



ADVANCED LEVEL

# CASE STUDY WORKBOOK

SUBSTANTIATE SOLUTIONS

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# 1. Introduction to Case Study

## 1.1 Objective of the Case Study exam

The exam aims to assess your ability to:

- (a) analyse financial and non-financial data using realistic business information
- (b) exercise judgement
- (c) develop conclusions and recommendations.

Marks awarded are for demonstrating these skills by producing a professional report. **No new technical knowledge** is required.

## 1.2 Structure of the assessment

In order to understand what is required to pass the Case Study exam it is important to appreciate how we use the following:

**Advance Information** – received approximately one month before the exam.

**The CS Exam** – requests a report triggered by additional information provided.

**Marking Key** – assesses your report against four professional skills.

## **2. Advance Information**

Approximately one month before the real exam, the ICAEW will send a registered candidate a copy of the Advance Information (AI). This will also be available via download on the ICAEW website.

The AI will be about 40 – 50 pages long, include 10 – 15 exhibits and provide information about a fictional company (an unknown real company) on which the exam will be based.

### **2.1 Contents of the Advance Information**

The objective of the AI is to provide a candidate with an opportunity to get familiar with the fictional company as though it was your own client or employer.

Information provided in the AI will normally include:

- industry history and developments in which the company operates
- company's history and recent developments
- management accounts for 3 years and other financial information
- relevant fictional news articles affecting the industry.

## **3. Case Study Exam**

You will be required to produce a report over the **four-hour assessment** which comprises the following:

- Title page and executive summary – presented in the first tab of the software
- Three main requirements (including appendices) – each requirement will need to be presented in three separate tabs of the software.

### **3.1 Executive Summary**

- summary covering all three requirements
- one summary per requirement
- ethics, conclusions and recommendations for each requirement.

### **3.2 Financial statement analysis (Requirement 1)**

- evaluating the performance of the company
- based on key areas (e.g. revenue, GP, OP)
- assessing specific areas of performance (e.g. KPIs)
- commenting on proposed financial adjustments.

### **3.3 Financial data analysis (Requirement 2)**

- evaluating a potential strategy or opportunity
- supported with a calculation based on assumptions
- commenting on the adequacy of these assumptions
- assessing other commercial and ethical issues.

### **3.4 Commercial analysis (Requirement 3)**

- assessing a potential strategy, opportunity or concern
- evaluating operational and strategic benefits/risks
- considering financial consequences (supported by a calculation of the financial impact)
- evaluating relating ethical and business trust issues.

### **3.5 The four professional skills**

The four professional skills are applied to the three main requirements:

#### **Assimilating and using information (AUI)**

Using relevant information from the AI and EP to identifying business issues.

#### **Structuring problems and solutions (SPS)**

Address the sub-requirements and providing analysis of these issues.

#### **Applying judgement (AJ)**

Evaluate initial analysis and provide professional scepticism.

#### **Conclusions and recommendations (CR)**

Conclude on key issues identified and provide commercial recommendations.

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## 4. Marking Key

The case study examiner will produce a very structured and detailed marking key which is designed to ensure that all these objectives are achieved.

### 4.1 Structure of the marking key

Marks are allocated to each of the four main elements of your report as follows:

- **Executive Summary (15%)**
- **Requirement one – financial statement analysis (27.5%)**
- **Requirement two – financial data analysis (27.5%)**
- **Requirement three – commercial analysis (27.5%).**
- **Overall assessment criteria (OAC) – Structure, style and language (2.5%).**

### 4.2 Competency Boxes

Each marking key will contain 40 competency Boxes. Each competency box covers a specific sub-requirement or part of your answer. The allocation of the competency boxes should be as follows:

#### **Grades by Skill:**

	AUI	SPS	AJ	CR	TOTAL
ES					6
Req 1	3	3	3	2	11
Req 2	3	3	3	2	11
Req 3	3	3	3	2	11
OAC					1
Total					40

### 4.3 Competency box marking

Within each competency box there will be a list of bullet points.

You will be awarded a grade based on the number of bullet points that you have achieved within that competency box. Marks are then awarded depending on the grading that you have reached.

The following grades and marks are available:

Bullet points	Grade Awarded	Marks
0	Not attempted (NA)	0
1	Insufficiently demonstrated (ID)	1
2	Insufficiently competent (IC)	2
3	Sufficiently competent (SC)	4
4	Clearly competent (CC)	6

Each candidate is given a mark between 0 and 6 for each of the 40 competency boxes on the marking scheme. The sum of these scores will give a raw mark total out of **240** (6 marks × 40 boxes).

In order to score more than 50% of the marks available in each competency box and essentially 'pass' that skill you would need to be awarded a **SC** or **CC** grade (**3 bullets or more required to pass**).



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**Requirement 1 – Review of performance**

Assimilating & Using Information						Structuring Problems & Solutions					
<b>R1.AUI.1</b> <b>Appendix: Content and style</b> <ul style="list-style-type: none"> <li>◆ Well presented table eg, £, %</li> <li>◆ Analyses revenue by stream</li> <li>◆ Analyses sales: by volume / by/per author</li> <li>◆ Calculates GP/GP% by revenue stream</li> </ul>						<b>R1.SPS.1</b> <b>Analysis of revenue v 2015 (report)</b> <ul style="list-style-type: none"> <li>◆ Revenue below Objective 1 target (£53m)</li> <li>◆ Rev/book: print down <b>12p/1.5%/£7.67 v £7.79</b> OR e-book titles up <b>£1.65k/7.5%/£23.65k v £22k</b></li> <li>◆ Mix: print down at <b>75.2% v 79.6%</b> OR e-book up at <b>24.8% v 20.4%</b></li> <li>◆ Volume: print down <b>180k/3.5%/4,940k v 5,120k</b> OR e-book titles up <b>65/14%/529 v 464</b></li> <li>◆ Volume: hardback down <b>244k/18.4%/1,087k v 1,331k</b> OR paperback up <b>64k/1.7%/3,853k v 3,789k</b></li> </ul>					
NA		ID	IC	SC	CC	NA		ID	IC	SC	CC
<b>R1.AUI.2</b> <b>Uses relevant AI &amp; CS Exam information (report/appendix)</b> <ul style="list-style-type: none"> <li>◆ Total revenue: up <b>£277k / up 0.6%</b></li> <li>◆ Print: down <b>£2,013k/£2,030k / down 4.4%/5.1%</b></li> <li>◆ Returns: up <b>0.3%/£17k / static</b></li> <li>◆ E-book: up <b>£2,307k / up 22.6%</b></li> <li>◆ GP: down <b>£517k / down 2.3%</b></li> </ul>						<b>R1.SPS.2</b> <b>Analysis of COS v 2015 (report)</b> <ul style="list-style-type: none"> <li>◆ Total COS: up <b>£794k / 2.9%</b></li> <li>◆ Print: down <b>£825k / 4.5%</b></li> <li>◆ E-book: up <b>£914k / 29.1%</b></li> <li>◆ Royalties: total up <b>£306k / 5.4%</b> OR print down <b>£213k/6.4%</b> OR e-book up <b>£519k/22.6%</b></li> <li>◆ Impairment: up <b>£399k / 87.5%</b></li> </ul>					
NA		ID	IC	SC	CC	NA		ID	IC	SC	CC
<b>R1.AUI.3</b> <b>Identifies business issues and wider context</b> <ul style="list-style-type: none"> <li>◆ E-books at early lifecycle stage in Bux</li> <li>◆ Industry: e-book sales plateaued/down 1.6%</li> <li>◆ Industry: popularity of children's print books</li> <li>◆ UK Government policy: eg, cuts, schools</li> <li>◆ Fewer new authors / 8 v 31</li> </ul>						<b>R1.SPS.3</b> <b>Analysis of GP v 2015 (report)</b> <ul style="list-style-type: none"> <li>◆ GP below Objective 2 target (£24m)</li> <li>◆ GP%: down <b>43.3% v 44.6%</b></li> <li>◆ GP print: down <b>£1,391k/7.9%</b></li> <li>◆ GP e-book: up <b>£874k/18.3%</b></li> <li>◆ GP%: print down <b>42.7% v 44.1%</b> OR e-book down <b>45.1% v 46.7%</b></li> </ul>					
NA		ID	IC	SC	CC	NA		ID	IC	SC	CC

Applying Judgement						Conclusion & Recommendations																	
<b>R1.AJ.1</b> <b>Evaluation of revenue analysis</b> <ul style="list-style-type: none"> <li>◆ Decline in print offset by growth in e-books</li> <li>◆ Growth rate: both print and e-books falling</li> <li>◆ Industry comparison: e-books performed well OR hardback decline worrying</li> <li>◆ Returns: higher % of revenue / 12.7% v 12.1% OR comparison with industry standard 12%</li> <li>◆ Impact of Yolande's illness on revenue/returns</li> </ul>						<b>R1.CR.1</b> <b>Draws conclusions (under a heading)</b> <ul style="list-style-type: none"> <li>◆ Results: poor compared with prior year/target</li> <li>◆ Revenue: comment on movement <b>with fig</b></li> <li>◆ COS: comment on movement <b>with fig</b></li> <li>◆ GP/GP%: comment on movement <b>with fig</b></li> </ul>																	
NA		ID	IC	SC	CC	NA		ID	IC	SC	CC												
<b>R1.AJ.2</b> <b>Evaluation of new authors and back catalogue</b> <ul style="list-style-type: none"> <li>◆ New authors revenue: down £626k v £1,880k / 1.2% v 3.8%</li> <li>◆ New authors approaches: <b>significantly</b> down / 95 v 194</li> <li>◆ New authors acceptance rate: down 8% v 16%</li> <li>◆ Revenue per new author: up £78.2k v £60.6k</li> <li>◆ Back catalogue: up £824k / 57.7% / full year</li> </ul>						<b>R1.CR.2</b> <b>Makes recommendations</b> <ul style="list-style-type: none"> <li>◆ Assess reasons for fall in new author statistics</li> <li>◆ Maintain author diversity to reduce overreliance</li> <li>◆ Investigate revenue by genre/author to identify strong/weak</li> <li>◆ Review reasonableness of financial targets</li> <li>◆ Review impairment allocation to printed books</li> <li>◆ Other recommendations</li> </ul>																	
NA		ID	IC	SC	CC	NA		ID	IC	SC	CC												
<b>R1.AJ.3</b> <b>Evaluation of COS / GP analysis</b> <ul style="list-style-type: none"> <li>◆ Total COS increase faster than revenue / poor cost control</li> <li>◆ Print: falling with volumes</li> <li>◆ E-book: rising cost due to back catalogue</li> <li>◆ Royalties: impact of mix eg, e-books/ hardback v paperback</li> <li>◆ Judgemental areas impact GP: eg, impairment</li> <li>◆ GP% below implied Objective target (45.3%)</li> </ul>						<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="text-align: center;">CC</td><td style="width: 50px;"></td></tr> <tr><td style="text-align: center;">SC</td><td></td></tr> <tr><td style="text-align: center;">IC</td><td></td></tr> <tr><td style="text-align: center;">ID</td><td></td></tr> <tr><td style="text-align: center;">NA</td><td></td></tr> <tr><td style="text-align: center;">Total</td><td style="text-align: center;">11</td></tr> </table>						CC		SC		IC		ID		NA		Total	11
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NA		ID	IC	SC	CC																		

Requirement 2 - Evaluation of new author proposal

Assimilating & Using Information						Structuring Problems & Solutions					
<b>R2.AUI.1</b> <b>Appendix: Content and style</b> <ul style="list-style-type: none"> <li>◆ Well presented</li> <li>◆ Numbers clearly derived and labelled</li> <li>◆ Uses given figures for calculation</li> <li>◆ Calculation of sensitivity</li> </ul>						<b>R2.SPS.1</b> <b>Calculation of earn-out (report/appendix)</b> <ul style="list-style-type: none"> <li>◆ Hardback royalties: <b>£48k + £72k</b></li> <li>◆ Paperback royalties: <b>£54k</b></li> <li>◆ E-book royalties: <b>£80k</b></li> <li>◆ <b>Compares to £250k advance / £4k headroom</b></li> </ul>					
NA		ID	IC	SC	CC	NA		ID	IC	SC	CC
<b>R2.AUI.2</b> <b>Use of AI/CS Exam information in calculation (report/appendix)</b> <ul style="list-style-type: none"> <li>◆ Discount: <b>40%</b> apply to print <b>only</b></li> <li>◆ Volume: hardback <b>40k + 60k</b>, paperback <b>90k</b>, e-book <b>40k</b></li> <li>◆ Prices: hardback <b>£20</b>, paperback <b>£10</b>, e-book <b>£8</b></li> <li>◆ Royalties: hardback <b>10%</b>, paperback <b>10%</b>, e-book <b>25%</b></li> </ul>						<b>R2.SPS.2</b> <b>Comments on adequacy of assumptions</b> <ul style="list-style-type: none"> <li>◆ Liza: vested interest in getting a deal <b>so</b> figures could be optimistic</li> <li>◆ List prices: look high eg, hardback £20 v £15/£18</li> <li>◆ Sales volumes: no track record for Emily <b>so</b> could be optimistic</li> <li>◆ Hardback v paperback ratio: different from company/industry norm</li> <li>◆ Royalties: paperback/e-book higher than standard rates</li> <li>◆ Advance: £50k/25% more than previous highest figure</li> </ul>					
NA		ID	IC	SC	CC	NA		ID	IC	SC	CC
<b>R2.AUI.3</b> <b>Describes business issues and wider context</b> <ul style="list-style-type: none"> <li>◆ Liza: tax investigation / wants quick decision</li> <li>◆ Emily: no history of published work</li> <li>◆ Highly competitive publishing market</li> <li>◆ Contract terms: eg, three instalments, five TV slots, £20k promo</li> <li>◆ Book due 1 December 2016</li> </ul>						<b>R2.SPS.3</b> <b>Comments on commercial and ethical aspects</b> <ul style="list-style-type: none"> <li>◆ Terrapin: pays larger advance / lower royalty rates</li> <li>◆ New authors: low numbers / declining revenue in 2016</li> <li>◆ Large upfront advance payment requested would impact cash flow</li> <li>◆ Emily contract terms more demanding eg, 10 TV slots / £50k promo</li> <li>◆ Proposed contract covers first book only / target market genre</li> <li>◆ Plagiarism: potential case / evidence from son</li> </ul>					
NA		ID	IC	SC	CC	NA		ID	IC	SC	CC

Applying Judgement						Conclusions & Recommendations																	
<b>R2.AJ.1</b> <b>Evaluates earn-out calculation</b> <ul style="list-style-type: none"> <li>◆ Only just earns out/very sensitive to change</li> <li>◆ Considers sensitivity eg, volume, price, royalties</li> <li>◆ Normal earn-out period 24 months so more headroom</li> <li>◆ Sales/royalties would continue after 18-month period</li> <li>◆ 18-month sales revenue (potentially £2,060k) <b>significant</b></li> </ul>						<b>R2.CR.1</b> <b>Draws conclusions (under a heading)</b> <ul style="list-style-type: none"> <li>◆ Concludes on earn-out in 18 months <b>with fig</b></li> <li>◆ Don't want to miss a bestseller / large advance = high risk</li> <li>◆ Concludes on working assumptions / commercial aspects</li> <li>◆ Concludes on way forward</li> </ul>																	
NA		ID	IC	SC	CC	NA		ID	IC	SC	CC												
<b>R2.AJ.2</b> <b>Evaluates assumptions</b> <ul style="list-style-type: none"> <li>◆ Liza: GFR estimate was conservative / was achieved</li> <li>◆ Average revenue per book: £9.16/£8.40 v 2016 £7.67</li> <li>◆ Sales volumes: timing capitalises on pre-Christmas sales</li> <li>◆ Hardback v paperback ratio: comparable to GF Randall / more paperbacks in future</li> <li>◆ Royalties: agreeing high rate may impact other deals</li> <li>◆ Advance: high impairment cost if book unsuccessful</li> </ul>						<b>R2.CR.2</b> <b>Makes recommendations</b> <ul style="list-style-type: none"> <li>◆ Evaluate quality of Emily's work</li> <li>◆ Need market research / back-up for assumptions</li> <li>◆ Plagiarism: investigate facts / get Spanish book translated</li> <li>◆ Negotiate T&amp;C with Liza/Emily</li> <li>◆ Negotiate for trilogy</li> <li>◆ Other recommendations</li> </ul>																	
NA		ID	IC	SC	CC	NA		ID	IC	SC	CC												
<b>R2.AJ.3</b> <b>Evaluates commercial and ethical aspects</b> <ul style="list-style-type: none"> <li>◆ Terrapin: unknown provenance of article</li> <li>◆ May need to take a risk to achieve high rewards</li> <li>◆ Bux is cash-rich / risk that advance non-refundable</li> <li>◆ Contract terms could set precedent / increase costs</li> <li>◆ Other deals (eg, Terrapin) may not be better for Emily</li> <li>◆ Plagiarism: costly to defend / affects reputation</li> </ul>						<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td>CC</td><td></td></tr> <tr><td>SC</td><td></td></tr> <tr><td>IC</td><td></td></tr> <tr><td>ID</td><td></td></tr> <tr><td>NA</td><td></td></tr> <tr><td><b>Total</b></td><td style="text-align: center;">11</td></tr> </table>						CC		SC		IC		ID		NA		<b>Total</b>	11
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**Requirement 3 - Evaluation of printing/distribution arrangements**

Assimilating & Using Information						Structuring Problems & Solutions					
<b>R3.AUI.1</b> <b>Appendix: Content and style</b> <ul style="list-style-type: none"> <li>◆ Well presented</li> <li>◆ Numbers clearly derived and labelled</li> <li>◆ Provides calculation of total costs</li> <li>◆ Other printers excluded from calculations</li> </ul>						<b>R3.SPS.1</b> <b>Option 1: Renew Ethelred/maintain status quo</b> <ul style="list-style-type: none"> <li>◆ Total annual savings £659k</li> <li>◆ Ethelred minimum spend £4m</li> <li>◆ Ethelred recent issues with quality/meeting deadlines</li> <li>◆ Maintains cover and flexibility for business-critical service</li> <li>◆ Maintaining status quo avoids disruption to service</li> <li>◆ Jax Max: security issue</li> </ul>					
NA		ID	IC	SC	CC	NA		ID	IC	SC	CC
<b>R3.AUI.2</b> <b>Use of AI/CS Exam information in calculation</b> <ul style="list-style-type: none"> <li>◆ Calculations include printing and distribution</li> <li>◆ Distribution costs adjusted</li> <li>◆ Ethelred: Bux is £6.6m/£42m/15.7% of revenue</li> <li>◆ Renoir: Bux is £8.3m/£105m/7.9% of revenue</li> </ul>						<b>R3.SPS.2</b> <b>Option 2: Ethelred as sole provider</b> <ul style="list-style-type: none"> <li>◆ Total annual savings £2,968k</li> <li>◆ Would make Bux 25% of Ethelred revenue</li> <li>◆ Sole provider increases risk</li> <li>◆ Historical reputation for quality/offering performance guarantees</li> <li>◆ Ethelred specialises in children's books with focus on artwork</li> <li>◆ Ethical excellence/awards for social responsibility</li> </ul>					
NA		ID	IC	SC	CC	NA		ID	IC	SC	CC
<b>R3.AUI.3</b> <b>Describes business issues</b> <ul style="list-style-type: none"> <li>◆ Currently: Ethelred 40%, Renoir 50%, other 10%</li> <li>◆ All other printing options rejected (Auden/ in-house)</li> <li>◆ Printing and distribution are critical to Bux's business</li> <li>◆ Quality reputation / high ethical standards (CP1/5)</li> <li>◆ Diversify suppliers / IT security / IP (KR 3/4/5)</li> <li>◆ £1m print saving objective y/e 31 May not 30 Nov</li> </ul>						<b>R3.SPS.3</b> <b>Option 3: Renoir as sole provider</b> <ul style="list-style-type: none"> <li>◆ Extra cost <b>£75k/£100k</b> cancellation penalty (Ethelred)</li> <li>◆ Currently slightly cheaper (improved distribution terms)</li> <li>◆ Largest distributor network in UK / geographically close to Bux</li> <li>◆ Renoir expecting/welcoming takeover bid / higher prices</li> <li>◆ Recent safety issues/about to lose ISO certificate</li> <li>◆ Distributor of INYB</li> </ul>					
NA		ID	IC	SC	CC	NA		ID	IC	SC	CC

Applying Judgement						Conclusions and Recommendations																	
<b>R3.AJ.1</b> <b>Evaluation of Option 1 (including ethics)</b> <ul style="list-style-type: none"> <li>◆ Compares savings to Objective 5 (£1m saving)</li> <li>◆ Minimum spend unlikely to be an issue</li> <li>◆ Swift action by Ethelred shows importance of Bux contract</li> <li>◆ Mitigates Key Risk 3 (diverse suppliers)</li> <li>◆ Renewal avoids deterioration in current service</li> <li>◆ Jax Max: triggers Key Risks 4/5</li> </ul>						<b>R3.CR.1</b> <b>Draws conclusions (under a heading)</b> <ul style="list-style-type: none"> <li>◆ Concludes on option with largest saving <b>with fig</b></li> <li>◆ Concludes on operational/strategic issues</li> <li>◆ Concludes on ethical issues</li> <li>◆ Concludes on way forward</li> </ul>																	
NA		ID	IC	SC	CC	NA		ID	IC	SC	CC												
<b>R3.AJ.2</b> <b>Evaluation of Option 2 (including ethics)</b> <ul style="list-style-type: none"> <li>◆ Compares savings to Objective 5 (£1m saving)</li> <li>◆ Considers cash flow impact of credit terms (45d v 30d)</li> <li>◆ Recent issues emphasise risk of relying just on Ethelred</li> <li>◆ Performance guarantees provide assurance going forward</li> <li>◆ Good strategic fit/good choice for Emily</li> <li>◆ Meets Bux's high ethical standards (CP5)</li> </ul>						<b>R3.CR.2</b> <b>Makes recommendations</b> <ul style="list-style-type: none"> <li>◆ Negotiate T&amp;C with Ethelred/Renoir</li> <li>◆ Investigate Renoir takeover rumours</li> <li>◆ Jax Max: investigate facts / ensure Ethelred tightens controls</li> <li>◆ Safety issues: investigate facts / discuss potential ISO loss</li> <li>◆ INYB: investigate facts / clarify own stance with Renoir</li> <li>◆ Other recommendations</li> </ul>																	
NA		ID	IC	SC	CC	NA		ID	IC	SC	CC												
<b>R3.AJ.3</b> <b>Evaluation of Option 3 (including ethics)</b> <ul style="list-style-type: none"> <li>◆ Termination penalty cost depends on decision date</li> <li>◆ Contract renewable in 10 months so T&amp;C may change</li> <li>◆ Good operational fit</li> <li>◆ Takeover bid creates uncertainty over future relationship</li> <li>◆ Loss of ISO raises concern over use of Renoir (CP1)</li> <li>◆ INYB: damages reputation / against Bux's ethical stance</li> </ul>						<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="text-align: center;">CC</td><td></td></tr> <tr><td style="text-align: center;">SC</td><td></td></tr> <tr><td style="text-align: center;">IC</td><td></td></tr> <tr><td style="text-align: center;">ID</td><td></td></tr> <tr><td style="text-align: center;">NA</td><td></td></tr> <tr><td style="text-align: center;"><b>Total</b></td><td style="text-align: center;">11</td></tr> </table>						CC		SC		IC		ID		NA		<b>Total</b>	11
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## **5. Factors that determine a candidate's success or failure**

### **5.1 Candidate scripts are ranked based on their raw score**

Scripts are initially ranked based on the total grades achieved by each candidate. A number of these scripts (typically 10% - 15%) will then be marked a second time.

Successful candidates will typically score over **50% raw score** and at least **50% competent grades (20+ CC or SC boxes)**.

Marginal scripts typically score less than 50% competent grades overall (< 20 competency boxes) or less than 50% competent grades (< **6 CC or SC boxes**) in any requirement.

Marginal scripts are reviewed by the examiners and senior moderator to determine whether the scripts provide evidence of the necessary quality to pass a competency-based assessment.

### **5.2 Balance and completeness in coverage of the requirements**

Overall, you should aim to achieve a score of at least 50% of the marks (**6+ CC or SC boxes**) available for each requirement.

The examiners assess the number of competent grades achieved in each of the three main requirements and the Executive Summary. Candidates which have not achieved this objective may then fail, regardless of whether they achieve a higher overall raw score than other marginal scripts which subsequently pass.

The examiners have often stated that a script which has less than 50% competent grades (SC or CC) in one individual requirement would usually provide an indication that the script had underperformed on that requirement. However, they also take into consideration the number of IC grades.

Many scripts that fail the exam often score pass marks in one or two of the requirements but then score a notably lower mark in at least one area (**< 4 CC or SC boxes in one requirement**). This is typically as a result of poor time management.

### 5.3 Number of not attempted (NA) boxes on the script overall.

NA grades provide an indication to the examiners that the report has not covered specific elements of individual requirements or sub-requirements. The examiners have previously stated that students with 5 or more NA grades are unlikely to be successful.

#### Sample grade by Requirement:

	ES & OAC	Req 1	Req 2	Req 3	TOTAL	Raw Score
CC	4	3	1	1	9	54
SC	0	6	5	5	16	64
IC	0	0	3	1	4	8
ID	3	2	1	3	9	9
NA	0	0	1	1	2	0
<b>Total</b>	<b>7</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>40</b>	<b>135</b>
<b>Competent grades</b>	<b>57%</b>	<b>82%</b>	<b>55%</b>	<b>55%</b>	<b>63%</b>	

The above candidate will be successful because the script has over 20+ competent grades (9 CC's + 16 SC's = **25 competent grades**) and over 50% competent grades in each requirement.

The candidate will be ranked based on the raw score ( $135/240 = 56\%$ ) and compared to other competent candidates. There are also fewer than 5 NA grades.

### 5.4 Time management

**The main reason that candidates fail the exam paper is poor time management.**

Spending too much time on financial statement analysis (requirement 1) of the report will usually result in other requirements being rushed and an insufficient number of competent grades being scored for the other requirements. A report which has not been sufficiently completed is unlikely to be successful.

#### Suggested timing

	Req 1	Req 2	Req 3	Total
Appendices	20	15	5	40
Reading and planning	20	20	20	60
Main report	40	35	35	110
Exec summary and title page	10	10	10	30
	90	80	70	240



## 5.5 Adequate planning

**It is essential that a candidate has a short plan prior to writing the main report to each requirement.**

The plan ensures the report follows a logical structure, all requirements are attempted, a focus on the professional skills required and the marking key.

## 5.6 Report Structure

**Numbering your sections:** It is important to use numbered sub-headings as in the following example:

### 1. A review of Bux's financial performance (rather than Requirement 1)

#### 1.1 Revenue

The financial analysis on revenue

#### 1.2 Gross Profit

The financial analysis on gross profit

#### 1.3 Operating profit

The financial analysis on OP.

#### 1.4 Inventory write off adjustment

The analysis of the inventory issue.

#### 1.5 Conclusions

Conclusions (**use figs £ &%**) covering revenue, GP, OP and inventory write off.

#### 1.6 Recommendations

Make 4 – 6 specific action points.

**Executive summary:** Candidates should provide a concise, stand-alone document that identifies the key issues from the main sections of the report. The summary should integrate key numbers, cover the key issues analysed in each requirement and draw conclusions and recommendations.

**Conclusion and recommendations:** Candidates **must use separate headings** for conclusions and recommendations to make it clear to the marker the distinction between the main report and the conclusions.

#### **Appendix:**

- ensure your appendices are well presented with clearly labelled numbers
- provide a mixture of **£ and %** calculations for financial statement analysis
- use the given figures from the exam paper to perform your calculations.

**Structure, style and language:** 1 of the 40 competency boxes (overall assessment criteria) are available for structure, style and language covering the following:

- Appropriate layout (headings, paragraphs and sentences)
- Appropriate use of paragraphs and sentences
- Disclaimer of liability and report addressed from the firm
- Tactful/ethical comments/ grammar.

### **Example title page**

To: The board of Doughby Ltd  
Prepared by: Pine Andrews Chartered Accountants  
Date: Insert today's date  
Title: Financial review and strategic opportunities

**Disclaimer:**

This report has been prepared for the Board, and should not be distributed to any other parties without prior written consent. No liability can be accepted in the event of such distribution.

### **5.7 Organise an exam file of key facts and issues**

A lot of candidates take too much information into the exam. It is very important to organise your exam file is to identify the key facts and issues from the AI and then to structure your file around these issues. The key facts should be grouped into executive summary and individual requirements.

### **5.8 Applying adjustment (AJ)**

Many candidates fail to apply judgement by further evaluating the issues identified. Analysing the key issues will give many structuring problem and solution (SPS) bullets however to get the AJ bullets, candidates will have to further evaluate and provide professional scepticism.

The exam will consist of 9 AJ competency boxes, 3 per requirement (22.5% of the CS exam). Candidates that are successful will typically get a few competent boxes (CC or SC) despite the overall difficulty in applying judgement.

Examples of applying judgement

#### **Requirement 1**

- Comment on which division achieved the best (or worst) performance.
- Comment on the implications of issues on the business now or in the future.
- Comment on linkages between performance in one division and results in another.
- Comment on the validity of adjustments proposed by management.
- Compare revenue/ gross margin to target revenue/ margin.

## Requirement 2

- Consider the non-financial impacts of the adjustment such as the impact on competition or staff.
- Show professional scepticism on whether the adjustment should be higher or lower or the source of the information.
- Identify omitted items from the calculations.
- Identify cash flow impact and timing differences.
- 

## Requirement 3

- Comment on the likelihood of benefits or risks
- Identify potential bias, subjectivity, or uncertainty.
- Considering the impact on management time.

## 5.9 Ethics and business trust

Accountants are expected show the highest level of professional conduct and in the CS exam, **5% - 10%** of competency grades (**2 - 4 competency boxes**) will be awarded to candidates for evaluating ethical and business trust concerns.

Business trust concerns in the CS exam are issues that may have occurred as a result of poor decision making rather than poor ethical conduct that could have an adverse effect on the company.

Candidates are required to evaluate several ethical and business trust issues in requirements 2 and 3 but occasionally in requirement 1. Analysis of these issues in the exam should consider the following approach:

- Ethical or business trust **issue**
- Evaluate the **potential impact** of the issue
- Ethical **recommendations**.

Example,

- Ethical issue: poor product quality issues
- Evaluate the issue: adverse impact on reputation
- Recommendations: review supplier options

The above approach will get bullets in both SPS and AJ so candidates that do this for each ethical issue will likely succeed in getting most of the competency marks.

### Examples of ethical issues

Transparency issues: E.g false advertising

Threats to objectivity: E.g bribe

Environmental concerns: E.g carbon emissions

Health and safety concerns: E.g safety issues or event

Lack of confidentiality E.g. abuse of information.