in the marking of the candidates' answers

Skills in summary

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

Questions & Answers



Steps in writing the paper

Team of writers and reviewers

Academics and practitioners

Student moderators

ICAEW exam review board with
the Case Study team

ICAEW exam
boards

Away days and
moderation

First draft
circulated

Syllabus and
skills

Scenario - circulated by
writers

Marking process

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

The marking process

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

After the marking process is completed

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

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

Advice to candidates

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

How to approach Advanced Level exams

Skills

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

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

How to fail

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

How to fail

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

How to fail

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

Chinese proverbs

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

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

Questions & Answers



*Results and statistics –
July and November 2018 pass rates*

	Corporate Reporting	Strategic Business Management
July 2018	(n = 2,764) 81.2%	(n = 2,598) 85.7%
November 2018	(n = 2,792) 81.0%	(n = 2,621) 87.8%

Average marks by Question 2018 - SBM

	Q1	Q2	Total
July 2018	62.6%	56.8%	60.2%
November 2018	61.7%	60.6%	61.5%

Question 1: Ketch plc - Summary

- Ketch plc manufactures air conditioning units. It has a component factory in Mumbai, but is about to sell it.
- Ketch has large surplus cash balances. The sale of the Mumbai operations will add to these balances.
- Three proposals to use surplus cash balances are:
 - Capital investment in a new UK factory
 - Share buy-back (purchase of own shares)
 - Invest in corporate bonds
- An ethical issue has arisen around an attempt by two directors to force through the share buy-back proposal.

Q1 Ketch plc - Requirements

(1) With respect to the decision to sell the Mumbai operation

- Explain the financial benefits and risks of this decision.
- Set out and explain the financial reporting implications of Mumbai sale.

(2) Evaluate and compare two alternative sourcing of cooling components:

- Purchase a new UK factory; or
- Use a UK-based third-party supplier.

(3) With respect to the proposed share buy-back:

- Discuss the factors to be considered in determining the price per share to be offered in the share buy-back arrangement.
- Explain benefits & problems of the share buy-back to each stakeholder.

Q1 Ketch plc – Requirements (cont)

(4) With respect to the investment in corporate bonds:

- Explain the benefits and risks of using the surplus funds to buy corporate bonds and explain how any risks could be mitigated.
- Evaluate the differing views of Zoe and Sue.
- Use the Ploome and Ghlast examples to illustrate your points.

(5) Recommend, with reasons, which of the three proposals is the best use of the surplus cash for Ketch.

(6) With respect to the conversation that I overheard and recorded:

- Set out any ethical implications for Rohit and Katy.
- Explain the ethical implications for GRC.
- Recommend actions that GRC should now take.

Q1: Requirement (1) - Sale of Mumbai operation

How did candidates perform?

Common errors or weaknesses:

- Did not use data (if there are numbers in the question, then there should be numbers in answer)
- For FR, did not identify a 'disposal group'
- Poor impairment calculations (in general)
- Included non-financial risks and benefits

Q1: Requirement (2) – Long-term sourcing of cooling components

Common errors or weaknesses:

- While most candidates attempted an NPV, calculations were generally poor (eg wrong discount rate; confusing growing perpetuity with annuity)
- Little consideration of whether WACC was a suitable discount factor.

Q1: Requirement (3) – Share buy-back

Generally well attempted.

Weaker candidates showed the following:

- Presentation disjointed.
- Discussed company valuation, rather than a buy-back of shares.

Q1: Requirement (4) – Corporate bonds

Common errors or weaknesses:

- Bond yield calculations poor, particularly for bond paying the annual coupon – sometimes not attempted at all.
- Limited understanding of bond characteristics.
- Discussing increased gearing (ie as though borrowing, rather than investing).

Q1: Requirement (5) – Recommendations

Common errors or weaknesses were:

- Only mentioned their favoured option, with no comparative discussion of other options.
- Concluding by assertion – no reasoning given.
- Failure to draw on earlier discussion.

Q1: Requirement (6) – Ethics

Weaknesses included:

- TEF framework in a rather wooden manner: (i) no other ethical principles; and (ii) tended to give equal emphasis to each of TEF.
- Did not structure answer according to the question.
- Focus solely on governance issues, rather than ethical issues.
- Insufficient attention to actions. Often a random list, rather than actions for each ethical issue.

Q1: Requirement (6) – Ethics

Effect - It is clear that both Katy and Rohit intend on taking actions which will hurt the other major shareholders. Rohit has stated that she intends to not only go behind the other directors' backs to vote them out but also withdraw the AIM listing in order to induce them to sell their shares.

Withdrawing the listing for this reason would clearly not be putting the best interests of the company first and would therefore have an adverse effect on the other shareholders. Katy stating that she wants the sharebuy back so she can sell her own shares is also not in the best interests of the company and may lead to her proposing a higher offer than necessary.

Fairness - Both Katy and Rohit's stated actions are damaging to the other shareholders as discussed above and it is clear that no reasonable third party would deem it fair.

Transparency - There is also a clear lack of transparency here. The conversation is being had in private rather than a board meeting which would be the appropriate setting.

Legality - The company's shares are publicly listed and as such there is legislation in place to avoid any potential manipulation of the share price. Katy may try to set an artificially high price for the buy back and as such this may result in legal implications.

Although the conversation had was highly unethical the means by which Hannah was exposed to it is also questionable. Recording the conversation in secret is a clear breach of client confidentiality and should not have been done.

In terms of additional actions to take Hannah should consult with GRC who may wish to raise the matter with the rest of the board. Only if GRC think that the law has been broken do they have the right to disclose the matter. If they are unsure about the future steps they should contact the ICAEW.

Question 2 – Zeta plc

Summary of scenario

- Zeta is a retailer, selling high-quality sports equipment for golf and skiing.
- Sales are made through two distribution channels:
 - (i) 10 retail shops
 - (ii) online through Zeta's website.
- In the past, little use made of database, but now to be used for digital marketing.
- IT consultant has extracted some key data from database.
- Zeta is considering acquiring the shares, or the brand, of a supplier, Ski-Gear.

***Zeta* - Requirements**

- (a) Analyse and evaluate the financial performance of Zeta.
- (b) Explain how a new digital marketing strategy, in combination with data analytics, could increase revenue and improve the long-term value and effectiveness of the Zeta brand.
- (c) For Ski-Gear:
 - Explain methods for determining value of Ski-Gear brand.
 - Explain the FR treatment of Ski-Gear brand in the consolidated financial statements for (i) share acquisition (ii) purchase brand.
 - Explain the due diligence procedures for the brand valuation.

Q2: Requirement (a) – Analysing performance

Weaknesses included:

- Did not identify the four-way analysis of stores/online and golf/skiing.
- Stating which sales had risen and fallen without providing explanations or possible causal factors.
- Data in the question on costs ignored.
- Little on the relation between revenue and profit.

Q2: Requirement (A) – Analysing performance

1	Analyse and evaluate financial performance				
2	Revenue change	2017	2018	% change	
3	- stores	24200	22300	(7.85%)	
4	- online	7100	8600	21.2%	
5	- golf	20,000	18600	(7%)	
6	- skiing	113000	11300	0	
7	total	31,300	30,900	(1.27%)	
8					
9	Revenue Mix				
10	Stores : online				
11	Golf : Skiing				
12					
13	Gross Profit margin				
14	- golf	25%	28%		
15	--skiing	30%	22%		

Q2: Requirement (b) – Digital marketing and data analytics

Weaknesses included:

- Failure to consider the numerical data provided by the IT consultant.
- General points made rather than a focus on the value and effectiveness of the brand.
- Often little structure or relevance to the scenario (some answers could apply to any company).

Q2: Requirement (c) – Ski Gear acquisition

Valuing the brand

- Discussed issue of valuing a company, rather than a brand.
- No framework for valuation.

Financial Reporting

- General points on consolidated accounting – lack of focus on the brand.
- Failure to consider how the brand would subsequently be used (IFRS13).

Due diligence

- Not specifically related to brand value.
- Ignoring clues in the question on brand value.

Q2: Requirement (c): Ski Gear acquisition - FR

(b)

Ordinary share capital purchased:

If all of the share capital was acquired and there were no additional rights to control held by other parties then Ski-Gear would become a 100% subsidiary of Zeta.

In the consolidated financial statements the results of both Ski Gear and Zeta would be included in the financial statements as one entity. The consolidated statement of financial position would include all of Zeta's assets and liabilities as well as all of Ski Gear's assets and liabilities at their fair values. Any profit earned from SkiGear would be included 100% in the consolidated statement of profit or loss however this would have to be adjusted to reflect the proportion of profits which were earned since SkiGear became a subsidiary.

Goodwill would be calculated on acquisition. This would be based on the fair value of the total consideration paid by Zeta as well as the fair value of the net assets. Goodwill would sit within the assets in the CSFP and would be checked each year for impairment.

If the SkiGear brand had not been developed by SkiGear themselves and had instead been acquired separately it would be appropriate to recognise this at its fair value within the consolidated accounts.

SkiGear Brand Only:

As the brand would be being purchased and not created internally, the brand should be recognised as an intangible asset. This would be done at cost which should be the same as its fair value. Each subsequent year the brand should be reviewed for any evidence of impairment.

Questions & Answers



Marking some actual scripts

- Question paper November 2018
- Mark plan
- Tutor mark plan (confidential)
- Two hand written scripts
 - Practice Script A
 - Practice script B

Marking session

Samples scripts

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

Marking session

Question 1 – Ketch	Max	Head-room	Candidates	
			A	B
1A Sale of Mumbai operations	18	20		
1B Sourcing cooling components	10	11		
1C Share buy-back	10	11		
1D Corporate bonds	10	11		
1E Recommendations	4	4		
1F Ethics	8	9		
	60	66		

Marking session

Question 2 - Zeta	Max	Head-room	Candidates	
			A	B
2A Evaluate financial performance	12	13		
2B Digital marketing and data analytics	10	11		
2C Ski-Gear	18	20		
	40	44		

CR and CBE 2018

- Both July 18 and November 18 were CBE exams
- Style/structure of exam not affected
- Follow advice in most recent ICAEW CBE Guide on website

**CANDIDATES SHOULD PRACTISE PRODUCING ANSWERS
USING CBE ICAEW RESOURCES**

CR and CBE

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

Other CBE points

- Markers can only see what is shown in the marking area

Test: 2018 Question bank

1
2
3
4
5
6
7
8
9
10
11
12
13
14

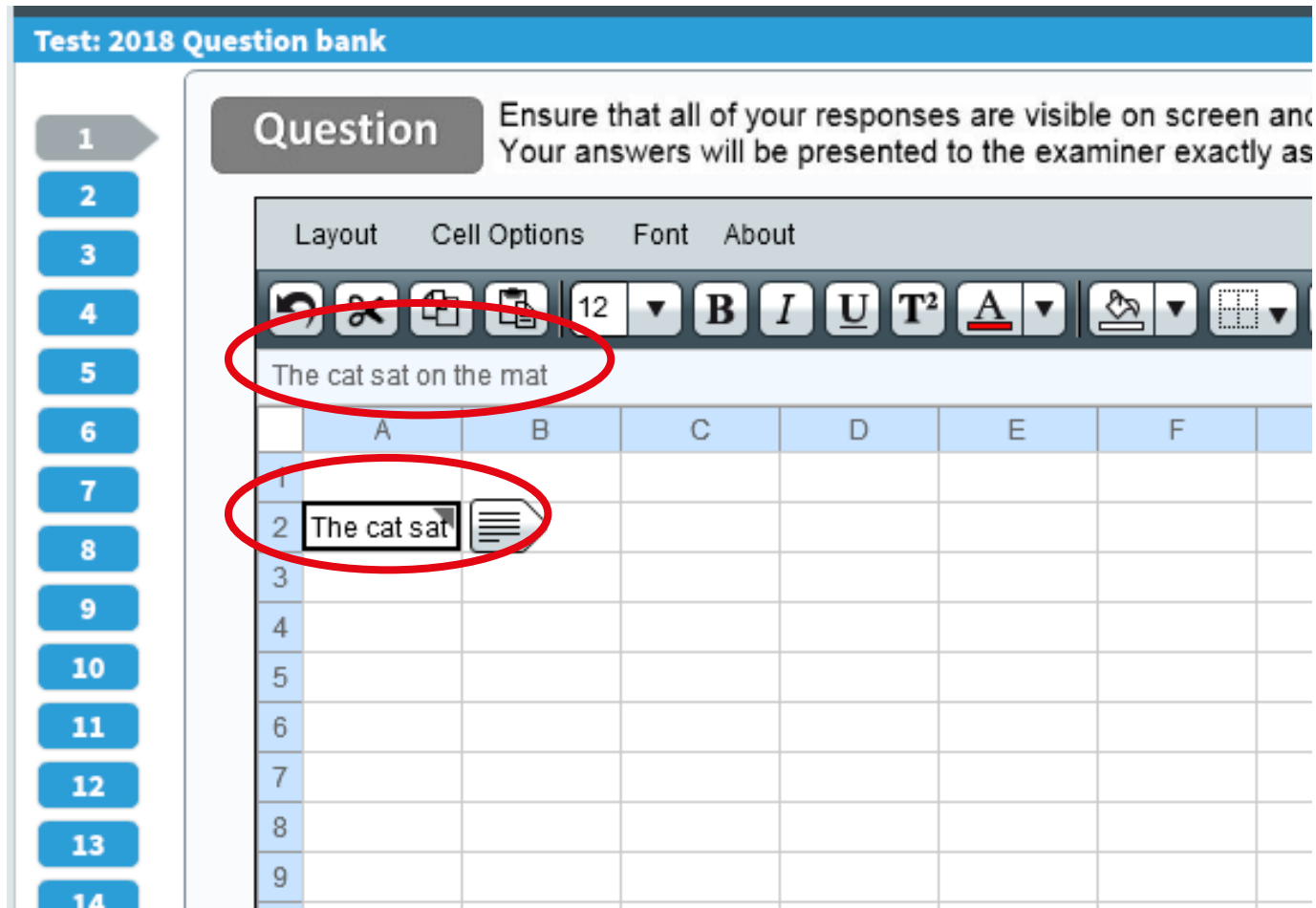
Question Ensure that all of your responses are visible on screen and Your answers will be presented to the examiner exactly as

Layout Cell Options Font About

12 B I U T² A

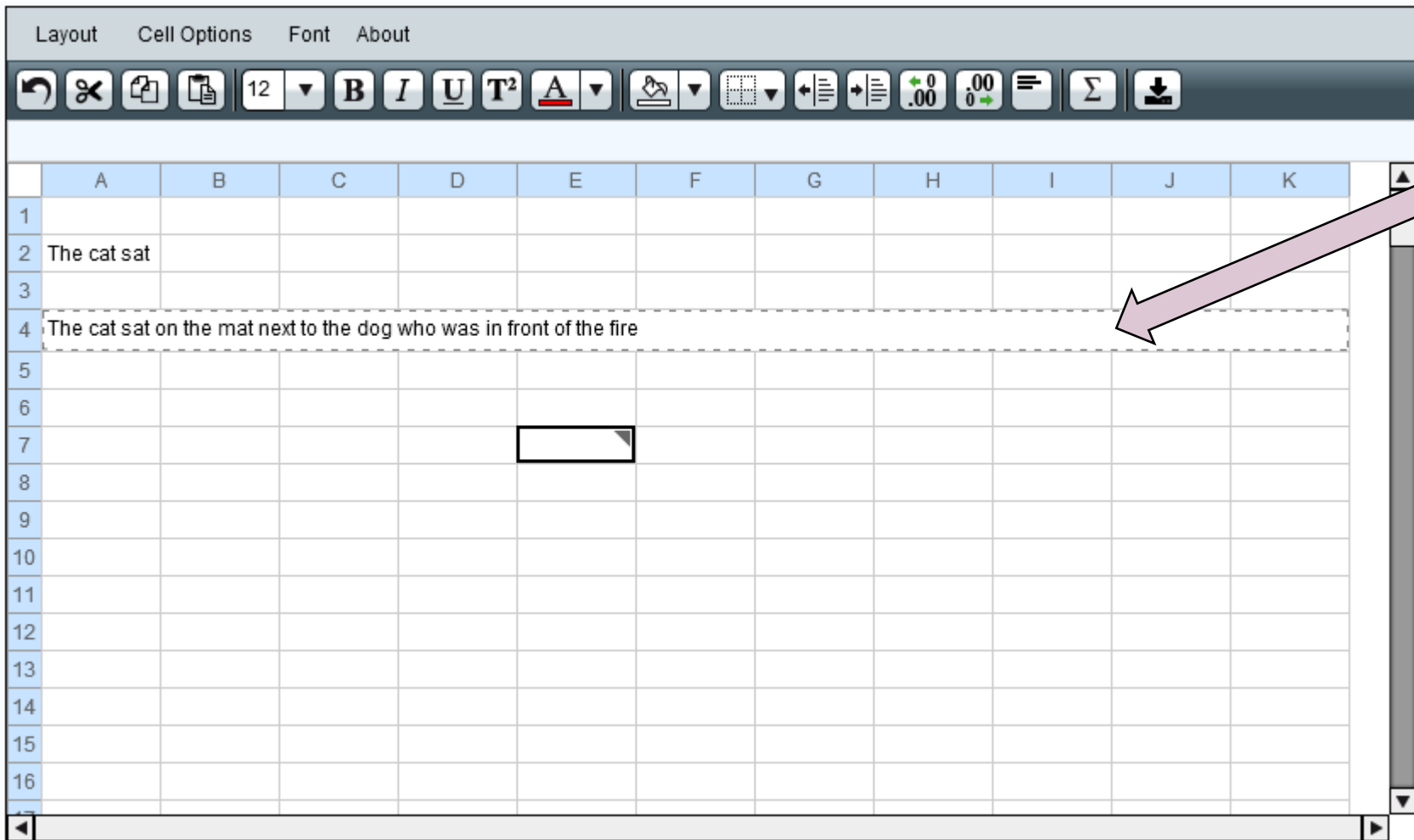
The cat sat on the mat

	A	B	C	D	E	F
1						
2	The cat sat					
3						
4						
5						
6						
7						
8						
9						

The screenshot shows a CBE marking interface. On the left is a vertical list of question numbers from 1 to 14, with '1' highlighted. The main area displays a question: 'Ensure that all of your responses are visible on screen and Your answers will be presented to the examiner exactly as'. Below the question is a rich text editor toolbar with options for 'Layout', 'Cell Options', 'Font', and 'About'. The toolbar includes icons for undo, redo, copy, paste, font size (set to 12), bold (B), italic (I), underline (U), superscript (T²), text color (A), background color, and grid. Below the toolbar, the text 'The cat sat on the mat' is entered. A table with 6 columns (A-F) and 9 rows is shown. The text 'The cat sat' is entered in cell A2. Two red circles highlight the toolbar icons and the text in cell A2.

Other CBE points

- Markers can only see what is shown in the marking area



Change to the Word processing tool.

Other CBE points

- Encourage students to break paragraphs
- Long paragraphs are difficult to follow and difficult to allocate marks

In this scenario we can see that Max is not acting in line with the ICAEW code of ethics which he is bound to as an ICAEW accountant. As we can see in the phone conversation he has said that he is struggling with the new IFRS introductions since he has qualified and is struggling to keep up, this shows that he is not showing professional competence in the fact that he is not maintaining adequate accounting knowledge to make sure he is well informed and prepared to deal with any accounting issues effectively. In addition to this, he has breached confidentiality by telling his friend about the sale which is not yet public knowledge, he has abused a position of trust in order to give advice to his friends, which also shows poor professional behaviour as he is not acting responsibly nor in line with expectations. In addition to this his integrity can be brought into question as the finance director has offered him a significant discount on a new car if he does not make too many changes to the financial statements. This shows that Max may potentially be willing to overlook changes to the accounts as he now has a vested interest in keeping the account changes brief in order to secure the significant discount, clearly showing a self-interest threat too. Finally we can call into question Max's objectivity when he suggests that he can buy the car on behalf of a friend to pass on some of the discount, not all of it, in order to gain financially from this situation. This is a clear threat to objectivity as it shows that Max is once again not showing the right professional behaviour, and also is not being objective in the sense that he is overlooking issues to think of his own financial benefits and is not being objective as he is leaving soon and therefore will not be fearing any forms of potential repercussions as a result of his actions.

Other CBE points

- Students MUST practice using the software
- Otherwise:
 - Waste time
 - Risk losing marks
 - Loss of concentration / frustration in the exam
- Do QB practice using the software
- Practice using the in-built numerical function and then TYPE out the calculation

Questions & Answers



