



# *Case Study November 2020*

**BEAL PUBLICATIONS LIMITED (Beal)**

4 FEBRUARY 2021

SAM BINKS

# ICAEW November 2020 Case Study

- The 2020 Case Study Exam (*refer to Examiners' Report*)
- Case Study Exam results overview
- Tutors' comments (*selected*)
- Advance Information (AI): case scenario
- Case Study Exam Paper
  - Requirements
  - Additional information
- Assessment factors

# A qualification worth achieving

- November 2020 Case Study pass rate 76.4%
- Candidates may interpret this as being:
  - “3 out of 4 candidates pass each sitting of the Case Study”
  - “ therefore there is a good chance that any candidate can pass”

The alternative (and probably more realistic) view is:

- “1 in 4 of all candidates fails”
- Candidates ought to be aware of this 2nd alternative rather than simply believing *“the odds of passing are in my favour”*.

# Case Overview

## Beal Examiners' report (extracts)

- Beal is a company engaged in the publication industry
- R1 financial analysis & financial strengths for bank meeting (advice to board)
- R2 financial data analysis: price increase proposal (decision re MLE)
- R3 analysis of a new Special Report customer proposal (financial /ethical)
- Not quite an even spread of grades - R1 slightly above R2, R3 (-)
- As usual some evidence of time pressure
  - Self induced?
  - Caused by Case Study material: too broad; too constrained?
  - Caused by the nature of the requirements?

# Process of today: examiners / tutors / candidates

- Examiners need to emphasise certain facets of exam practice to candidates – can only do that through tutors
- The tutors are thus in the role of “proxy” candidates
- Examiners believe tutors could pass /have passed the CS
- Tutors have to feed any “useful” ideas to candidates
- Tutors also have questions “qua tutor”
- This means that today is two-level process

# Tutors' comments

## Scenario

Beal is a magazine publisher, similar in many respects to The Economist

Beal revenue is driven by subscriptions to a magazine, via a mix of corporate and individual customers, who can take a physical or electronic copy, or both.

Beal magazine sales drive advertising sales.

Beal also produces Special Reports that are commissioned. These are in-depth bespoke reports on current affairs.

The company is growing and profitable, but struggles to turn profit into cash. Covid looms over them as does a tight overdraft.

# Tutors' comments continued ... [edited]

- A key industry trend was that the market is competitive ...
- ... online magazine content ... adverts are more easily skipped over.
- Advertisers are cutting back on spending ... cut[ting] by 10% per month ...
- SR work saw significant growth after the 2008 financial crash ... a similar boom could be experienced following the [current] economic uncertainty
- MLE appear[s] to suffer an initial fall in circulation following a price rise ... A price rise has happened every three years and the next one is due in 2020.
- ... lot[s] of business trust issues concerning elements such as independence of contributors, the validity of SR output and the influence of advertisers on content.

# Tutors' comments continued ... Requirements

## Requirements

- The requirements were all logical continuations of the story presented in the AI. The numerical content was significant in both R2 and R3, however all the calculations requested were very logical, with a significant amount of overlap on those in R2.
- This exam paper is consistent in its requirements with past CS examinations. All three requirements were very fair tests for candidates and better candidates would have had plenty of opportunities to exhibit their skills. Requirement 2 may have been the most challenging requirement given the paucity of non-financial information provided in the scenario, but those candidates who were most familiar with the Advance Information would have had many issues to discuss here.



# Tutors' comments continued ... R1

- R1 – review of the management accounts and give advice on the upcoming meeting with the bank. The later part was strongly directed ‘advise on four strengths of the business across its financial statements’.
- Having assessed revenue, cost of sales and gross profit, candidates were asked to advise on other financial strengths that could be used in a forthcoming meeting with the company’s bank.
- This could have covered a very broad scope of issues, but the scenario gave clear guidance on areas to consider such as operating profit, the statement of financial position and cash flows. This should have allowed better candidates to show off their financial analysis skills and allowed candidates to use more of the issues that they would have considered during their preparation for the exam such as an analysis of cash flows.

# Tutors' comments continued ... R1

- Given that the task was to prepare Beal for an upcoming meeting with the bank it should have been focused on financial strengths that the company could use in order to allay any bank concerns and cement Beal's relationship with its key finance provider.
- The examination made it clear that the focus should therefore only be on strengths, *but it will be interesting to find whether many candidates veered off into a discussion of financial weaknesses. It's unlikely that such a lack of focus or understanding of what was being asked will have been well rewarded by the exam team. [Emphasis added].*
- Overall this requirement was a very reasonable requirement that would have allowed better candidates to show off their financial analysis skills.

# Tutors' comments continued ... R2

- R2 – assess the impact of the company's profits over the next 2 years is the cover price of the MLE magazine is raised to £9.99 or £10.99.
- Two different pricing options were provided and details were provided on how each would impact on circulation, AD revenue, cost of sales, marketing costs and other operating costs.
- Candidates were asked to evaluate the adequacy of assumptions used in the calculations. There was a list of seven assumptions for each calculation which should have provided candidates with a clear focus on the areas to consider and evaluate. The evaluation of assumptions is typically a challenging area of this requirement for candidates but the examiner appears to have given candidates as much help and direction as possible in this area.

# Tutors' comments continued ... R2

- Better candidates would have included an assessment of assumptions on areas that weren't expected to change such as distribution costs.
- Weaker candidates may have failed to spot linkages between assumptions or failed to challenge the basis of the assumptions (such as the fact that they used 2020 costs as a starting position and will have ignored how these costs may change during a two year period even without any price rises).
- The final element concerning non-financial issues will have taken careful thought and very little help was provided in the scenario. It may have been that candidates had to rely on pre-prepared issues (such as information in the Advance Information that consumers have a perceived price barrier to items priced beyond £10).
- Overall this requirement is fair in that it mixes together some easier elements with more challenging ones. The calculations should have been very straightforward and the examiner has tried to give as much help as possible on which assumptions candidates should assess.

# Tutors' comments continued ... R3

- R3 – assess a proposal to undertake a large SR contract with a green energy company, which also had a very large MLE advertising contract attached.
- To evaluate the financial impact a calculation was required. Information was given on how much EI would pay as well as lost revenue from Beal having to remove adverts from other companies in EI's industry (sustainable energy production).
- There was very little information on costs associated with the contract (something that better candidates will have pointed out in their reports) which should have made the calculations in this requirement straightforward for candidates.
- Candidates will also have been expected to exercise some professional scepticism on this numbers as, for example, EI was offering to pay 'up to' £1.2m for the advertising work but this amount was not guaranteed.

# Tutors' comments continued ... R3

- As usual, candidates had to discuss the strategic, operational and ethical issues of the strategy. There was plenty of information that candidates could use here. There were the strategic issues of now having an important client that was contributing significantly to two different revenue streams.
- Overall, this requirement should have been a straightforward one for candidates. The calculations would have provided few challenges and there were plenty of issues to discuss in the other aspects of the report.
- Better candidates will have stood out by extending their analysis by exercising judgement over the information provided and the impact that this new contract would have on Beal's existing strategic and operational position.

# AI Case Scenario: Key Exhibits

- Candidate's (Ollie Phelps) role & work within Galbraith Worthy (GW) (Exhibit 1)
- Financial facts/story (Exhibits 4, 5, 6)
- Key operational issues history & strategy (Exhibits 3, 4, 7, 8, 9)
- Marketing costs (Exhibit 10)
- Contributors and subscribers (Exhibit 11)
- Competitor analysis (Exhibit 12)
- Strategic review (Exhibit 13)
- Broader scenario issues (Exhibits 2, 3, 14)

# Candidate preparation beforehand

- AI – read / analyse / know the numbers / précis key exhibits  
***CANDIDATES MUST “OWN” THE Case Study***
- “Own” Research – minimal: identify any current topics (Covid-19). Also check on any wording difficulties / just be aware (*especially re tutor “predictions” preparation*)
- A candidate should be able to summarise the case (exhibit by exhibit and overall) – in ***their*** own words – before the exam
- A candidate must know ***the detailed financial story*** of the case completely



# **Exam Paper: Additional Information to 30 September 2020**

- Candidate's tasks (Exhibit 15)
- Financial statements and notes (Exhibit 16)
- Note: operational & financial performance and request (Exhibit 17)
- Email: MLE price increase evaluation and decision (Exhibit 18a)
- Recent media article (Exhibit 18b)
- Email: Proposal from Ecology Investment (EI) for a Special Report and an advertising campaign (Exhibit 19a)
- Recent media article (Exhibit 19b)

# Exam Paper: Requirement 1

- Review Beal's 2020 management accounts
  - Revenue for each of the three streams and in total; total COS and total GP (v 2019)
  - incorporate the information in **Exhibit 17** in your answer
  - identify four of Beal's financial strengths (for bank meeting)
  - *context is Beal's 2020 overall decline in revenue during the recession; variable performances in the revenue streams; maintaining control of COS and GP.*
  - *achieving OP/PBT; good cashflow; increase margin of safety; reducing bank overdraft; no NCLs; low gearing; safe interest cover*

# Exam Paper: Requirement 2

- An evaluation of Beal's potential price increase
- Calculate Beal's expected OP for the two years (from 1 Jan 2021), using each of the two alternative pricing proposals
  - assess adequacy of assumptions
  - evaluate commercial benefits and risks when deciding
  - provide a clearly justified recommendation for the decision
- *Context is the need to maintain revenue and margins; impact on circulation; time horizon; marketing cost and effectiveness; economic issues*

# Exam Paper: Requirement 3

- Evaluation of the proposal from Ecology Investment (EI) for a Special Report (SR) and advertising campaign
- Evaluate this proposal, with relevant calculations, identifying the financial, operational and strategic risks and benefits
- Incorporate any ethical and business trust (EBT) aspects
- *Context is Beal's search for new SR and advertising business against EI's terms and conditions and differing business ethos and EBT*

# Essential steps for candidates...

- **START:** read CS Exam carefully: *try to avoid being “surprised”; consider links to AI and business in its entirety!*
- **PAUSE & REFLECT!!** Beal is your “**client**” – what’s changed?
- **DERIVE updated** overview of Beal from CSE (think / precis)
- **PLAN** (*think through, find key points, identify any links throughout the CS Exam*)
- **WRITE** (*clear, focused, concise, comprehensible*)
- **READ BACK** (*take a few minutes to re-read your own answer*)
- **FULLY ANSWER THE QUESTION ASKED !!**

# MAIN CAUSES OF FAILURE

- Poor timing in the exam (practice / concentration)
- Poor knowledge (poor preparation re AI – no excuses!)
- Poor assimilation (not focusing / scattered / panic)
- Poor clarity (unclear sentences / structure ...?)

# Planning in the CS Exam

- Use the time as suggested – ***START WATCHING THE TIME FROM THE START!!!***
- Carefully read requirements – make sure you understand ALL you are being asked to do
- Plan the answer – however that works (in **total /sections**) – ***WATCH THE TIME!***
- Do calculations neatly as appendices – *include the relevant numbers in the report*
- Write the answer clearly: short sentences; use small paragraphs
- Quickly read your answer – check plausibility / tact – ***WATCH THE TIME!***

# ANSWERING THE QUESTION

- Use the breakdown of the requirements and answer ALL parts of the requirements but ONLY the requirements asked
- Marks are split equally between requirements – the report/answer should reflect that
- Structure each section of your work in steps:
  - financial appendix; relevant business context; analysis (with numerical content); apply judgement; conclude and recommend ... then step back to develop ES content
- Do not answer the question that you have prepared (or that the tutors might have guessed and have prepared)



# Presentation of the report

- Follow the Requirement format & structure
- Use appropriate language & explanations for audience
- Answer all parts of all Requirements & use the numbers
- Explain all numbers used – & label all numbers in appendices
- Consider format (headings / length)
- Marks are awarded for quality not quantity

# Some common reasons for failing

- Not finishing the exam: only answering two Requirements fully (or at all)
- Presenting an unbalanced report / too much on R1 / no ES
- Not answering / attempting all sections of each Requirement
- Poor appendices and, from that, poor numerical analysis in the report
- Inability to perform simple calculations correctly
- Woolly, rambling or muddled language (difficult for markers to follow)
- Lack of demonstrating appropriate judgement
- Failure to conclude appropriately
- Failure to make sensible relevant recommendations

# In conclusion ...

- No fixed pass percentage (does not have to be 75% or whatever) ... **could be less – more could fail – and it could be you!**
- Should not judge own preparation / standards against only your “peers” or your “peer group”
- Candidates must remember that they are up against the “best” (*in the world!*)
- Examiners are not assessing candidates against the lowest possible standard
- It is a world-class qualification – **worth having!** – **the competition is strong!**



# *QUESTIONS*

