

ICMAP Pathway exam

Thursday 15 June 2023

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**

Alvaro Dominguez is a management consultant in his home country of Tagland. In 2017 he created his business – The Plant Food People (TPFP) - to produce and deliver plant-based frozen meals to three sectors: education, retail, and corporate. Alvaro currently owns all the shares in TPFP, which remains a private limited company.

TPFP targets both vegans (people who exclude meat and animal products from their diets) and those who are looking to reduce their meat, fish, and dairy intake (Alvaro refers to these customers as “plant-curious”). TPFP’s mission is to “inspire more people to eat more plants”.

All meals are cooked in-house by TPFP’s team of chefs and deliveries are made six days per week. TPFP is focused on Tagland’s very large capital city, Ertondale, and currently operates kitchens in each of the 12 geographic districts across Ertondale. This ensures that its products are made to meet local clients’ needs and allows for an efficient delivery service.

TPFP’s current key data:

- 255 employees
- Over 60,000 meals delivered per week
- Expected annual revenue of \$17 million in 2023 with a 5% net profit margin.

For 2024 Alvaro expects:

- Revenue to increase by 15%
- Net profit margin to be 6.5% (due to increasing economies of scale)
- Employees to increase to 272.

New opportunity – the Eat Healthy programme

TPFP has won several awards in recent years and it has now been approached by the City of Ertondale’s Health Department (EHD), a public sector body, to potentially work with EHD in a collaborative partnership to deliver an “Eat Healthy” programme to young school children across the 12 districts in Ertondale. TPFP currently works with private universities and colleges in Ertondale but has not previously worked with schools. Exhibit 1 provides more details on the proposed programme.

Alvaro, and his management team have not worked with EHD, other public sector bodies or government departments previously and would like advice on the possible opportunities and threats to TPFP of working in collaboration with EHD.

New employee reward scheme for 2024

The Human Resources (HR) manager at TPF, Selina Dowling, has been asked by Alvaro to investigate a new employee reward scheme for implementation in 2024. Selina is only recently qualified and has no previous experience of introducing a reward scheme.

Alvaro's preference for rewarding staff is an annual bonus, based on the profit performance of TPF, with equal payments for all employees. On this basis, 30% of TPF's annual profits would be allocated towards such a bonus scheme. However, Alvaro admits that this is not his area of expertise and therefore would like Selina to take the lead on this initiative and to advise him on what TPF need to consider when designing an employee reward scheme.

Consulting division

In 2020 Alvaro established a consulting division (CD) within TPF, to provide advice and guidance to large organisations relating to plant-based food, including the health benefits, the environmental impact and possible recipe ideas. TPF employs consultants to deliver consultation sessions in all three of its sectors. Exhibit 2 provides a breakdown of how TPF's consultancy engagements are conducted and a summary of key data for CD in 2022.

Alvaro has been informed that there has been a rise in the actual number of complaints from CD's clients and he would like an external assessment of CD's performance in 2022.

Investment in a new asset tracking system

TPF has a large amount of capital invested in its kitchen and refrigeration equipment, located in each of its 12 kitchens. This equipment covers large, fixed items such as commercial ovens and fridges, to smaller, mobile items, including mixers, processors, slicers and various cooking utensils (i.e. knives). Many of the smaller items are specialised equipment and therefore high value, and these items are not available in all TPF's kitchens.

The senior chefs at TPF work across several kitchens, and often move the smaller mobile items of equipment between kitchens to meet the need of special recipes or local contracts. The chefs do not, generally, inform head office regarding these transfers and this often leads to equipment lying unused in one kitchen while being searched for in another, as there are no accurate records of its location. This has led to problems where TPF has been late in delivering meal orders due to delays in locating the required equipment, and even, on occasion, needing to purchase additional items of equipment as existing equipment could not be found. Previously, TPF has not monitored this equipment centrally and have not introduced a policy prohibiting the movement of equipment between kitchens.

Alvaro has been advised that TPFPP could invest in a tagging project which will attach radio-frequency identification devices (RFID) to all equipment. All 12 kitchens could be fitted with reading devices which could pick up the RFID signal so that the RFID tags would be detectable throughout a kitchen. The tags would identify the equipment which they are attached to by a unique identification number and provide its kitchen location. The identifier number would then link to the asset register which would identify the equipment. The RFID information on assets would be accessible in real time by the operations teams in each of the kitchens.

Before a business case is compiled for this investment Alvaro has asked the finance manager, Ali Hussein, to identify the likely costs and benefits which would be associated with implementing an RFID system to improve asset tracking at TPFPP.

External advice

You are an external consultant hired by TPFPP to provide advice to Alvaro and his management team.

Exhibit 1: The “Eat Healthy” pilot programme

Exhibit 2: CD consultancy engagements and data summary for 2022

Exhibit 1: The “Eat Healthy” pilot programme

Background

The City of Ertondale Health Department (EHD) has recently studied childhood obesity (where children are above a healthy weight for their age and height) in primary school children (4 to 11 years) in Ertondale and found that 23.4% of children are classed as obese and 14.3% are classed as overweight.

Research carried out by EHD strongly indicates that obesity in childhood can have a negative impact on a child’s future, which could be health, employment, career, relationships, or family issues. EHD report that a major cause for child obesity is a poor diet. EHD wish to address this and have requested expressions of interest from prospective partners interested in delivering a pilot educational “Eat Healthy” programme across primary schools in Ertondale.

Partner requirements

- EHD’s partner will develop an “Eat Healthy” programme for children from the ages of 4 to 11.
- The programme should include an education component to teach children about the need to “eat healthy” and the possible impact and consequences of not doing so. It should also include a food/recipe component, where children can see and taste healthy foods.
- The partner will deliver weekly sessions at each school taking part in the pilot programme – 1 school per district – the pilot programme will last for 10 weeks. This will cover approximately 4,300 children.
- The partner will train teachers at each school to assist in delivering the programme.
- If the pilot programme is successful, the partner will advise EHD on a delivery plan to all 2,100 primary schools across Ertondale.

Programme performance review (conducted at the end of the 10-week pilot)

- Satisfaction rating - based on evaluations by children, parents, teachers, schools and EHD staff - a target of 80% satisfaction across all ratings.

EHD will pay \$180,000 to the chosen partner for the design and delivery of the pilot programme.

Exhibit 2: CD consultancy engagements and data summary for 2022

CD employs 20 consultants throughout the year on permanent contracts, irrespective of fluctuations in the level of demand. A typical client engagement (consultation) would involve a consultant delivering one or more consultation sessions for groups of client employees. If consultants are fully utilised during the year and unable to deliver client consultations, CD will occasionally use subcontractors.

- Each client consultation is charged to the client at a rate of \$500.
- Consultants are paid a fixed annual salary of \$50,000.
- Consultants may also receive an annual bonus. If CD's total actual income for the year exceeds the budget, then 50% of the surplus income is designated as a bonus pool and shared equally among the consultants employed by CD at the end of the financial year (31 December).
- Other operating expenses (excluding the salaries of the consultants) were budgeted at \$750,000 for the year to 31 December 2022. The actual expense incurred was \$825,000, which excludes payments to subcontractors.
- To gain new business, consultants may undertake consultations on a "no charge" basis. Such consultations are regarded as "business development".
- CD will subcontract work at a cost of \$250 per consultation. During the year ended 31 December 2022 subcontractors only undertook business development consultations.

Data for the year ending 31 December 2022 – TFPF Consulting Division (CD)

	<i>Budget</i>	<i>Actual</i>
Number of associate consultants by sector:		
Education	8	8
Retail	6	6
Corporate	6	6
Total client enquiries:		
New business	7,400	8,500
Repeat business	2,100	2,200
Number of client enquiries converted into chargeable client consultations:		
New business	2,400	2,800
Repeat business	1,200	1,700
Mix of chargeable client consultations:		
Education	1,400	1,800
Retail	1,200	900
Corporate	1,000	1,800

Number of “**business development**” consultations:

Associate consultants	280	400
Subcontractors		80

Other statistics:

Number of complaints	65	157
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Note: Client enquiries and chargeable consultations can be assumed to relate to the same period.

Required:

- (a) Prepare a report for TPF​P’s management team which analyses the opportunities and threats which TPF​P must consider in relation to the proposed collaborative partnership with EHD to deliver the “Eat Healthy” pilot programme. Recommend whether TPF​P should submit an expression of interest to deliver the programme.**

(12 marks)

Professional skills marks are available for demonstrating *analysis* skills in considering and reflecting on the available evidence relating to the proposed collaborative partnership.

(3 marks)

- (b) Prepare an email to Selina Dowling, HR manager, that:**

(i) calculates the forecast bonus amount to be paid to each TPF​P employee in 2024 if Alvaro’s preferred annual bonus scheme is introduced.

(ii) critically evaluates the scheme to link staff rewards to the overall profit performance of TPF​P.

(10 marks)

Professional skills marks are available for demonstrating *communication* skills in clearly presenting a bonus calculation for 2024 and a clear evaluation of the proposed scheme to link rewards to overall profit performance at TPF​P.

(2 marks)

- (c) Provide a briefing paper for Alvaro that evaluates the financial and non-financial performance of the TPF​P consulting division for 2022. To assist with your evaluation, you should use the following two dimensions from Fitzgerald & Moon’s Building Blocks model: financial performance and competitiveness.**

(10 marks)

Professional skills marks are available for demonstrating *evaluation* skills in assessing the performance of TPF​P’s consulting division in 2022.

(3 marks)

(d) Prepare an email to Ali Hussein, TFPF's finance manager, which assesses the likely costs and benefits associated with implementing an RFID system to improve asset tracking in TFPF's kitchens. Advise Ali whether he should proceed with a formal business case for the RFID system.

(8 marks)

Professional skills marks are available for demonstrating *commercial acumen* skills in identifying and assessing appropriate costs and benefits for TFPF to consider.

(2 marks)

(50 marks)

2 Company background

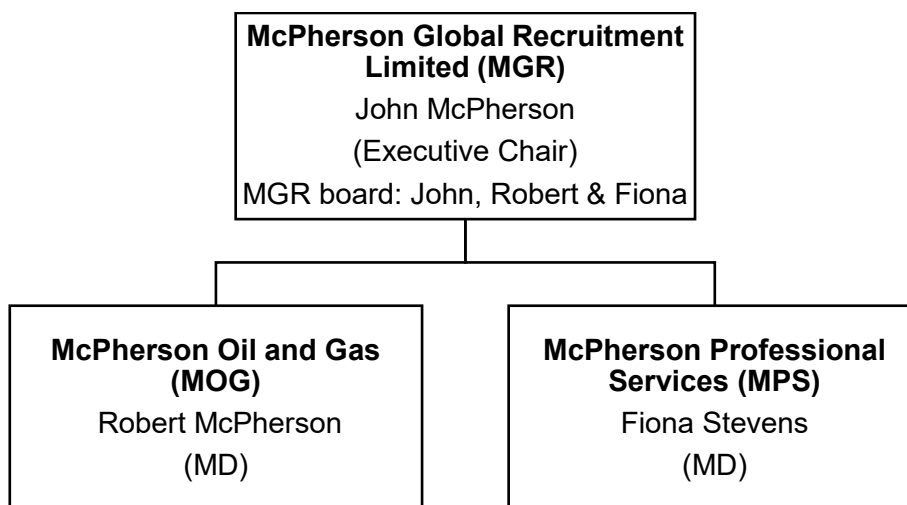
McPherson Oil and Gas (MOG) was established by John McPherson in 1993, following a successful career working as a senior sales executive in the oil and gas sector. MOG is based in Westland and provides a specialist recruitment service for oil and gas companies, by providing highly experienced technical (i.e. engineers, geologists) and management staff to fulfil temporary, project and permanent roles in countries throughout the world.

John created a second business in 2015 – McPherson Professional Services (MPS) – which expanded the McPherson brand in a move away from its more specialised history to the provision of professional, management and administration recruitment services to all large companies across Westland.

In 2019 John consolidated the two businesses in to one private company, McPherson Global Recruitment (MGR), and MOG and MPS now operate as autonomous operating divisions within MGR. John owns 100% of the shares in MGR.

John's son, Robert, joined MOG as a regional sales director but progressed into more senior positions within MOG and was appointed its Managing Director (MD) in 2018. Fiona Stevens, John's daughter, worked for Westland's top management consulting firm before helping her father establish MPS. She is now the MD of MPS.

John continues to have a significant influence over MOG and MPS, through his role as executive chair of MGR, where he leads the board of directors, which comprises of John, Robert, and Fiona. A summary of the group structure is outlined below:



Proposed listing

As the 30-year anniversary of the McPherson business occurs in 2023, John is looking to the future and would like to list MGR in 2025. He has identified the following two strategic objectives for MGR as a listed company:

1. To build scale to the recruitment business, allowing MGR to develop relationships with the world's largest organisations.
2. To create new opportunities in recruitment, including entering new sectors, and identifying suitable acquisitions to support growth.

John would like to retire in 2025 and believes that listing MGR will not only support its strategic objectives but will also allow John to pass 51% of the business to his children, and then seek external investment for his remaining 49%. Robert and Fiona expect to continue in senior leadership roles within the listed company.

During a recent dinner, Jenny Wu, a former colleague, and friend of John's, warned him that investors may expect the appointment of a new, external Chief Executive Officer (CEO) to lead MGR as a listed company. John, however, would prefer to see Robert or Fiona in this role and would therefore like to be clear on what leadership traits may be required when recruiting for this new role in 2025.

A "special interim" board

John has never appointed non-executive directors (NEDs) to the board of MGR as he does not believe that external directors can provide any value. He likes the ability to make quick business decisions between family members and commented that "most NEDs have no idea on how to run a recruitment business".

To help lead MGR towards its listing in 2025, Jenny recommended that John forms a "special interim" board to include four external, independent non-executive directors. The new NEDs, with John, Robert, and Fiona, would then become the initial board of the listed company in 2025. Jenny also suggested that the establishment of an interim unitary board of directors prior to the listing could provide reassurance for future investors in MGR.

John decided that if NEDs were to be appointed than an appropriate remuneration package would be required. He therefore drafted a package to incentivise NEDs to perform in the best interests of MGR. The package includes:

- A base annual salary of \$200,000;
- Bonus payments based on MGR's profit performance in 2024;

- Shares to be awarded when MGR is listed in 2025.

The level of base salary is significantly higher than the average fees paid to NEDs in Westland's largest listed companies, but John believes that this level of reward will secure the NEDs contribution, engagement, and value to MGR.

Ethical concerns

Edward Berwick is the Financial Controller (FC) of MGR and reports to the MGR board. Edward is a recently qualified accountant and joined MGR as an employee in January 2023 and reports directly to John. To help him integrate in to MGR, Fiona has been appointed as his mentor for his first year in the company. On a monthly basis he meets separately with Robert and Fiona, to review the financial performance of their respective operating divisions.

Fiona has received a confidential email (Exhibit 1) from Edward expressing concern regarding a recent meeting with Robert.

Advice and guidance

You are an external consultant and qualified accountant, and you have met with John recently to discuss the proposed listing, the implications in relation to a new CEO role, and the appointment and remuneration of non-executive directors. John has asked for your advice on each of these matters.

On hearing that you are assisting her father, Fiona spoke with you regarding the email she has received from Edward. She has forwarded you the email and has asked you to respond to her requests before her scheduled meeting with Robert.

Exhibit 1: Email from Edward Berwick to Fiona Stevens

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CONFIDENTIAL EMAIL

To: Fiona Stevens

From: Edward Berwick

Date: June 2023

Subject: Two issues of concern at MOG

Hi Fiona,

I know you are currently away on business, and therefore I do not have the opportunity to speak with you in person which I would have preferred but I have concerns regarding a conversation I had with Robert yesterday. I had my monthly meeting with Robert to discuss the financial performance of MOG, and at the end of the regular agenda, he said that he wanted to discuss two further items. I have included the details below.

I would value your opinion as my mentor on this rather sensitive issue.

Item 1 – Asset sale

Robert said that he has provisionally arranged for the sale of several MOG assets. He said that the assets, which include both office and computer equipment, are old, have limited value and will not be required or used by MOG in the future. The equipment, he said, has been stored for several months in the MOG office basement. He said that he would deal with the sale directly but just wanted the finance team to be aware for our records.

I asked about the details of the proposed sale, and he said that he had verbally agreed to sell the assets, in total, for \$5,000 and he would pass me a cheque once the sale was complete at our meeting next month. He provided a breakdown of all the related assets in an email to me following our meeting.

Following my own review of the asset register, the assets in question have a current carrying amount of \$50,000, and I am therefore concerned that the proposed sale is under-valuing the assets. In addition, in Robert's email, he has confirmed that the buyer is the Suzie Mac Design Studio. As you know, Robert's wife, Suzie, has just started this business.

Item 2 – New contract

MOG have signed a contract in May with a new customer, Cascade Oil, to provide 30 senior technical and management positions. The positions are to be filled as follows:

- Stage 1: 6 positions to start on 1st December 2023
- Stage 2: 8 positions to start on 1st March 2024
- Stage 3: 16 positions to start on 1st June 2024

The average salary across the 30 positions is \$150,000 and the contract uses our standard commission rate of 30%. Payments by the client will be made on the start date for each stage based on the number of positions successfully recruited at that point. MOG normally starts the search and recruitment process three months before a position needs to be filled.

The MOG financial year end is this month (June 2023), and Robert is currently below his divisional revenue target for his personal bonus. During our meeting he requested that some of the revenue from the Cascade Oil contract should be recognised before the end of June. His justification is that a key part of the “work” involved in this new contract is the ability to negotiate and secure the contract and therefore part of the revenue should be recognised upon contract signature. He suggested that 25% of the contract value seems a reasonable amount to recognise. This amount would enable Robert to achieve his bonus target.

I am uncomfortable with both these items, but Robert was quite forceful in our meeting yesterday, and dismissed my concerns and requests for further information and evidence. I do not think this is right for MOG, but also, I believe that his behaviour is contrary to what would be expected of someone in his position.

If you could please speak with Robert on these items and inform me of the outcome before the end of this month.

Regards
Edward

Required:

- (a) Prepare a briefing note to John that advises, with reasons, the key leadership traits that would be expected from the CEO role when leading MGR as a listed company.**

(8 marks)

Professional skills marks are available for demonstrating *commercial acumen* skills in showing insight into appropriate leaderships traits for the future CEO role at MGR.

(2 marks)

- (b) Prepare a report to John that:**

- (i) assesses the role of the independent non-executive directors (NEDs) and their value on the proposed interim board for MGR.**

(14 marks)

Professional skills marks are available for demonstrating *evaluation* skills in assessing the role and value of non-executive directors for an interim MGR board.

(3 marks)

- (ii) critically discusses the proposed NED remuneration package.**

(8 marks)

Professional skills marks are available for demonstrating *scepticism* skills in challenging, in an appropriate tone, John's proposal for a NED remuneration package.

(2 marks)

- (c) Using the information in exhibit 1, prepare an email to Fiona Stevens that analyses the ethical issues arising from the two items covered in Edward's email. Recommend what actions Fiona should take.**

(10 marks)

Professional skills marks are available for demonstrating *analysis* skills in identifying the relevant ethical issues for consideration and action by Fiona.

(3 marks)

(50 marks)