

ICMAP Pathway exam

Thursday 12 December 2024

Time allowed

4 hours including reading, planning and reflective time.

This question paper is an integrated case study with two questions containing a total of 100 marks and ALL questions must be completed.

All questions contain professional skills marks which are included in the marks shown.

Do NOT open this question paper until instructed by the supervisor.

You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

Paper 1PE

ACCA

Think Ahead

The Association of
Chartered Certified
Accountants

1 Company background

My Travel Base (MTB) is a well-established family-owned car dealership network with sites spread throughout the country of Deeland. The dealership network sells new and previously used cars to individuals and companies.

MTB has experienced consistent year-on-year growth since it began trading 20 years ago. MTB is a relatively expensive service provider, but the quality and comprehensive nature of its customer care makes it a popular choice with car buyers in Deeland. MTB prides itself on the long-term relationships it builds with customers. It maintains these relationships through regular contact and the provision of a high-quality service without charging excessive prices.

Product range

Each individual dealership sells several different car brands.

Each dealership also provides an extensive range of after-sales services including:

- free one-to-one sessions to show customers all the features of their new car
- car servicing and maintenance, and
- the sale of consumable items such as windscreen washing fluid and engine oil.

MTB also sells vehicle insurance and vehicle breakdown recovery services on behalf of third-party providers. MTB earns a commission for the insurance and vehicle recovery services sales it makes.

The car servicing and maintenance service was launched three years ago and was initially very popular as MTB offered package deals when a new car was purchased which included two years of annual car servicing at a 50% discount to the usual price. Growth in volumes for the service was significant for the first two years (stretching the limited resources significantly) but in year 3 sales volumes and revenues have fallen, and there has been an increasing number of direct customer complaints about the quality of the service provided. Billy Smith, the chief financial officer (CFO), wished to investigate this issue by forming a focus group of managers from the larger dealership sites to ask for their opinions. He has received some information from the focus group (Exhibit 1) which is centred around criticism of MTB's approach to budgeting but has not yet had a chance to review this.

New car sales reporting

In addition to producing traditional management accounting information, MTB produces a monthly KPI dashboard report for new car sales, based on the 'Performance Pyramid'. This dashboard is discussed at MTB's monthly board meetings and forms a major part of the on-going operational review of the company's activities. There have been some recent issues with reported performance highlighted in the dashboard (see Exhibit 2), and Billy would like assistance in better understanding the recent new car sales performance of MTB and the implications of the recent issues.

New smart phone app

Historically, MTB dealt with customers in person, via email, and on the telephone. However, MTB is considering launching a new mobile application (app) – ‘MTB 24/7’. The plan is to add all existing customers onto the new platform for the initial ‘Phase 1’ development to:

- allow customers to browse vehicle inventory and make enquiries. This function would contain many filters to narrow down a customer’s search.
- make it easier and more efficient to place orders for vehicle purchase and maintenance.
- provide online chat facilities, for example relating to the progress of a vehicle purchase or questions surrounding the ongoing maintenance of a vehicle.
- compare prices for insurance and vehicle recovery services renewals
- book in-person one-to-one vehicle training sessions.

In addition to information provided via the app, local traffic information and fuel price information from all local petrol stations will be provided to subscribed members through a popular social media platform.

The app would be provided for free to customers, but they must allow MTB to collect data about them as follows:

- when customers sign up, they must answer questions about their age, occupation, and salary level, as well as other extensive criteria to assist with MTB’s marketing.
- fuel prices and local traffic information are provided via a popular social media platform, which, when customers subscribe, gives MTB access to extensive, detailed browser histories of customers, to enable a detailed profile to be built by MTB for use in marketing and decision making.

The chief marketing officer, Becky Newton, is keen to gather as much information as possible through the new app to help with future marketing initiatives, but Billy is a little unsure about the ethical implications that gathering this information presents, and also wants to ensure the planned data gathering and usage is legal. Billy would like your assistance in preparing information for inclusion in a memorandum he intends to send to Becky Newton.

MTB does not have the internal skills to develop or run the app itself, so Michael Seng, the chief information officer (CIO), would like to outsource the development and operation of the app to a large, specialist IT company – ApPro. He has outlined his reasoning for wanting to do this in an email sent recently to Billy (see Exhibit 3). Billy however has some concerns about outsourcing this work and would like to hear your views so he can write a reply to Michael Seng.

Environmental and social reporting

MTB regularly collects feedback from its customers through a range of surveys. Increasingly, customer survey results indicate that customers would like to know about the environmental and social performance of the MTB business

itself and its products, and that these factors increasingly feature in their purchase decisions. Some examples given by customers have included:

- Environmental: reduction in carbon-based pollution as a result of selling new vehicles that are more efficient than the current vehicles customers drive.
- Social: improvement in the quality of lives of customers as a result of their purchases.

Billy is concerned that environmental and social matters are currently not reported internally or externally, in part because he is uncertain how to measure them. Billy would like some advice on reporting of environmental and social performance information in both MTB's internally and externally published information.

Internal advice

You are a senior analyst working in the finance department, and you work on special projects directly for Billy Smith, the CFO. He has asked you to respond to him in relation to five specific matters noted in the requirements.

The following exhibits provide information relevant to the requirements:

1. Focus group meeting notes: car servicing and maintenance provision
2. March monthly performance pyramid report: new car sales
3. Email from Michael Seng, CIO to Billy Smith, CFO

Exhibit 1: Focus group meeting notes: car servicing and maintenance provision

Note prepared by: Simon Tallow, regional manager

Present: Simon Tallow and site managers from 20 major dealerships nationally

Issue: Quality of car servicing and maintenance provision

Date: XX/XX/XXXX

Billy Smith (BS) summarised the performance issues with the car servicing and maintenance service provision:

	Year 1		Year 2		Year 3	
	Budget	Actual	Budget	Actual	Budget	Actual
Revenues (\$m)	25	40	30	50	35	25
Volumes (number of jobs)	6,250	10,000	7,500	12,500	8,750	7,000
Operating costs (\$m)	10	10	10	12	10	11

- Year 1 and year 2 budgeted revenues and volumes had been exceeded. Year 3 revenues and volumes were BELOW year 2 levels.
- Year 1 cost budgets had been achieved.
- Year 2 cost budgets, based on year 1, had been exceeded by 20%. This led to several intense meetings with many dealership site managers with an emphasis on bringing expenditure back under control.
- Year 3 cost budgets (based on year 1) had been exceeded again, but only by 10%.
- Customer complaints had increased significantly (by 1500% compared to the previous year) in year 3.

Observation: costs out of control, quality of service appears to be poor according to increased customer complaints.

Focus group response: The incremental approach to budgeting has not worked, and it is suggested that budgeting should be abandoned altogether for this aspect of MTB's product range (in line with 'Beyond Budgeting' principles perhaps?)

Exhibit 2: March monthly performance pyramid report: new car sales

Effectiveness

	Market share	Customer satisfaction rating	Flexibility: % of customer requests for car models refused	Quality: returns for remedial work	Delivery: average car delivery lead time
March	30%	85%	25%	4%	3 weeks
February	35%	75%	25%	8%	2 weeks

Efficiency

	Financial: profit margin %	Productivity: average sales per dealership site (number of cars)	Flexibility: % of sales from new brands launched in previous 3 months	Cycle time: turnaround time from customer enquiry to order placing	Waste: idle time per salesperson (% of the working day)
March	50%	60	25%	3 days	15%
February	43%	50	23%	4 days	22%

Exhibit 3: email from Michael Seng, CIO to Billy Smith, CFO

To: Billy Smith, CFO
From: Michael Seng, CIO
Subject: Development and operation of MTB 24/7 smartphone app
Date: XX/XX/XXXX

Dear Billy

I hope you are well. It's great to have a consensus at board level about the development of a new smartphone app. However, I sensed at the last board meeting that there was an underlying assumption that we would be developing and operating this application ourselves. I thought I'd let you know my thoughts as you are building the business case.

In my view both the development and operation of the 'MTB 24/7' app has to be outsourced. We do not have the skills or resources internally for developing the app. If we choose a large, well established global player like ApPro:

- The quality of the development work will be better – they have so much more expertise and experience than we do.
- The cost will likely be lower – they have access to economies of scale we cannot access ourselves.
- They will remain up to date going forwards, so updating the app will be easier and better.
- Development time will be quicker, with certain costs as they will quote for the work to be done
- Ongoing support: they will provide all day round, all year round support to us and our customers. We will have a tightly worded Service Level Agreement to insist minimum service levels are achieved.

The argument for outsourcing is compelling I hope you'll agree. I hope this is of some use, and I look forward to working with you on this exciting development in our corporate history.

Thanks and regards,

Michael Seng CIO

Required:

- (a) **Prepare a briefing note which evaluates how beyond budgeting may help in overcoming the issues MTB's incremental budgeting approach has had on quality.**

(8 marks)

Professional skills marks are available for demonstrating *commercial acumen* skills in reflecting on the ability of Beyond Budgeting to overcome the noted performance issues.

(2 marks)

- (b) **Write a report that evaluates the recent performance of MTB new car sales, and suggests reasons for and implications of recent aspects of performance.**

Note: You should use the performance dashboard in Exhibit 2 to answer this requirement.

(14 marks)

Professional skills marks are available for demonstrating *evaluation* skills in appraising the information provided in Exhibit 2.

(3 marks)

- (c) **Write an email which assesses the problems with the proposal to outsource the development and operation of the MTB 24/7 app. Your email should include a recommendation with justification of how to proceed with the app development and operation.**

(8 marks)

Professional skills marks are available for demonstrating *scepticism* skills when challenging the case presented in Exhibit 3.

(2 marks)

- (d) **Write a memorandum to Billy Smith to address the following areas:**

- **an analysis of the ethical threats related to MTB's programme for collecting and using information gathered on its customers through the app and social media.**
- **an assessment of the difficulties MTB is likely to face associated with recording and processing social and environmental data.**

(10 marks)

Professional skills marks are available for demonstrating *communication* skills in presenting both the ethical threats and the problems of recording and processing data.

(3 marks)

(50 marks)

2 Company background

First and Last building Ltd (FAL) is a medium-sized building company operating in the developed country of Penland. It is owned by the Lafferty family and was started by Jerry Lafferty 25 years ago. Jerry is the current chief executive officer and chair of FAL's board of directors, and he owns 25% of the shares. The other 75% of the shares are held by various members of the Lafferty family.

The company specialises in the construction of large, high-quality, bespoke residential properties for wealthy individuals. FAL also builds some commercial properties, but this currently only represents around 10% of its revenues.

FAL offers customers a full end-to-end service, which includes finding a site, assisting with the acquisition of the site, designing the property, and obtaining all regulatory approvals relating to the construction. It also works with a number of financial advisors who can assist clients with obtaining finance to pay for their property. The company has a strong reputation for high levels of personal service.

Growth has been consistent and strong for most of FAL's 25-year history, but in the last five years growth has ceased and revenues/volumes have actually reduced.

Expansion plans

Jerry Lafferty is convinced that to put the company back into growth, it needs to expand overseas to the neighbouring country of Omegaland. Omegaland is a developed country that has a growing number of wealthy individuals.

Jerry's initial plan is to set up a country head office in Metropolis, the capital city of Omegaland, to act as a national base for broader national expansion over time. Jerry's plan is to start by targeting the Metropolis urban area and expand over time into other areas of Omegaland. To support these plans an operational centre would be set up on the outskirts of the city to manage any Metropolis construction work. Materials and equipment will be stored at the operational centre, and staff will use it as a base. There would be a large marketing campaign when FAL launches its Omegaland operation, part of which will be the building of a large country residence to showcase the skills of FAL, which will also act as a base for future marketing events and open days. Most of the managers needed for the new Omegaland division and many of the required operational staff will be moved from Penland to ensure the new division operates to the same high standards as the rest of the group.

An investment appraisal has already been drafted by the finance team for the expansion into Omegaland (see Exhibit 1) but this has yet to be reviewed by Megan Lafferty, FAL's finance director (and Jerry's sister). She has stressed the importance of using appropriate assumptions to underpin the appraisal.

In order to finance the expansion, the Lafferty family have decided to list FAL on the Penland Stock Exchange (PSE), making 49% of the share capital available to the public and/or institutional shareholders. However, the board needs assistance in understanding the changes that will need to be made to

FAL's corporate governance arrangements in order to satisfy the needs of the PSE. Penland corporate governance requirements are to comply with international best practice on a 'comply or explain' basis. Megan has outlined the current board structure (see Exhibit 2) but has not yet identified the changes that FAL need to make to comply.

Recent performance

The plans for the Omegaland expansion, together with the faltering recent performance of FAL were discussed at a recent board meeting (see Exhibit 3). Megan, in her role as project lead for the Omegaland expansion, has received a confidential formal complaint from a fellow board member questioning Jerry Lafferty's ability to manage the expansion programme, given his unique management style. She would like your opinion on this, (as you are not related to Jerry), to help her respond in due course. Megan is also concerned that not enough work is being done to identify the causes of the recent poor performance of the company and would like to use the Baldrige Criteria for Performance Excellence to frame her investigation into the recent causes of poor performance and how to make improvements (exhibit 4).

Internal advice

You are a strategic development analyst working in FAL's finance department, and report directly to the finance director, Megan Lafferty. She has asked for your assistance on both the plans for the Omegaland expansion and FAL's performance review.

The following exhibits provide information relevant to the requirements:

1. Investment appraisal – overseas expansion to Omegaland
2. Email from Megan Lafferty – current board structure
3. Transcript from recent board meeting
4. The Baldrige Criteria for performance excellence

Exhibit 1: Investment appraisal – overseas expansion to Omegaland

Drafted by the finance team XX/XX/XXX

Penland \$ millions	Note	T0	T1	T2	T3	T4 onwards
Additional gross profit	1		200	400	800	800
Initial investment	2	(12,000)				
Fixed costs	3	-	(100)	(120)	(120)	(120)
Net cash flow		(12,000)	100	280	680	680
Discount factor 5%	4	<u>1</u>	<u>0.952</u>	<u>0.907</u>	<u>0.864</u>	<u>17.28*</u>
Present Value		<u>(12,000)</u>	<u>95.2</u>	<u>253.96</u>	<u>587.52</u>	<u>11,750.4</u>

NPV = total PV = P\$687.52 million – therefore accept the project.

* $0.864 \times (1/0.05)$

Notes:

- 1 This includes an estimate of the incremental gross profits to be earned as a result of the expansion. The gross profit margin is assumed to be the same as for Penland. Sales are predicted to grow at 100% per annum for the first 2 years and are then assumed to remain constant after that. This information was estimated by Jerry Lafferty following his recent visit to the country.
- 2 Initial investment costs are assumed to occur immediately and are not tax deductible. These costs include additional premises, equipment and machinery costs required. It also includes a provision for initial training and marketing.
- 3 30% of fixed costs are maintenance costs relating to the maintenance of construction plant and equipment. 20% of fixed costs relate to other Omegaland fixed costs. The remainder relate to a fair share of Penland central costs.
- 4 5% inflation has been assumed for the discount rate.

Exhibit 2: Email from Megan Lafferty - current board structure

To: Strategic development analyst
From: Megan Lafferty, finance director
Subject: Current board structure
Date: XX/XX/XXXX

Dear analyst

As discussed, below is the current corporate governance arrangements at FAL:

Position	Name	Notes
Chair and CEO	Jerry Lafferty	Founder and Chair/CEO for 25 years
Finance director	Megan Lafferty	Qualified accountant, appointed 2 years ago having qualified at that point.
Human resources (HR) director	Simon Lafferty	Graduated with a master's degree in HR management and immediately appointed to the board 5 years ago. Simon is Jerry Lafferty' son.
Operations director	Jack Singleton	30 years industry experience, appointed from a rival building firm 4 years ago
Marketing director	John Matthews	Member of the Institute of Marketing, 10 years' experience of marketing in the IT industry, then appointed to the board 2 years ago. John is married to Sarah Lafferty, Jerry Lafferty's daughter.
Non-executive director	Beth Dolenz	Retired lawyer, appointed by Simon Lafferty four years ago. Beth also works for Simon as a consultant in relation to HR-related legal matters
Non-executive director	John Harrison	John is a non-executive director on a total of 6 boards. He is a construction engineer with 20 years' experience.

Board sub-committees

Audit committee: Megan Lafferty, Beth Dolenz, John Harrison.

The audit committee manages the relationship with the external auditors and is responsible for overseeing the risk management for the company. It also reviews the financial statements before presenting them to the board for approval.

There is no internal audit function as the board do not feel one is needed.

If you need anything else, please just ask.

Best wishes
Megan

Exhibit 3: transcript from recent board meeting

Expansion to Omegaland

Jerry Lafferty: 'As CEO it is my primary responsibility to formulate FAL's business strategy, and I will consult with board members as and when I feel it is appropriate.'

'I have recently returned from a fact-finding mission to Omegaland and feel that FAL would perform well in the new and growing market.'

Simon Lafferty, the HR director: 'I have looked at the health and safety regulations in Omegaland and found several large differences in construction regulations that I am concerned about.'

Jerry Lafferty: 'Not to worry Simon, if the locals can cope then so can we.'

Megan Lafferty: 'I suggest that a key decision to expand overseas like this would benefit from a broader, more consultative approach with other board members and the senior management team.'

Jerry Lafferty: 'As I say, I will consult with board members when I feel it is necessary, but one person making all the decisions gives those decisions clarity, speed, and simplicity'.

Jerry Lafferty: 'We have a considerable change management task ahead, and the staff need to be given strong, detailed written direction and instructions to avoid chaos, but I will personally oversee the drafting of the detailed roll out plans.'

'I am appointing Megan Lafferty as project lead for the expansion, but Megan will report directly to me, and I will approve all key decisions.'

Performance review

The operations director – Jack Singleton: 'We have received some recent negative customer feedback stating that draft house designs do not reflect customer discussions with the designers.'

Jerry Lafferty: 'As we've said before, its partly the designer's job to manage customer expectations and bring them round to a solution we prefer to work with – Simon can you please speak to the design team – again!'

Simon Lafferty: : 'I have already spoken to the design teams, and the design teams have already responded saying that the 'standard plan' starting point is too inflexible and they should be re-configured to give the customer more choice.'

Jerry Lafferty: 'More choice means more can go wrong, which in turn means poorer quality and higher cost'.

Simon Lafferty: 'Ok, ok – I'll speak to the design teams once more.'

Jack Singleton: 'Data analytics could be used to gather information on the popularity of the FAL brand, and to summarise feedback from customers to understand the direction designs should be moving in.'

Jerry Lafferty: 'We have skills and experience enough to know what our customers want I would say. If we're looking to expand overseas, we can't afford to also spend money on data analytics that will add no value. The Penland economy is in a bit of a dip at the moment is my gut feeling, so we just need to ride it out, and diversify away from the Penland economy, which my expansion plan achieves. That will fix our performance issues.'

Exhibit 4: the Baldrige Criteria for performance excellence



Required:

- (a) **Write a briefing paper to Megan Lafferty that evaluates the opportunity to expand overseas into Omegaland, including both financial and non-financial considerations. In addition, evaluate the investment appraisal calculation that has been prepared and the associated assumptions that have been made and recommend whether or not to proceed with the overseas investment.**

(10 marks)

Professional skills marks are available for demonstrating *scepticism* skills when evaluating the information presented to support the investment appraisal opportunity.

(3 marks)

- (b) **Write a briefing paper to Megan Lafferty, which evaluates the current board structure in light of the possible listing on the Penland Stock Exchange, and recommend the changes required to FAL's corporate governance arrangements to comply with best practice.**

(10 marks)

Professional skills marks are available for demonstrating *evaluation* skills in considering the suitability of the current board structure in preparation for a possible listing.

(2 marks)

- (c) **Write a report to Megan Lafferty that, recommends and justifies changes that should be made to improve the performance of FAL. You should use the Baldrige Criteria for performance excellence to structure your answer.**

(12 marks)

Professional skills marks are available for demonstrating *commercial acumen* in using professional judgement in effectively recommending and justifying the appropriate criteria to improve FAL's performance.

(3 marks)

- (d) **Write an email to Megan Lafferty, evaluating the leadership style of Jerry Lafferty, and recommend how this style needs to change to ensure the success of the change programme to relocate staff overseas.**

(8 marks)

Professional skills marks are available for demonstrating *communication* skills in objectively and sensitively evaluating Jerry Lafferty's leadership style.

(2 marks)

(50 marks)

End of question paper