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November 2023 and February 2024

Management Case Study

2019 CGMA Professional Qualification

Full post exam support materials

Below are the full post-exam supporting materials for the Management Case Study Exam. Use the links on this page to jump to the documents required.

Pre-seen material

November 2023 and February 2024 Management Case Study pre-seen.

Examiner's report

The November 2023 and February 2024 examiner's report.

Exam variants

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Suggested solutions

- Suggested solutions for variant 1
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Marking guidance

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If you need any further information please contact us.

Management Case Study Examination
November 2023 – February 2024
Pre-seen Material

CUPPCAR

Context Statement

We are aware that there has been, and remains, a significant amount of change globally. To assist with clarity and fairness, we do not expect students to factor these changes in when responding to, or preparing for, case studies. This pre-seen, and its associated exams (while aiming to reflect real life), are set in a context where current and on-going global issues have not had an impact.

Remember, marks in the exam will be awarded for valid arguments that are relevant to the question asked. Answers that make relevant references to current affairs will, of course, be marked on their merits.

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Contents

Introduction

Cuppcar is a quoted company that operates 214 car dealerships that are spread across its home country of Welland. Each dealership sells new and used cars and related products and services.

Welland's currency is the W$. Wellandian company law requires companies to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS).

You are a financial manager at Cuppcar's Head Office. Your primary responsibilities are associated with management accounting, and you report to Pavarit Chotisin, the Senior Financial Manager, who reports directly to the Finance Director.

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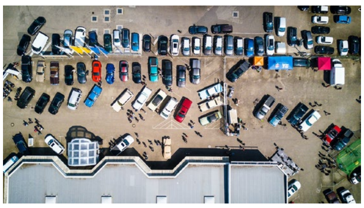
Car dealerships

Car dealers sell cars and related products and services to consumers. Dealers can operate as single-location businesses, or they can have multiple sites. Individual sites are referred to as “dealerships”. Generally, each dealership operates with a significant amount of discretion.

New car dealerships are franchised by car manufacturers. Franchises give dealerships the right to sell cars made under their manufacturers’ brands. For example, Barto Motors is a popular car manufacturer that makes several models of cars that are sold under the Barto Motors brand name. Franchised dealerships cannot sell new cars unless they were made by their designated car manufacturer. That restriction does not apply to used cars. New car dealerships can sell used cars from any manufacturer.

Used car dealerships sell only used cars, which can be of any brand.

Dealerships usually have the following facilities:

Showroom 	The showroom is an indoor space that can be used to display cars and promotional materials. Sales staff usually work at desks in the showroom or in offices immediately beside it.
Car lot 	Showrooms are rarely large enough to display all cars held by dealerships. Most dealerships have an outside space that can be used to display the cars that cannot be accommodated in the showroom. The car lot can also have space set aside for customer parking.

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Workshop 	Car dealerships are equipped to maintain and repair cars. • New and used cars must be checked and adjusted before they can be released to customers. Customers may also require their cars to be fitted with extras at the time of purchase. • It may be necessary to repair defects in cars that were not detected at the time of sale. • Customers may wish to pay the dealership to carry out repairs if their cars break down or suffer accidental damage. • Cars must be serviced at regular intervals to ensure that they are safe to drive and also to extend their lives. Car manufacturers also require regular servicing or their warranties will be void.

New car sales

Car manufacturers sell their cars to franchised car dealerships, who then resell those cars to customers. Car manufacturers benefit from this arrangement because they can focus on the design and manufacture of their cars. For that reason, they are often referred to as "original equipment manufacturers" ("OEMs") in the car trade.

Franchises are granted to dealerships that can meet the strict criteria set out by car manufacturers, which include:

- suitable premises for displaying cars
- experienced and competent sales staff
- properly equipped and staffed workshops

Car manufacturers monitor the performance of established franchised dealerships. Customers are asked to complete questionnaires or participate in a telephone poll about their experience of buying a car or, as time passes, of having their car serviced or repaired by their dealership. Poor performance can be costly. Dealerships receive bonuses, often referred to as "sales incentives", for achieving targets for sales and customer satisfaction. Failure to meet those targets can result in a reduced bonus. If performance is consistently poor, then dealerships can be stripped of their franchises.

Franchises grant a degree of exclusivity for both dealerships and manufacturers. Car manufacturers restrict the number of franchises within any given geographical area so that each dealership has its own sales territory for its designated brand. In return, franchised dealerships restrict sales of new cars to that brand. A car sales business can have multiple new car dealerships selling different brands in the same area, possibly even adjacent to one another. They cannot sell multiple brands of new cars from the same dealership.

Car manufacturers decide on the quantities and models of new cars that will be delivered to each dealership. Deliveries effectively constitute sales made on normal trade credit terms. Car manufacturers do not necessarily permit dealers to specify larger allocations of more popular models or fewer of less popular cars. Car manufacturers are keen to ensure that customers can see their entire range of models whenever they visit their local dealerships.

The selling price of new cars may be based on the car manufacturer's recommended retail price for each model ("MRRP"); although this is indicative rather than mandatory, and dealerships are free to adjust that price if they wish. There is an element of profit for the

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dealership built into the MRRP, although that can be as little as 2-3% of the price invoiced to the dealership for economy brands, increasing to 10% for luxury brands. The margins charged on the sale of new cars are insufficient to cover dealership overheads. Fortunately, the sale of each new car creates further opportunities for profit:

- Car manufacturers pay bonuses that reflect the ability to meet or exceed sales targets (monthly, quarterly or annual) in terms of the number of new cars sold. Those bonuses can significantly augment the profit from the sale of new cars, provided the targets can be met.
- Most customers trade in their old cars and dealerships can usually resell those at a profit.
- There may be commissions on the sale of extended warranties and other products.
- Hopefully, customers will bring their new cars back to the dealership for servicing and repair.

The average selling price of a new car in Welland is W$20,000. The average gross profit per unit is W$2,400, including sales incentives paid by car manufacturers after the period end. New cars vary in price from W$14,000 to W$40,000 for popular models, although there are much more expensive cars that sell in smaller numbers.

Welland has 5,200 franchised new car dealerships. These dealerships employ a total of 620,000 people.

There are 30 popular brands of new cars on sale in Welland, each of which has a network of dealerships across the country. The five largest brands (car manufacturers), in terms of dealerships, are:

	Number of dealers in Welland
Barto Motors	370
Mancars Auto	410
Kopower	394
Rodteres	387
Wendwache	382

Fleet leasing

Some large car dealers offer a fleet leasing service to corporate customers. The customers specify the models and numbers of cars that they require. The dealer then has its dealerships supply those cars, servicing and repairing them as necessary for the duration of the lease.

Dealerships can count cars supplied as fleet cars as sales, which helps them to meet car manufacturers' sales targets.

Leased cars are usually supplied under an operating lease arrangement. At the conclusion of the lease, the cars are returned to the lessor and are usually sold through the company's dealerships as used cars.

Used car sales

Used cars have previously been owned and driven by one or more previous owners. Some car dealerships sell only used cars, but new car dealerships also sell used cars as an additional source of revenue and profit.

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Car dealerships accept customers' existing cars in part-payment for new or used cars. Customers then pay the difference between the price of the car that they are purchasing and the value of the car that they are trading in. The value of part-exchange cars is a matter for negotiation between customers and dealership sales executives.

The value of a used car is determined by several factors, including the popularity of the model, its age, wear and tear (measured by the distance travelled) and the car's mechanical condition and the condition of its bodywork. The average selling price of a used car in Welland is W$16,000, for used cars that are up to four years old, although there is a significant variation between the prices of older economy models in poor condition and better-quality cars that have had only one previous owner.

Dealerships can acquire used cars in a number of ways:

Car dealerships often purchase used cars from other dealerships ("trade purchases") or from individuals ("retail purchases"). These are chosen on the basis of their suitability for the dealerships' markets and so can usually be sold at a profit.

Trade purchases are made from other dealerships who wish to dispose of cars that are not suited to their customers. For example, a new car dealership might have taken a poor-quality trade-in that would look out of place on the dealership's car lot. A used car dealership might buy such cars at wholesale prices. Similarly, new car dealerships might be keen to buy good-quality used cars from used car dealerships that do not usually trade in expensive models.

Retail purchases are made from car owners who wish to sell their cars, perhaps because of financial difficulties. New car dealerships will often purchase good quality used cars, especially if they are from the same brand as the new cars that they sell.

New car dealerships evaluate used cars that they acquire as trade-ins and decide whether to sell them as used cars from their car lots. Cars that do not meet a dealership's standards are usually sold at wholesale prices to used car dealerships.

The profit on used car sales varies, but it can exceed the profit on new cars of the same model because each car is unique, and so dealers are free to charge as much as customers

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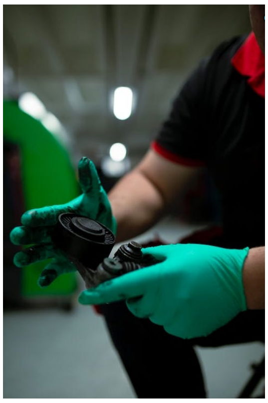
are prepared to pay. The average gross profit from the sale of a used car that is up to four years old is W$2,600.

Parts and service

New car dealerships earn much of their profit from sales of parts, servicing and repairs:

Part sales 	Parts can range from accessories that owners buy to personalise their cars to replacements for components that have worn out or are broken. Car manufacturers set strict conditions for the quality of parts used in the maintenance and repair of cars that are still under warranty. Dealerships must use parts made by the car manufacturers themselves or by the car manufacturers' approved makers. For example, Barto Motors makes and sells body panels as replacement parts for the repair of collision damage. Barto Motors also lists approved manufacturers for replacement parts and consumables, ranging from brake pads to engine oil. Most of those manufacturers supply the parts that are used in the car's construction. Dealerships often sell parts to local garages who require parts quickly in order to complete a service or a repair. Accessories are often sold along with the car itself. Some dealerships accessorise their cars with floor mats and boot liners in order to make them more attractive to buyers and then incorporate the price into the car's total selling price. Parts can also include merchandise such as hats, t-shirts and bags that carry the car manufacturer's branding.

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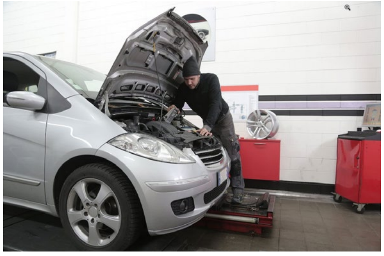
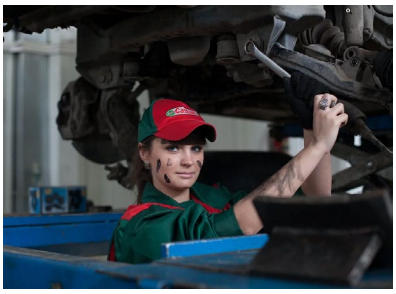
Servicing 	Cars require regular maintenance in order to prevent breakdowns and to minimise wear. Most cars require an annual service, during which various checks and adjustments are carried out and lubricants and hydraulic fluids are replaced. Car manufacturers also specify the maximum distance that can be driven between services, so a car may have to be serviced, for example, every 15,000 kilometres or every 12 months, whichever comes sooner. New car dealerships attempt to sell servicing to customers who have bought cars from them. Customers are often attracted by the fact that the dealerships use good quality parts as recommended by the manufacturer and workshop staff have specific training in the maintenance and repair of the cars that the dealership sells.
Mechanical repairs 	Repairs may be required because of damage caused by an accident or the failure of a component. These are generally non-routine in nature and so customers may prefer to have their cars repaired at new car dealerships, whose workshop staff are experts in their models of car. The cost of repairs is often covered by a car manufacturer's warranty, which means that the dealership invoices the car manufacturer instead of the customer. Occasionally, a car manufacturer announces a recall of a model that may be subject to a known defect. In that case, customers are required to return their cars to one of the car manufacturer's new car dealerships for evaluation and/or correction. Work done in response to such recalls is charged to the car manufacturer.
Bodywork repairs 	Car bodies can be scratched or dented because of accidents. Car manufacturers require their dealerships to have the necessary equipment and skilled bodywork staff to repair any such damage.

Finance and insurance

Car dealerships can earn commissions for introducing car buyers to lenders and providers of other services such as extended warranties. These are referred to as "finance and insurance".

Customers often require personal leases or loans to finance their acquisition of a new or used car. Car dealerships generally have a relationship with a bank or a leasing company that enables them to assist customers to complete an application for a loan or a lease. Banks pay commissions to dealerships whenever such applications are accepted.

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Dealerships also recommend service plans and extended warranties to customers. A service plan involves customers paying in advance for the car's routine servicing and maintenance. That might involve a lump-sum advance payment that will cover servicing costs for, say, 3 years (or the first three major services, if that comes sooner). Alternatively, the scheme might involve a monthly payment over the period covered by the plan.

Service plans are usually offered by car manufacturers who pay dealerships a commission when they persuade customers to buy a service plan that covers their new car.

Extended warranties supplement the standard guarantee offered on a new or used car. Car manufacturers give standard warranties to repair manufacturing defects, typically for 3 years from the date of sale. Those warranties are transferrable when cars are sold, so a customer buying a 2-year-old car would benefit from the remaining year of its original 3-year warranty. Customers can, if they wish, pay to extend their warranty at the time of purchase.

Extended warranties can be offered by warranty providers who pay dealerships a commission when a customer buys one of their warranties. Some dealerships offer their own extended warranties. The sale of extended warranties can be profitable if no claims are made against the policy. The warranty provider is, however, liable for any costs associated with rectifying a fault covered by the warranty.

Staff roles

The responsibilities associated with the operation of a car dealership are shared by a number of individuals. These staff roles are common throughout the industry:

Dealership principal	The dealership principal is effectively the general manager in overall charge of the dealership. Dealership principals are usually employees, although the owner of a small independent dealership might undertake that role. The dealership principal's responsibilities include: • Supervision of departmental heads • Oversight of inventories of cars and parts • Implementation of marketing and promotional activities, in compliance with corporate strategy • Maintaining customer satisfaction, including addressing complaints • Oversight of finances • Compliance with regulations, including terms set out by car manufacturers Dealership principals are usually rewarded on the basis of salaries supplemented by performance-related bonuses.
Sales managers and sales executives	Sales executives are responsible for negotiating sales with customers. This requires sound product knowledge and the ability to match customers' needs with cars that are in inventory or that can be obtained. It may also be necessary to negotiate prices with customers who are seeking a discount or an increased valuation for their existing car if that is being offered in part-exchange. Sales managers have oversight of the car sales team. They monitor the performance of the sales executives. They also authorise any

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	inducements that sales executives wish to offer in order to complete a sale, such as discounts or generous part-exchange prices on customers' existing cars. Sales staff generally receive a moderate salary that is supplemented by performance-based bonus payments.
Business managers	Sales executives handle the "front end" of a car sale, which ends once the customer has agreed to buy the car. Business managers handle the "back end", which involves negotiating the sale of additional products and services, including financing, service plans and extended warranties. Business managers are usually rewarded in a similar manner to sales staff.
Service advisers and workshop staff	Car dealerships rely heavily on the revenue generated by their workshops. Most aim to capitalise on the relationship that has been established when customers bought their cars. Service advisers act as a point of contact between customers requiring servicing or repairs and the dealership itself. They book appointments and keep customers informed of the progress of the work and also of any issues that arise. For example, the workshop staff could discover worn or damaged components. Service advisers must be able to inform customers of the implications of any such discoveries for their safety or the reliability of their cars. Service advisers can upsell workshop services to customers in order to generate additional revenue. They might advise them of potentially beneficial preventive maintenance that could reduce the risk of breakdowns, or they might inform them of special offers, such as discounts on new tyres, that are being offered by the dealership. Workshop staff are responsible for the work undertaken on customers' cars. Routine servicing work is charged at a standard price per job that is often set by the manufacturer and applies to all franchised dealerships for a particular brand. For example, there will be a standard charge for replacing oil that will include the cost of parts, labour and overheads and a mark up to generate profit. Non-routine servicing and repairs are priced individually for each job. Workshop staff may detect faults during a routine service that require additional work in addition to the service itself. Service advisers and workshop staff receive salaries.

Cuppcar

Cuppcar was founded in 1964 when members of the Cupp family used their savings to launch a used car dealership. The company grew rapidly, opening further dealerships and moving into new areas.

By the mid-1970s, Cuppcar had established itself as a major car dealer, with more than 40 dealerships. It had started to sell several leading brands of new cars and had a strong reputation for the sale of good-quality used cars and for excellent customer service.

Cuppcar was quoted on the Wellandian stock exchange in 1998. By then, the Cupp family had sold their interest in the company.

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There are now 214 Cuppcar new car dealerships, spread across Welland and employing 25,000 staff. Cuppcar has at least two dealerships for each of the popular car manufacturers whose cars are sold in the country.

Cuppcar is one of the largest new car dealers in Welland, both in terms of dealerships and revenue. The company invests heavily in product training and in sales training for all customer-facing staff.

Each of the company's dealerships is designed to create a positive impression. Each dealership's signage shows both the Cuppcar logo and the logo of the car manufacturers whose cars it sells. The dealerships are large and are designed to attract customers. They are located alongside main roads, often close to motorway junctions, making them convenient for customers.

Most of Cuppcar's customers research the purchase of a new or used car online and then visit their local dealership. It is, however, becoming increasingly common for customers to choose and purchase cars online for home delivery.

The dealership principal in charge of each dealership is granted a significant amount of discretion over operational matters, including pricing of new and used cars, recognising that each brand of car may require a different sales approach and that regional differences can affect the approach taken to sales.

Cuppcar's new car sales

Cuppcar has varying numbers of dealerships for each popular brand. For example, it has 17 dealerships selling the Barto Motors brand and two that sell Limmolux. Barto Motors is one of Welland's most popular brands, and Cuppcar is keen to have as many dealerships selling its cars as possible. Limmolux is an exclusive brand of luxury cars, with a limited market. Two dealerships are sufficient for Cuppcar to cover the whole of Welland.

Cuppcar is in competition with other dealers for new car sales. Barto Motors has 370 franchised dealerships in Welland. These are distributed across the country and are at least 5 miles apart, but they still compete with one another because customers are generally willing to drive to a more distant dealership that can offer their choice of car at a good price. For example, there are six Barto Motors dealerships in Central City, two of which belong to Cuppcar and the other four to competing chains of dealers. Cuppcar's dealership principals pay close attention to the activities of rival dealerships (and the activities of other Cuppcar's dealerships in their general vicinity).

Cuppcar earned an average gross profit of W$2,913 per new car sold including manufacturers' bonuses during the year ended 31 December 2022.

Cuppcar aims to maximise sales in a number of ways:

Presentation	Every dealership has a receptionist who greets potential customers and directs them to available sales executives. All incoming emails and telephone voicemails must receive a response on the day of receipt. Sales executives must be smartly dressed during working hours. They are required to be experts in their car brand. They must also be aware of any promotions being offered by Cuppcar or by the car manufacturers.
Customer care	Cuppcar aims to develop a strong relationship with each of its customers, primarily through the aftersales service provided by its workshops. Customers are more likely to buy a new car from a dealership that has been reliable and has offered good value for

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	money. Cuppcar aims to exceed expectations in dealing with workshop customers. Cars are washed and polished after each service, at no additional charge to the customer. Any complaints are addressed immediately by the workshop manager, who will attempt to meet the customer's wishes. Service advisers are authorised to offer discounts when customers face large and unforeseen repair bills. This often encourages customers to agree to have the fault rectified immediately, creating revenue for the workshop and generating customer goodwill. Sales executives are expected to generate sales leads by telephoning previous customers to ask whether they are happy with their car and whether they might be interested in changing. If the customer has no immediate plans to replace that car, then the sales executive will schedule a follow-up call after an appropriate interval.
Pricing	It may be necessary to offer a customer a discount against a car's MRRP in order to prevent the loss of a sale to a rival dealership. The margins on new car sales are generally small, so discounts can result in cars being sold at a loss, but that may still make good business sense if the alternative would be the loss of the financial incentive paid by a manufacturer for achieving the target for sales volume. Dealerships can also offer upgrades in order to persuade customers to sign a sales contract. Those could be minor items, such as offering free floor mats or a free tank of petrol, or they could involve replacing a standard item, such as a satnav system, with a more advanced model. Each sale must be approved by a new car sales manager before it is finalised. Approval includes authorising any discounts and agreeing the trade-in value of the customer's old car.
Inventory availability	Cuppcar maintains a current list of new and used cars that are held across the company. That list can be accessed by all sales executives. If a customer is interested in buying a particular model of new car that is not held by the dealership, then the sales executive can check whether another Cuppcar dealership for that brand has the car. Cuppcar's policy is to transfer cars between dealerships if that is necessary to make a sale. Cuppcar can order specific models from manufacturers, although there can be a significant lead time before orders are fulfilled, which can irritate customers. Many car factories are located overseas and so building a car to order and importing it to Welland can take several weeks and possibly even months.
Data analytics	One of Cuppcar's directors has specific responsibility for the management of information technology. The company has a business intelligence system that enables the collection and analysis of data from internal and external sources without having to specify queries in advance or impose a structure on data. Cuppcar's management team frequently uses data mining techniques to identify useful patterns and relationships that can be used to improve revenues and profitability.
Fleet leasing	Cuppcar has a Fleet Leasing Department at Head Office that manages fleet leasing for businesses that require five cars or more.

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	These cars are then supplied on an operating lease, usually for 2 years. These cars are returned to Cuppcar at the end of the lease. They are usually in good condition and can be taken into used car inventory. The Fleet Leasing Department purchases cars from Cuppcar dealerships. Dealerships can count sales made to Fleet Leasing towards their volume targets, which can be helpful in ensuring that they meet the thresholds for manufacturers' sales incentives.

Cuppcar's used car sales

Most car buyers expect car dealerships to take their existing cars in part-exchange when

they buy new or used cars. The car sales industry shares information about the market values of used cars, taking account of the model, condition and other relevant factors. Cuppcar's sales executives are encouraged to offer generous valuations for customers' part-exchange cars in order to complete sales.

The "sticker" selling price of each used car is displayed on its windscreen and is stated on Cuppcar's website. Each used car's selling price is set by the Head of Used Car Sales within each dealership. Used car sales executives have some discretion to offer discounts against those prices, subject to authorisation from used car sales managers.

Cuppcar often earns more profit from the sale of used cars than from new. Cuppcar earned an average gross profit of W$3,146 per used car sold during the year ended 31 December 2022. That was higher than the industry average, which can be attributed to the high quality of the used cars that Cuppcar sells. The company works hard to maintain that profitability:

Presentation	Every dealership has a designated area set aside for the display and sale of used cars. That area is well signposted and is furnished to the same high standard as the adjacent section for new car sales. Used car sales executives are subject to the same dress code as new car executives. They are expected to be familiar with the current inventory in order to assist and advise customers. They are required to test drive any models in inventory that they are unfamiliar with so that they can accurately describe the car's characteristics.
Quality	Every car taken in part-exchange is examined for quality. Cars that do not meet the company's quality standards are sold on a wholesale basis to other dealers. Cuppcar buys used cars, both from other dealers and from individuals. Any such purchases are restricted to cars that are in excellent condition that can be sold as "nearly new". All used cars are checked thoroughly, both mechanically and for bodywork. Any minor problems are rectified before the car is displayed for sale. Used cars are also thoroughly cleaned both inside and out.
Positioning	Sometimes a car that is accepted in part-exchange does not fit well with a particular dealership's target market. For example, a Limmolux dealership might accept a small hatchback in part-exchange for a

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	luxury car. If the hatchback meets Cuppcar's quality criteria, then it will be relocated to a dealership that specialises in mass-market cars rather than displaying it alongside luxury used cars in the lot of a Limmolux dealership.
Aftersales	Used cars may have undetected faults that only become apparent once they have been resold. Cuppcar takes great care to ensure that problems are addressed quickly and in a satisfactory manner. Cuppcar offers a 7-day money back guarantee on all used cars. Customers are given the choice between having any faults that appear during that time rectified and returning the car for a full refund.
Online sales	Cuppcar's website can be searched to show the new and used cars that are available both at individual dealerships and across the company as a whole. Every used car is listed on the website with a detailed description of its condition, supported by 20 high resolution photographs. Customers can select suitable cars that can be seen at their local dealerships. They can also buy any of Cuppcar's cars online, for delivery to their homes. Online purchases must be paid for before delivery. They are backed by the Cuppcar 7-day money back guarantee, so customers need not be too concerned about being unable to inspect their cars before purchase.

Cuppcar's parts and service

Each Cuppcar dealership has a workshop that is staffed and equipped to service and repair all models of new car sold by the dealership. Car manufacturers specify the work that is required during each year's service. Some parts must be replaced, but not necessarily every year.

Cuppcar maintains detailed records of the service histories of the cars that it sells and services. Customers are reminded when a service falls due. Failure to have a car serviced can invalidate the manufacturer's warranty, which could leave the customer responsible for the cost of repairs that would otherwise have been covered.

Repairs are also an issue. Components can wear out or suffer accidental damage, causing problems that may be specific to a particular model of car. Each of Cuppcar's dealerships has the diagnostic equipment and tools recommended by the dealership's brand manufacturer so that cars can be repaired properly after sale. All workshop staff are given specific training in the models of new cars that the dealership sells. That training is ongoing, with updates for new models or changes to the design of existing models.

Dealerships buy the parts that they use in servicing and repair from wholesalers who specialise in supplying the motor trade. Wholesalers buy parts in bulk, importing parts from many different countries. Dealerships must use parts made by car manufacturers' approved makers on cars under warranty, otherwise the warranty could be rendered invalid. Wholesalers can also supply good-quality "generic" parts from makers who are not approved. Their makers often claim that their products match or even exceed the quality of parts from approved makers. For example, several companies make brake pads that fit Barto Motors cars. Only one of those makers is approved by Barto Motors, but independent tests have shown that all are at least as good as the approved brake pads and some are better. Generic parts are usually cheaper than approved parts. Cuppcar sometimes buys

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generic parts for use on cars that are no longer under warranty and passes cost savings on to customers.

Dealerships are also equipped to carry out repairs to bodywork. Cars that have been involved in collisions or minor scrapes require specialised equipment to repair them properly.

Each dealership has a modern spray booth that can accommodate a car or any of its body panels. A technician applies paint and clear coating using a spray gun. This is a skilled task because the paint must be applied carefully and in several thin layers. The booths are ventilated and heated so that paint dries quickly, speeding up the process and enhancing the quality of the finish.

Cuppcar's finance and insurance services

Each of Cuppcar's dealerships has a team of business managers who meet with customers after they have agreed to buy a new or used car. Their role is to offer financing, servicing and warranty packages (referred to as "finance and insurance" in the car trade) that can generate additional profit for the dealership:

Finance	Finance can take the form of car loans or leases for the acquisition of new or used cars. Cuppcar has a relationship with Bank of Welland, which is a reputable bank. Business managers can explain how the Bank's loans and leases work, and they can assist customers in the completion of loan or lease applications. Cuppcar receives a commission for every successful application submitted to Bank of Welland. Customers are free to arrange finance with other providers, or they can purchase cars with cash from their savings. Cuppcar does not receive any commission from finance packages made independently by customers.
Service plans – new cars	Customers can buy service plans that enable them to prepay for annual servicing for up to 3 years. The prepayment takes the form of either a single lump sum when the car is purchased or a series of monthly payments for the duration of the plan. Car manufacturers sell service plans on new cars, with dealerships receiving a commission when a customer buys a plan. Cuppcar's business managers advise customers that the total cost of buying individual services will be more expensive than the cost of the service plan. Car manufacturers' service plans require the servicing to be carried out by a franchised dealership, but not necessarily the dealership that sold the car. Customers who have service plans book their annual service with a dealership. The dealership then invoices the car manufacturer for undertaking the service.
Extended warranty – new cars	New cars come with a warranty against manufacturing defects for a designated period. Most warranties expire after 3 years, but they can be for as long as 7 years. Many car manufacturers offer to sell customers extended warranties, which increase the length of the warranty by 2 to 4 years, depending on the manufacturer.

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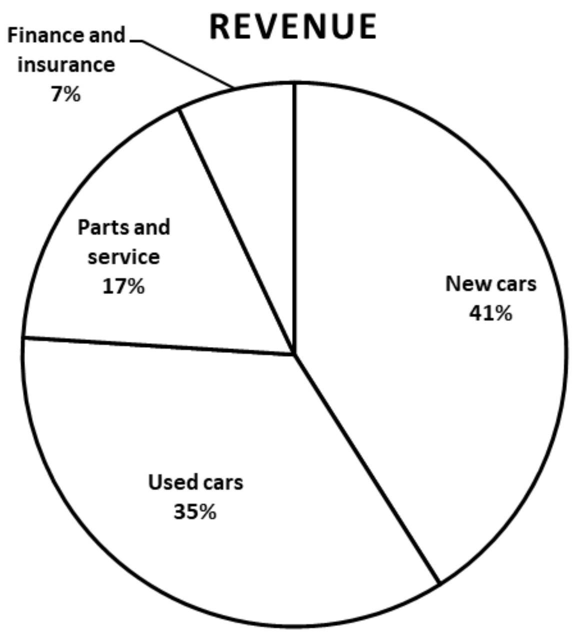
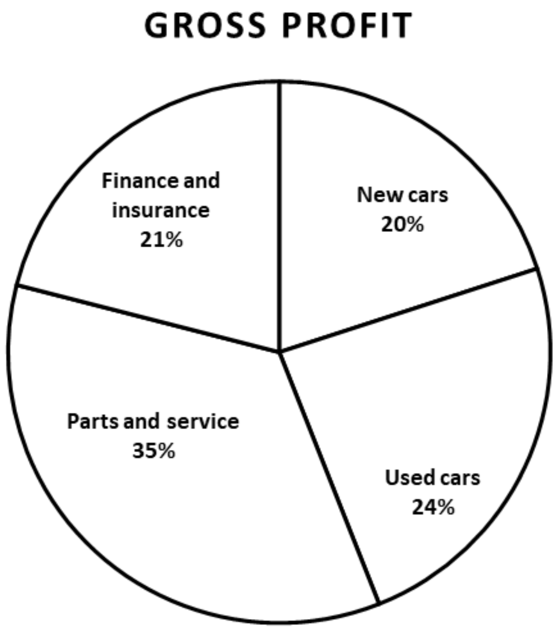
	Car manufacturers offer their dealerships commissions for the sale of extended warranties. Cuppcar's business managers advise customers to take advantage of those for the reassurance that their cars will be guaranteed against manufacturing defects for longer. Customers can return their cars to any of their brands' franchised dealerships if a defect arises. The dealership repairs any defects and invoices the car manufacturer.
Extended warranty – used cars	Cuppcar sells used cars with a 7-day money back guarantee and a 90-day warranty against any mechanical defects that were present at the time of sale. Customers can buy extended warranties from third parties that cover the cost of the failure of any components. Cuppcar recommends a particular extended warranty from a third-party company in return for a commission from this provider.

Cuppcar's revenues and gross profits for the years ended 31 December 2022 can be broken down as follows:





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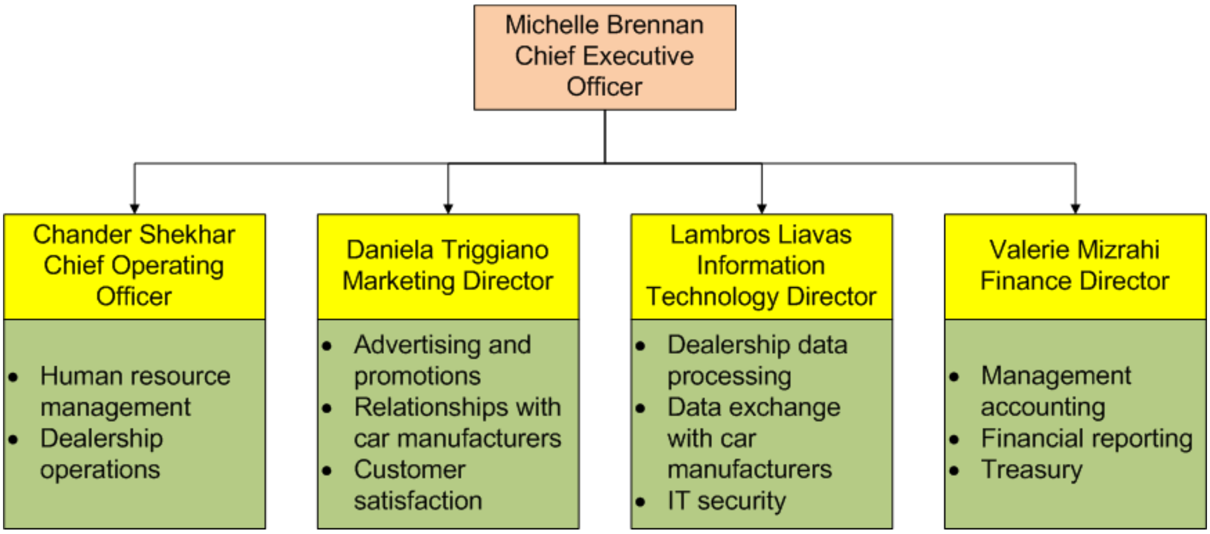
Cuppcar's Board structure



Cuppcar's Board also includes the following non-executive directors:

- Seyhun Doğan – non-executive chair
- Safaa Ghoneim
- Anas Al-Atrash
- Ekanem Ekure
- Pär Ottoson

Cuppcar's business model

Cuppcar aims to maintain a high volume of sales of new and used cars, which enables the company to maximise profit from car sales and from the associated opportunities to provide servicing on customers' cars. Maintaining high sales volumes in new cars also ensures that Cuppcar makes the most of the opportunity to earn sales incentives from car manufacturers, potentially granting a cost advantage over rivals.

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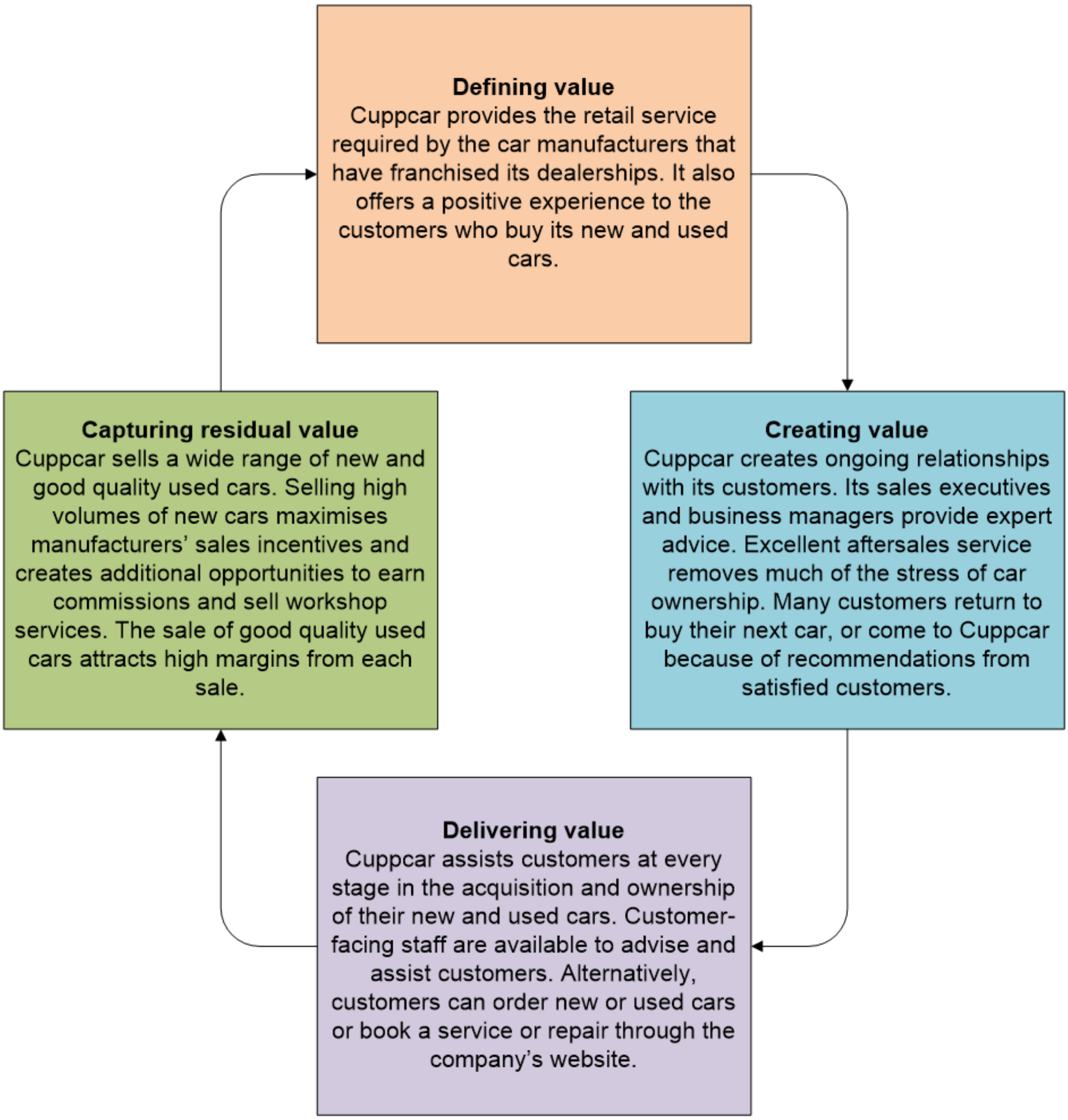

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Extracts from Cuppcar's annual report

Cuppcar Group
Consolidated statement of profit or loss
For the year ended 31 December

	2022	**2021**
	W$ million	**W$ million**
Revenue	4,682.3	4,448.2
Cost of revenues	(3,371.3)	(3,291.7)
Gross profit	1,311.0	1,156.5
Administrative expenses	(234.1)	(186.8)
Selling and advertising	(327.8)	(266.9)
Operating profit	749.1	702.8
Finance costs	(52.0)	(52.0)
Profit before tax	697.1	650.8
Tax	(104.6)	(91.1)
Profit for year	592.5	559.7

Cuppcar Group
Consolidated statement of changes in equity for the year ended 31 December 2022

	Share capital and premium	Retained earnings	Total
	W$ million	**W$ million**	**W$ million**
Balance at 31 December 2021	200.0	2,019.0	2,219.0
Profit for the year		592.5	592.5
Dividends		(573.0)	(573.0)
Balance at 31 December 2022	200.0	2,038.5	2,238.5

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Cuppcar Group
Consolidated statement of financial position
As at 31 December

	2022 W$ million	2021 W$ million
Non-current assets		
Intangible assets	580.4	580.4
Property, plant and equipment	2,473.6	2,428.7
	3,054.0	3,009.1
Current assets		
Inventory	539.4	559.6
Trade receivables	163.9	173.5
Bank	42.2	38.7
	745.5	771.8
Total assets	3,799.5	3,780.9
Equity		
Share capital and share premium	200.0	200.0
Retained earnings	2,038.5	2,019.0
	2,238.5	2,219.0
Non-current liabilities		
Loans	650.0	650.0
Current liabilities		
Trade payables	809.1	822.9
Tax	101.9	89.0
	911.0	911.9
Total equity and liabilities	3,799.5	3,780.9

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Extract from Milltro Motors' annual report

Milltro Motors is one of Cuppcar's direct competitors. It sells new and used cars from 197 dealerships spread across Welland. It represents a spread of the same popular brands of new cars as sold by Cuppcar and has a strong reputation for quality in the sale of used cars.

Milltro Motors Group
Consolidated statement of profit or loss
For the year ended 31 December

	2022	**2021**
	W$ million	**W$ million**
Revenue	4,401.4	3,888.6
Cost of revenues	(3,345.1)	(2,994.2)
Gross profit	1,056.3	894.4
Administrative expenses	(264.1)	(210.0)
Selling and advertising	(330.1)	(264.4)
Operating profit	462.1	420.0
Finance costs	(36.0)	(36.0)
Profit before tax	426.1	384.0
Tax	(63.9)	(53.8)
Profit for year	362.2	330.2

Milltro Motors Group
Consolidated statement of changes in equity for the year ended 31 December 2022

	Share capital and premium	Retained earnings	Total
	W$ million	**W$ million**	**W$ million**
Balance at 31 December 2021	250.0	1,860.6	2,110.6
Profit for the year		362.2	362.2
Dividends		(305.3)	(305.3)
Balance at 31 December 2022	250.0	1,917.5	2,167.5

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Milltro Motors Group
Consolidated statement of financial position
As at 31 December

	2022	2021
	W$ million	**W$ million**
Non-current assets		
Intangible assets	450.0	450.0
Property, plant and equipment	2,275.7	2,210.1
	2,725.7	2,660.1
Current assets		
Inventory	602.1	553.9
Trade receivables	184.9	175.0
Bank	36.2	32.1
	823.2	761.0
Total assets	3,548.9	3,421.1
Equity		
Share capital and share premium	250.0	250.0
Retained earnings	1,917.5	1,860.6
	2,167.5	2,110.6
Non-current liabilities		
Loans	450.0	450.0
Current liabilities		
Trade payables	869.7	808.4
Tax	61.7	52.1
	931.4	860.5
Total equity and liabilities	3,548.9	3,421.1

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News reports

Welland Business Daily

Electric cars sales remain low in Welland

Sales of electric cars remain depressed in Welland, with most motorists continuing to buy cars powered by internal combustion engines ("ICE"). These use petrol or diesel fuel.

Electric cars have become increasingly popular in many other countries because they can be powered by electricity that is generated using renewable sources. These cars are generally powered by batteries that can be recharged at charging points built into car owners' homes or at public charging points.

Consumer surveys indicate that Wellandian motorists are reluctant to buy electric cars because of the limited availability of charging points in their country. The range of some electric cars is as little as 170 kilometres, depending on the model, after which its batteries must be recharged. Many motorists are concerned about the possibility of becoming stranded if their cars run out of charge before they can find a vacant charging station.

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Welland Daily News

Motoring column – Don't overpay for vehicle checks

Cars are becoming increasingly complicated, which often makes it difficult for motorists to identify faults in the event of a breakdown. It used to be almost as difficult for mechanics to identify problems, meaning that visits to the garage often involved lengthy diagnostic inspections, charged for at the mechanic's hourly rate.

Nowadays, even the most basic cars have electronic systems that can be read and interpreted by devices that plug into a port under the dashboard. These devices are basically portable computers that run software that can interrogate the systems in the car and can identify all sorts of problems, both electrical and mechanical. Sensors built into the cars' components can identify problems that would otherwise have required parts to be dismantled for diagnostic purposes.

Always check repair bills and query any significant charges for diagnostic work, although garages may claim that they are passing on the cost of software that is expensive and requires regular updating when new models of car are introduced.

One word of caution. These devices can detect many possible faults, but there is a limit to their capabilities. There are many serious problems that they could overlook, leaving the risk of a breakdown or accident due to a malfunction. Mechanics still need to inspect parts and carry out close inspections.

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Welland Daily News

Motoring column – Watch the total cost when you specify your new car

Buying a new car means more than just deciding on the make and model. Most car manufacturers offer several different trim levels for each model, where the trim level identifies a car's level of equipment. Higher trim levels offer additional equipment and comfort, but they also cost more.

Take care when choosing between trim levels because the best-equipped model at the "top of the range" can cost almost twice as much as the "base model" at the bottom of the range with the lowest level of equipment.

Some higher trim levels include modifications that improve performance. Those differences can include more powerful engines and improved brakes and suspension. Other trim levels are just about the car's appearance and the comfort of its occupants. A bottom of the range car might have steel wheels that look less attractive than the alloy wheels on a higher trim, but which do exactly the same job. A higher specification car might have its seats covered in leather, while a cheaper version of the same model may have fabric seats.

Even paint colour can affect the price. Your favourite colour might cost hundreds of dollars more than the same car in white, and colours with pearlescent finishes can add a thousand dollars to the cost of a new car.

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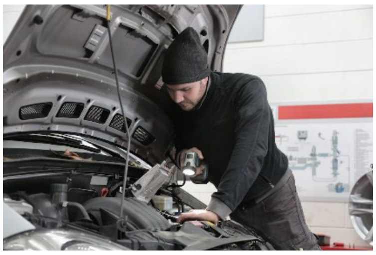
Welland Daily News

Motoring column – Don’t forget to have your car serviced regularly



New cars come with a warranty that guarantees against defects for the first 3 years, sometimes more. Those warranties can protect car owners against repair costs, but only if the cars are serviced in accordance with the planned maintenance schedule set by the car manufacturer.

Most cars require an annual service, with the work undertaken at each service varying according to the age of the car. The first year’s service may require little more than an oil change and an inspection of some key components. The second year’s service may require rather more work because the car is older and at greater risk of wear and tear. The third year may require slightly less work than the second, depending on how the car has been driven, but there will be a different set of checks and replacements.

Car manufacturers publish lists of the items that are to be checked or replaced during each of the annual services and the amount of labour required for each check or replacement. The cost of a service may vary from year to year because of this, but all franchised dealerships should charge the same for, for example, servicing a two-year-old Barto Motors Hatch.

If you wish to avoid fluctuating service costs, then you can buy a service plan at the time of the car’s purchase. That simplifies the cost of servicing by requiring either a single lump sum payment or 36 equal monthly instalments.

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Welland Daily News

Motoring column – Don’t be afraid to buy ex-demonstrators

Car dealerships often own large numbers of cars. They buy cars to use as demonstrators. Those are cars that can be taken on test drives by potential customers, under supervision by sales staff. Dealerships also own courtesy cars that can be loaned to customers whose cars are in the workshop for a repair or a service.

Car buyers are often reluctant to buy former demonstrators or courtesy cars because they are worried that they could have been driven carelessly and that they may have suffered excessive wear and tear, but that is rarely the case.

Car dealerships inspect their demonstrators and courtesy cars frequently and have any problems rectified. After all, it is unlikely to impress a customer if they are stranded because a car loaned by the dealership has broken down.

Dealerships also tend to sell these cars as used cars before too long. Car manufacturers pay dealerships sales incentives if they hit volume targets. Dealerships are permitted to count cars that they buy for themselves towards these targets.

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Extracts from Joe the Car Seller's Blog

Don't believe everything you read!

I dread the end of the month. Lots of customers have read online articles telling them that they can negotiate a huge discount on a new car because dealerships must hit their car manufacturers' monthly sales targets and so we will accept any price to make a sale. Sadly, the margin on new cars is so small that it is rarely possible to offer more than a free set of mats or (maybe) a nicer set of alloy wheels.

If we have had a good month, then we might even delay sales until the start of the following month to make it easier to hit that month's target. My favourite trick is to tell a customer that we are expecting a fresh delivery of new cars and that he or she will have a better choice in a week's time.

Never forget that car sales executives are evaluated on sales volumes and on average gross profit per unit. It affects our bonuses if we sell cars at a loss, so we rarely do.

COMMENTS

The thing that annoys me most is when a sales executive pretends to go to the sales manager's office to seek permission to reduce a car's selling price. That permission is never granted and it feels as if the manager was never even consulted.

Puzzled Driver

I got a W$500 discount when I negotiated hard for a deal on a new car. Discounts are possible, although they may be hard to get.

Tricky Haggler

I wish I sold used cars

I sell new cars, but I wish I could sell used cars instead. It is easier to negotiate sales on used cars because no two used cars are the same. With used cars, sales executives have scope to adjust selling prices and the prices that they will offer on customers' old cars that will be taken as a trade-in. For example, a sales executive can happily offer a customer a W$1,000 discount on the selling price of a used car because the trade-in value of the customer's existing car can be reduced by W$1,000. Another trick of the trade is to offer used cars at high selling prices, which means that we can offer every potential customer a really high trade-in for their existing cars.

The motor trade shares data on the selling prices of used cars, taking account of make, model, mileage and condition. That data is available online, but valuing a used car requires a lot of experience. For example, classifying a car's bodywork as "good", "average" and "poor" can be difficult.

Selling new cars is complicated by the fact that every car of a particular model is mass produced and identical. Car manufacturers set recommended selling prices, which are published online. Dealerships

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rarely offer discounts on new cars (although there may be rare occasions when we sell new cars cheaply to get rid of a backlog of inventory or because we are really struggling to hit car manufacturers' sales targets). We can't inflate the selling price of a new car to compensate if we pay more for a customer's trade-in than the car is actually worth. If we overpay for a trade-in against the price of a new car, then we will probably have to sell the trade-in at a loss.

Still, everybody loves to buy a shiny new car, and I am very good at making people fall in love with the cars in my showroom.

COMMENTS

I feel sorry for you Joe.

Tyre Tracks

I love it when you guys are forced to sell cars at a loss. I got a great deal on a Kopower Speedster when they launched the Speedster Mark 2. Kopower dealerships were almost giving the old Mark 1 away!

Speed King

Friends and rivals

I hope it isn't obvious, but there is a lot of rivalry within car dealerships. Each department has to make a profit, and most of the staff who deal directly with customers are evaluated and rewarded on the basis of sales and gross profits. This often leads to staff focussing on their own interests rather than that of the dealership as a whole. For example, I sell only new cars and so I would never advise a potential customer to buy a used car instead, even if the dealership principal had told us that we are carrying too many used cars in inventory and selling them should be the priority for a while.

We have similar problems in dealings between car sales and workshop. Car sales executives often argue that the workshop should charge only for the cost of parts when cars are prepared for sale, while the workshop argues that parts and labour should be charged at full commercial rates.

Every car dealership that I have ever worked for has had a monthly meeting of department heads. Those meetings almost always result in arguments.

COMMENTS

I bought a used car once, having been promised that it would be checked and serviced by the dealership workshop before I took delivery. The car broke down before I had even reached my home. I complained to the sales executive and was told that the workshop always gives priority to paid servicing and repairs rather than preparing cars for sale.

Unhappy Customer

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Management Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.

This examination is structured as follows:

Section number	Time for section (minutes)	Number of tasks	Number of sub-task/s	% time to spend on each sub-task
1	45	1	2	(a) 40% (b) 60%
2	45	1	2	(a) 40% (b) 60%
3	45	1	2	(a) 40% (b) 60%
4	45	1	2	(a) 60% (b) 40%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.

Pavarit Chotisin, Cuppcar's Senior Financial Manager, stops by your workspace:

"I have printed a news report that has just gone online. The Board intends to base its planned response to this news on the following assumptions:

- Electric cars will become popular in Welland over the next 2-4 years.
- All new cars sold will be electric once sufficient charging stations are built, probably within 6 years.
- Electric cars are inherently simpler than petrol or diesel cars and will require much less maintenance. Perhaps a routine service once every 2 years.

I need your advice before I discuss this matter with Valerie Mizrahi, our Finance Director.

- Firstly, discuss whether the switch to electric cars is a disruptive technology that will create a fundamental change for car sales by major car dealers such as Cuppcar.

[sub-task (a) = 40%]

- Secondly, evaluate the product, product reputation and operational risks that the sale of electric cars might create for Cuppcar."

[sub-task (b) = 60%]

Click on the Reference Material button above to see the news report brought by Pavarit.

Reference Material

Welland Business Daily

Barto Motors announces design change

Barto Motors, one of the world's largest car manufacturers, has announced that it plans to stop developing new models of cars powered by internal combustion engines ("ICE"), which rely on petrol or diesel fuel. It will continue to manufacture existing models while there is sufficient worldwide demand, but the company plans to switch completely to the manufacture of electric cars.

Industry experts commented that other major manufacturers are likely to follow Barto Motors. Many countries have committed themselves to phasing out ICE cars because of environmental concerns, despite the concerns shared by many consumers about the difficulties associated with charging electric cars.

Close

Scratch Pad Calculator

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

Paragraph

A month has passed. You receive the following email:

From: Pavarit Chotisin, Senior Financial Manager
To: Financial Manager
Subject: Electric cars

Hi,

I have attached an extract from the minutes of this morning's Board meeting.

I need your advice on two matters before I meet with the Finance Director.

- Firstly, discuss the challenges associated with determining how the training costs and the costs associated with purchasing software should be accounted for and recommend suitable accounting treatments.

[sub-task (a) = 40%]

- Secondly, recommend with reasons whether Cuppcar's investment in the sale of electric cars should be limited initially to only one or two manufacturers or whether it should introduce electric cars from all 30 manufacturers immediately at all of its dealerships.

[sub-task (b) = 60%]

Click on the Reference Material button above to see the extract from the Board Minutes referred to by Pavarit.

Reference Material

Extract from Board minutes

Daniela Triggiano, Marketing Director, confirmed that Cuppcar does not presently sell electric cars because of low demand in Welland. She warned the Board that the expected launch of more efficient models of electric cars and the development of an improved charging infrastructure could lead to customers switching from petrol and diesel to electric. Eventually, within the next 10 years, car manufacturers will supply only electric cars.

All of the car manufacturers with whom Cuppcar has franchises make electric cars. Manufacturers have not forced dealerships in Welland to sell electric cars because of low demand, but all would be willing to supply electric cars to their dealerships.

Chander Shekhar, Chief Operating Officer, warned the Board that Cuppcar will have to invest heavily:

- Mechanics will require training in the specialised skills required for servicing and repairing electric cars. Most electric cars do not require their first service until they are 2 years old, but cars may break down and require repair before then. Customers will be reluctant to buy these cars unless Cuppcar can provide full aftersales support.
- Workshops will require new software to carry out diagnostics on electric cars.
- Sales executives will have to be trained to ensure that they can advise customers, bearing in mind that many customers will be buying their first electric car.

The Board discussed whether Cuppcar should make an immediate investment in selling electric cars from all 214 of its dealerships, which represent a total of 30 car manufacturers, or whether it would be preferable to sell just one or two brands initially and add more if initial sales of electric cars are encouraging. It would be possible to start with popular brands such as Barto Motors. Cuppcar has 17 Barto Motors dealerships that cover most of Welland.

Close

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

From: Financial Manager
To: Pavarit Chotisin, Senior Financial Manager
Subject: RE: Electric cars

Paragraph

Reference Material Pre-seen

A few days later, you receive the following email:

From: Pavarit Chotisin, Senior Financial Manager
To: Financial Manager
Subject: FWD: Electric vehicles

Hi,

I have forwarded an email that I received from the Finance Director. I need your advice on two matters before I meet with her:

- Firstly, recommend with reasons the approach that Cuppcar should take to pricing the servicing of electric cars.

[sub-task (a) = 40%]

- Secondly, recommend how Cuppcar's decision to sell electric cars should be treated in the social and relationship, intellectual and natural capitals in the integrated report.

[sub-task (b) = 60%]

Regards

Pavarit

Click on the Reference Material button above to see the email referred to by Pavarit.

Reference Material

From: Valerie Mizrahi, Finance Director
To: Pavarit Chotisin, Senior Financial Manager
Subject: Electric vehicles

Hi Pavarit,

The Board has decided that we will soon commence the sale of electric cars from all of our dealerships. The Board is currently considering two specific implications of that decision:

Pricing servicing
Electric cars require significantly less servicing than cars with petrol or diesel engines because electric motors are simple devices that have fewer moving parts than internal combustion engines. There is also less wear and tear on the brakes of electric cars. Those differences mean that it costs less in terms of both parts and labour to service an electric car than to service a petrol or diesel car. In addition, most new models of electric car require a basic service only once every 2 years, unlike petrol and diesel cars that usually require a thorough service annually.

The Board is considering whether Cuppcar should allow for the lower cost of servicing electric cars in setting prices for services or whether pricing should be based on the prices presently set for petrol or diesel cars.

Manufacturers usually set the prices that are to be charged by franchised dealerships for routine servicing, but they do not currently do so for electric cars sold in Welland. Dealerships have been given greater freedom over pricing of servicing in order to encourage them to sell electric cars.

Integrated report
Car manufacturers are under social and governmental pressure in many countries to switch to electric cars because their batteries can be charged using electricity from renewable sources. Welland is one of the very few developed countries where there has been little pressure to switch to electric cars, although that is now changing. Cuppcar will be one of the first major car dealers in the country to sell electric cars from all of its dealerships.

The Board is considering how its decision to sell electric cars might be reflected in Cuppcar's integrated report.

Regards

Valerie

Close

Provide your response to Pavarit's requests in the box below.

From: Financial Manager
To: Pavarit Chotisin, Senior Financial Manager
Subject: FWD: RE: Electric vehicles

Paragraph

Reference Material Pre-seen

Four months have passed. During that time, the Board decided to sell electric cars in addition to petrol and diesel cars from all of Cuppcar's dealerships. Sales of electric cars commenced a month ago.

Pavarit Chotisin asks you to join him in a meeting room:

"I have brought you a copy of a newspaper article.

The Board believes that Cuppcar's ecosystem will change over the next 2 or 3 years, with ownership of petrol and diesel cars being viewed as damaging to the environment. Manufacturers will start to discontinue the manufacture of those cars shortly after that.

Initial sales of electric cars have been disappointing. Customers complain that our sales executives are often unable to answer questions about electric cars. Some claim to have bought petrol or diesel cars rather than electric because of this. Cuppcar has arranged training on electric cars for sales executives, but many of them have chosen not to take that training seriously.

I need your help with two matters:

- Firstly, identify and evaluate the risks and opportunities for Cuppcar created by the changes to its ecosystem.

[sub-task (a) = 60%]

- Secondly, recommend with reasons how Cuppcar might ensure the engagement of sales executives in training to sell electric cars."

[sub-task (b) = 40%]

Click on the Reference Material button above for the newspaper article referred to by Pavarit.

Reference Material

Welland Daily News

Motoring column – thinking about going electric?

Electric cars are only just starting to become popular in Welland. Motorists who are considering buying one must consider a number of issues in order to choose a suitable model.

Range – some cars need to be recharged every 250 kilometres, while others can run for 650 kilometres. Longer ranges usually require bigger batteries and batteries are very expensive, so expect to pay more for a car with a longer range.

Charging – ideally, you will install a charger in your home at a cost of around W$3,000. If your home is unsuitable, then check on the availability of public charging points in your neighbourhood.

Life expectancy – the batteries in electric cars deteriorate slowly over time. Expect an electric car's battery to last for 8 years, after which the car must be scrapped because it is uneconomic to replace the batteries.

Be ready to ask about the implications of owning a particular model of electric car when you visit your local dealership. Remember that there are plenty of petrol and diesel cars to choose from if you are not yet ready to go electric.

In time, all new cars will be electric. Many countries have legislation in place to ban sales of new petrol and diesel cars within 10 years, and several major car manufacturers plan to switch entirely to electric much sooner.

Close

Scratch Pad Calculator

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

Paragraph

Thank you for completing the Management Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.

Management Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.

This examination is structured as follows:

Section number	Time for section (minutes)	Number of tasks	Number of sub-task/s	% time to spend on each sub-task
1	45	1	2	(a) 40% (b) 60%
2	45	1	2	(a) 60% (b) 40%
3	45	1	2	(a) 60% (b) 40%
4	45	1	2	(a) 60% (b) 40%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.

Reference Material   Pre-seen

You receive the following email:

From: Pavarit Chotisin, Senior Financial Manager
To: Financial Manager
Subject: Workshop customer satisfaction scores

Hi,

I have attached the executive summary of a report that has been circulated to the Board.

I need your advice on two matters:

- Firstly, discuss the implications of the report's findings for Cuppcar's relationships with both car manufacturers and new car customers.

  [sub-task (a) = 40%]

- Secondly, recommend with reasons specific ways in which Cuppcar might use data mining to identify ways to enhance customer satisfaction with its aftersales support.

  [sub-task (b) = 60%]

Click on the Reference Material button above to see the executive summary referred to by Pavarit.

Reference Material

Factors that affect customer ratings
Executive summary

Prepared by Norman Wilson, Senior Marketing Manager

Customers who buy new cars from Cuppcar have their satisfaction with our aftersales support tracked by their cars' manufacturers. Manufacturers require us to inform them whenever a customer brings their car into a dealership workshop for servicing or repair.

Manufacturers subsequently collect data by asking customers to complete questionnaires relating to their satisfaction with their workshop experience. It is important that we score highly in these questionnaires because this feedback can affect the sales incentives that we receive from manufacturers.

Dealerships receive feedback based on the responses to those questionnaires and copies of the questionnaire responses. I have studied all of this data closely and have discovered the following:

- Some models of car are less reliable than others. Customers who own unreliable models frequently give our workshops poor scores, even when manufacturers have accepted liability and are paying for repairs under warranty.
- Customers who must pay for repairs often give us poor scores, even when they have damaged their own cars through carelessness or neglect. Customers whose repairs are covered by warranty or who are booking a routine service generally give higher scores, despite all customers receiving the same standard of service.
- Customer satisfaction scores are often unrelated to objective facts. For example, customers who must pay for repairs will often claim that they were not kept informed, despite service advisers' telephone logs showing that customers were updated regularly.

It should be noted that Cuppcar's business intelligence system was extremely helpful in analysing data for this report.

Close

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

From: Financial Manager
To: Pavarit Chotisin, Senior Financial Manager
Subject: RE: Workshop customer satisfaction scores

Paragraph

Scratch Pad Calculator

Reference Material Pre-seen

Two weeks later, Pavarit Chotisin stops by your workspace:

"I have brought you an extract from the minutes of this morning's Board meeting.

I need your advice on two matters arising from this extract:

- Firstly, identify and evaluate the limitations of the feedback provided by manufacturers for the purposes of internal benchmarking of customer satisfaction across Cuppcar's 214 dealerships.

  [sub-task (a) = 60%]

- Secondly, recommend with reasons whether the feedback supplied by manufacturers suggests that Cuppcar should modify the definition of value in its business model."

  [sub-task (b) = 40%]

Click on the Reference Material button above to see the document referred to by Pavarit.

Extract from minutes of Board meeting
Manufacturers' feedback on customer satisfaction

Daniela Triggiano, Marketing Director, reminded the Board that car manufacturers ask new car customers to provide feedback on their satisfaction with the process of buying their cars and also of returning to the dealership for servicing and repairs throughout the ownership of their vehicles. Manufacturers provide their dealerships with summaries of customers' responses received during the previous 3 months.

Each manufacturer has its own approach to collecting feedback. For example, customers who buy Barto Motors cars are asked to respond to 35 questions about their experience, while Rodteres asks only 6 questions. There is a similar variation between manufacturers' questionnaires relating to servicing and repairs.

According to the feedback from manufacturers, customer satisfaction scores vary significantly between Cuppcar's dealerships, even between dealerships that sell the same brand of car and are evaluated using the same questionnaire. Individual dealership scores often vary substantially between periods, even though reports are obtained every 3 months.

Customers are, of course, free to decide whether to complete manufacturers' questionnaires.

Michelle Brennan, Chief Executive Officer, commented that the points raised by the Marketing Director made it difficult to tell whether Cuppcar could make effective use of internal benchmarking between its 214 dealerships. She also pointed out that Cuppcar's business model defines value in terms of meeting manufacturers' needs for a suitable retail service and by offering customers a positive experience.

Reference Material | Pre-seen

Provide your response to Pavarit's requests in the box below.

Paragraph

Scratch Pad Calculator

Reference Material Pre-seen

A month later, you receive an email:

From: Pavarit Chotisin, Senior Financial Manager
To: Financial Manager
Subject: FWD: Dealership budgets

I have forwarded an email that I received from Valerie Mizrahi. I need your advice on two matters before I reply to her:

- Firstly, evaluate the arguments for and against tolerating dealership principals' decisions to justify investment in this manner.

  [sub-task (a) = 60%]

- Secondly, identify and evaluate the difficulties associated with recognising Cuppcar's investment in this training as a long-term enhancement of human capital in the integrated report.

  [sub-task (b) = 40%]

Click on the Reference Material button above to see the email referred to by Pavarit.

Reference Material

From: Valerie Mizrahi, Finance Director
To: Pavarit Chotisin, Senior Financial Manager
Subject: Dealership budgets

Hi Pavarit,

Each dealership principal has an annual budget of W$100,000 for the purchase of capital items. There is an upper limit of W$10,000 for individual purchases from this budget. The intention is to enable dealerships to acquire items such as tools and other equipment for the workshop and showroom. Some dealership principals have interpreted “capital items” quite widely, including redecorating showrooms and replacing lighting.

It has come to the Board’s attention that 34 of our dealership principals have commissioned external training courses on customer service for all customer-facing staff, including sales executives, business managers and service advisers. This training is provided by a training company called Tretrain, which specialises in training courses for the motor industry. Tretain tailors its courses to meet individual dealerships’ specific needs.

Dealerships that have participated in Tretrain courses have reported increased sales of new and used cars and increased revenues from workshop activities. Customer feedback scores, as reported by car manufacturers, have also improved. Dealership principals claim that this training has been a positive net present value investment.

Tretrain charges W$19,000 per dealership to run a training course for dealership staff. Tretrain submits two separate invoices: W$9,500 for course materials and W$9,500 for facilitating the course, in order to assist dealership principals to bypass the W$10,000 limit on individual purchases from this budget.

Valerie

Close

Scratch Pad Calculator

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

From: Financial Manager
To: Pavarit Chotisin, Senior Financial Manager
Subject: FWD: RE: Dealership budgets

Paragraph

Six months later, you receive the following email:

From: Pavarit Chotisin, Senior Financial Manager
To: Financial Manager
Subject: Acquisition of consultancy

Hi,

I have attached an extract from the minutes of today's Board meeting.

I need your advice on two matters:

- Firstly, explain with reasons how the reduction in staffing will affect goodwill on consolidation of Happicust and how the sale of Happicust's office building will affect the Cuppcar Group's consolidated statement of financial position.

  [sub-task (a) = 60%]

- Secondly, identify and evaluate the challenges associated with ensuring that dealership staff are receptive to being coached by Happicust's consultants.

  [sub-task (b) = 40%]

Regards

Pavarit

Click on the Reference Material button above for the extract referred to by Pavarit.

Reference Material

Extract from Board minutes

Daniela Triggiano, Marketing Director, informed the Board that training courses in customer service had been completed at 60% of Cuppcar's dealerships. These courses have been highly effective in improving revenues and customer satisfaction scores. Unfortunately, these improvements are often temporary. Staff appear to forget the lessons from their training after a while.

The Marketing Director has held informal discussions with Happicust, a consulting firm that is owned and operated by its founder, Eilish McLoughlin. Eilish was formerly a dealership principal employed by Milltro Motors, one of Cuppcar's direct competitors. Happicust's consultants visit car dealerships and advise them on customer service, coaching managers and staff as required. The consultants maintain contact with dealerships, returning at regular intervals to review performance and to make further recommendations.

Eilish has offered to sell 51% of Happicust's equity to Cuppcar for W$8 million. The non-controlling interest in Happicust will be valued using the proportionate share of net assets method.

After the acquisition, Happicust will work exclusively for Cuppcar. Happicust's staffing levels will be reduced by 20% to avoid overstaffing.

Happicust is currently based in an office building in Central City that cost W$1.5 million when it was acquired 8 years ago. It is intended that this will be sold within a year of the acquisition, and its consultants will be based in office space at Cuppcar's head office, which is located in Central City.

Close

Scratch Pad Calculator

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

From: Financial Manager
To: Pavarit Chotisin, Senior Financial Manager
Subject: RE: Acquisition of consultancy

Paragraph

Management Case Study Exam - Candidate Name

Thank you for completing the Management Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.

End Exam

Management Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.

This examination is structured as follows:

Section number	Time for section (minutes)	Number of tasks	Number of sub-task/s	% time to spend on each sub-task
1	45	1	2	(a) 60% (b) 40%
2	45	1	2	(a) 60% (b) 40%
3	45	1	2	(a) 60% (b) 40%
4	45	1	2	(a) 40% (b) 60%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.

Scratch Pad Calculator

Reference Material Pre-seen

You receive the following email:

From: Pavarit Chotisin, Senior Financial Manager
To: Financial Manager
Subject: Barto Motors Hatch

Hi,

I have attached a document that Daniela Triggiano, Marketing Director, has circulated to the Board.

I have some concerns about the extent to which the proposal to modify these cars fits with Cuppcar's business model. In particular, one of the factors in defining value is that we "[provide] the retail service required by … car manufacturers". Also, our business model states that we capture residual value by "[s]elling high volumes of new cars [to] maximise manufacturers' sales incentives".

I need your advice on two matters before I meet with Valerie Mizrahi, our Finance Director:

- Firstly, evaluate whether the proposal to create a special edition of Hatch is consistent with Cuppcar's stated approaches to defining value and capturing residual value.

[sub-task (a) = 60%]

- Secondly, explain whether it would be appropriate to use target costing in deciding on the suitability of modifications to create the special edition of Hatch.

[sub-task (b) = 40%]

Pavarit

Click on the Reference Material button above to see the document referred to by Pavarit.

Reference Material

Proposal to enhance sales of outdated model

Prepared by Norman Wilson, Senior Marketing Manager

Sales of new cars from Cuppcar's 17 Barto Motors dealerships have been badly affected by Barto Motors' plan to launch a new version of its popular Hatch model in 4 months. The new version will be marketed as "Hatch 2" and will be a complete redesign. Customers are reluctant to buy the original Hatch that Cuppcar has in inventory because it will appear outdated when Hatch 2 is launched.

Cuppcar dealerships have 550 of the original Hatch in inventory, all of which are base models. Barto Motors insisted on dealerships accepting these cars, even after the launch of Hatch 2 was announced. There will be no further deliveries of Hatch because production has now ceased. Deliveries of Hatch 2 will not commence until its launch date in 4 months.

The Board discussed the possibility of creating a special edition of the original Hatch, which would involve dealership workshops modifying the base model to create a unique model that was available only from Cuppcar dealerships. The modifications would improve the car's appearance and add interior features to enhance comfort. These modifications could take many different forms, including:

- Expensive modifications such as respraying the cars in an exciting "limited edition" paint scheme and adding vinyl graphics to give the car a sporty appearance. The cost of doing so would be W$4,000 per car. It would also be possible to replace the steel wheels that are currently on the Hatch base model with alloy wheels, again, adding a sporty look. The cost to Cuppcar would be W$3,000 per car.
- Inexpensive modifications aimed to add a touch of luxury. These include replacing the entertainment system with a superior version at a cost of W$1,000, tinting the rear windows to improve appearance at a cost of W$800 and commissioning special edition floor mats at a cost of W$80 per car.

Cuppcar paid Barto Motors W$27,000 for each base model Hatch. They would usually have sold for W$29,500 in Cuppcar's dealerships. The cars have been in inventory for too long to be eligible for any sales incentives from Barto Motors once they are sold.

Close

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

From: Financial Manager
To: Pavarit Chotisin, Senior Financial Manager
Subject: RE: Barto Motors Hatch

Paragraph

Reference Material Pre-seen

A month has passed. During that time, Cuppcar's Board made a final decision not to create a special edition of the Barto Motors Hatch car.

Pavarit Chotisin stops by your workspace:

"I have brought you an extract from the minutes of this morning's Board meeting.

I need your assistance with two matters:

- Firstly, recommend with reasons whether dealership principals should be held responsible for losses on the sale of Hatch cars.

[sub-task (a) = 60%]

- Secondly, recommend with reasons how Cuppcar could establish effective teams of sales executives within Barto Motors dealerships to sell the remaining inventory of Hatch cars."

[sub-task (b) = 40%]

Click on the Reference Material button above to see the extract referred to by Pavarit.

Reference Material

Extract from minutes of Board meeting

Daniela Triggiano, Marketing Director, reminded the Board that Barto Motors has ceased the manufacture of its once-popular Hatch model. The company will launch a new model called “Hatch 2”.

Cuppcar's 17 Barto Motors dealerships' new car inventory includes 530 old version Hatch cars. That is more than Cuppcar would usually hold. Barto Motors continued to supply us with Hatch cars for a few months after announcing the forthcoming launch of Hatch 2. Sales of Hatch are now slow, with only 20 Hatch cars having been sold during the previous month. It does not help that customers have started to place orders for Hatch 2 cars, with delivery to be made after the car's launch in 3 months.

After discussion, the Board recommended that remaining inventories of Hatch should be sold at a substantial discount, even though such sales will result in a gross loss on each car sold. Daniela Triggiano expressed concern about the possible implications for dealership staff:

- Dealerships are organised as profit centres. Dealership principals are reluctant to sell large numbers of cars at a gross loss, particularly when they might displace sales that would yield gross profit.
- Sales executives are evaluated and rewarded on the basis of both sales volume and gross profit. They will be reluctant to agree to sell cars at a loss.

The Board discussed the possibility of creating a team of sales executives within each Barto Motors dealership that would be given a higher rate of bonus to sell Hatch.

Close

Scratch Pad Calculator

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

Paragraph

A further month has passed. You receive the following email:

From: Pavarit Chotisin, Senior Financial Manager
To: Financial Manager
Subject: FWD: New proposal for Hatch

Hi,

I have forwarded an email from Valerie Mizrahi, our Finance Director. I would like your opinion on two matters before I respond to her:

- Firstly, identify and evaluate the difficulties associated with setting transfer prices for Hatch cars that will encourage their release in a manner acceptable to Cuppcar's Barto Motors dealerships and its other dealerships, while being optimal for Cuppcar overall.

  [sub-task (a) = 60%]

- Secondly, discuss the characteristics of debt that would affect its suitability for funding the W$14 million paid for the purchase of the Hatch cars.

  [sub-task (b) = 40%]

Regards,

Pavarit

Click on the Reference Material button above to see the email referred to by Pavarit.

Reference Material

From: Valerie Mizrahi, Finance Director
To: Pavarit Chotisin, Senior Financial Manager
Subject: New proposal for Hatch

Hi Pavarit,

The Board has decided to consider another proposal for dealing with our inventory of Hatch cars. We sold only 10 last month, leaving us with 520 cars unsold.

The Board is considering having Cuppcar's Barto Motors dealerships offer to transfer most of these unsold Hatch cars to other Cuppcar dealerships for use as courtesy cars. Each dealership has several courtesy cars that are loaned to customers whose cars are in the dealership workshop for repair or service.

The following information might be useful:

- The Hatch cars on hand each cost W$27,000. They would normally have been sold for W$29,500. We have held these cars for so long that we will not receive a sales incentive from Barto Motors if we manage to sell them.
- Rival Milltro dealerships are advertising their remaining inventory of Hatch at a discounted price of W$26,000.
- Cuppcar's dealerships usually buy courtesy cars from their franchise manufacturers at an average cost of W$32,000, with costs ranging from W$25,000 to W$42,000.

There is a further problem with Hatch. We have paid W$14 million for these cars and that is putting a strain on our cash flows.

Regards

Valerie

Close

Scratch Pad Calculator

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

From: Financial Manager
To: Pavarit Chotisin, Senior Financial Manager
Subject: FWD: RE: New proposal for Hatch

Paragraph

Scratch Pad Calculator

Reference Material Pre-seen

Two weeks later, Pavarit Chotisin asks you to join him in a meeting room:

"I have brought a copy of a letter that has been circulated around the Board.

I need your advice on two matters:

- Firstly, identify and evaluate the difficulties associated with predicting the cash flows to be used in calculating the net present value to Cuppcar of this lease arrangement.

[sub-task (a) = 40%]

- Secondly, explain how Cuppcar would account for this arrangement in its published financial statements, assuming that it proceeds.

[sub-task (b) = 60%]

Click on the Reference Material box above for the letter referred to by Pavarit.

Welland Motorway Authority

Road Signage Department

Mr Norman Wilson,

Senior Marketing Manager,

Cuppcar

Dear Mr Wilson,

Proposal to lease fleet of cars

I am writing to confirm our recent discussions concerning the possibility of Cuppcar leasing cars to the Welland Motorway Authority (WMA) for use by our signage engineering staff. Our engineers drive long distances in order to maintain motorway signs.

- This arrangement will be for an initial period of 3 years.
- Cuppcar will provide 500 Hatch cars, painted in WMA colours, with WMA graphics and fitted with an orange flashing beacon. The cars will be delivered within 2 months.
- The WMA will pay Cuppcar to service the cars at its dealerships.
- The WMA will be responsible for the cost of repairs due to accidental damage or careless operation.
- The WMA will return the cars after 3 years or when they exceed 160,000 kilometres. Lease payments will continue until the end of the third year in respect of cars that reach 160,000 kilometres. Cuppcar will be responsible for the disposal of cars after their return.

We look forward to working with you.

Yours sincerely,

Affar Karimullah

Head of Operations

Reference Material | Pre-seen

Provide your response to Pavarit's requests in the box below.

Paragraph

Management Case Study Exam - Candidate Name

Thank you for completing the Management Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.

End Exam

Management Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.

The exam is structured as follows:

Section number	Time for section (minutes)	Number of tasks	Number of sub-task/s	% time to spend on each sub-task
1	45	1	2	(a) 60% (b) 40%
2	45	1	2	(a) 40% (b) 60%
3	45	1	2	(a) 40% (b) 60%
4	45	1	2	(a) 60% (b) 40%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.

Scratch Pad Calculator

Reference Material Pre-seen

You receive the following email:

To: Financial Manager
From: Pavarit Chotisin, Senior Financial Manager
Subject: Cuppcar Service Plan

Hi,

I have attached a copy of a proposal that is being considered by the Board.

I need your advice on two matters before I meet with Valerie Mizrahi, our Finance Director:

- Firstly, recommend with reasons the factors that the Board should consider when setting the selling price of the Cuppcar Service Plan.

[sub-task (a) = 60%]

- Secondly, explain how service contracts with customers for the Cuppcar Service Plan would be reflected in the company's published financial statements.

[sub-task (b) = 40%]

Regards
Pavarit

The Proposal that is being considered by the Board can be found by clicking on the Reference Material button above.

Reference Material

Proposal to offer new car service plan

Prepared by Norman Wilson, Senior Marketing Manager

Cars require servicing on the basis of service intervals specified by their manufacturers. Most require their cars to be serviced every 12 months, but also set a maximum distance of, for example, 25,000 kilometres between services if that comes sooner. The vast majority of cars are serviced every 12 months.

Cuppcar's business managers encourage new car customers to purchase the manufacturers' service plans suited to their vehicles, all of which will cover the first three services. Customers pay for these plans in either an immediate lump sum, or 36 monthly instalments starting from the delivery of the new car. Most manufacturers' lump-sum payments are equal to the total price of the first 3 years' services. Monthly instalments are equal to that total, divided by 36. Customers who buy these plans then have their cars serviced three times in accordance with manufacturers' specified service intervals, with nothing further to pay, at any of the manufacturers' franchised dealerships.

It is proposed that Cuppcar should offer its own Cuppcar Service Plan for new cars that it sells. This would differ slightly from manufacturers' plans:

- The Cuppcar Service Plan would enable customers to have their cars serviced at any of Cuppcar's dealerships, even at dealerships that sell different brands. That is potentially more convenient than using manufacturers' franchised dealerships because Cuppcar's dealerships are spread across the country.
- Cuppcar will offer additional benefits, such as having drivers collect customers' cars from their homes and returning them when their cars are ready.

Manufacturers require dealerships to offer their service plans to new car customers, but they would not forbid a dealership from offering its own plan as an alternative and offering customers a choice.

Manufacturers allow Cuppcar's dealerships a commission of 5% of the selling prices of their service plans. Dealerships invoice manufacturers for any services that are conducted under manufacturers' service plans. The charges for that work reflect the model of the car and the specific service that is being carried out.

If we create our own scheme, then we will keep all of the customers' lump sum or instalment payments. Customers will then be required to have their cars serviced at Cuppcar dealerships. Cuppcar will have to bear the cost of labour and parts, even if those have increased since the plan was purchased.

Close

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

To: Pavarit Chotisin, Senior Financial Manager
From: Financial Manager
Subject: RE: Cuppcar Service Plan

Paragraph

Reference Material Pre-seen

Six months later, the Cuppcar Service Plan has been operational for 2 months.

Pavarit Chotisin stops by your workspace and hands you a document:

"I have brought you a copy of a letter from Barto Motors, our biggest supplier of new cars. We have received similar complaints from four other manufacturers.

Our business managers receive small base salaries, which are supplemented by bonuses linked to sales of service plans and finance packages. The bonus paid for the sale of a Cuppcar Service Plan is three times larger than the bonuses on the sale of manufacturers' service plans. We also pay a bonus to business managers who exceed sales targets for the Cuppcar Service Plan.

I require the following from you before I meet with Valerie Mizrahi:

- Firstly, evaluate the argument that Cuppcar took an excessive risk in giving business managers such strong incentives to sell the Cuppcar Service Plan.

[sub-task (a) = 40%]

- Secondly, recommend with reasons three ways in which we can better align business managers' performance measures and bonuses with Cuppcar's interests in relation to service plans."

[sub-task (b) = 60%]

The letter from Barto Motors can be found by clicking on the Reference Material button above.

Reference Material

Barto Motors

Ms Daniela Triggiano,

Marketing Director,

Cuppcar

Dear Daniela,

Concerns arising from customer feedback

Every customer who buys a new Barto Motors car is invited to complete a survey that allows them to offer feedback on the experience. Customer satisfaction with Cuppcar's Barto Motors dealerships has been declining since the introduction of the Cuppcar Service Plan. This is a matter of concern to us because we wish our customers to be satisfied with the experience of buying a Barto Motors car.

Customer feedback suggests that Cuppcar's business managers are pressuring customers when they advise them about service plans. Customers who are reluctant to buy any service plan are being told that they could be affected by massive increases in the prices of routine servicing, which has caused some to consider withdrawing from the purchase of their new car. Customers who wish to buy a Barto Motors Service Plan are being told that it covers only the "bare minimum" of servicing work, unlike the Cuppcar Service Plan. These arguments reflect badly on Barto Motors and the quality of the aftersales support that we provide to car buyers.

I hope that Cuppcar's Board will address these concerns with some urgency.

Yours sincerely,

Simon Taylor

Head of Dealership Relations

Close

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

Paragraph

A month later, you receive the following email:

To: Financial Manager
From: Pavarit Chotisin, Senior Financial Manager
Subject: Workshop issues

Hi,

I have attached an extract from this morning's Board meeting.

I require your advice on two matters before I meet with Valerie Mizrahi:

- Firstly, evaluate the potential usefulness of quality circles comprising workshop staff and recommend with reasons the approach that Cuppcar might take to establish effective quality circles.

[sub-task (a) = 40%]

- Secondly, identify and evaluate the characteristics of debt and equity that are relevant to the decision as to how the expansion of Cuppcar's workshops should be financed.

[sub-task (b) = 60%]

The Board meeting extract can be found by clicking on the Reference Material button above.

Reference Material

Extract from Board minutes

Daniela Triggiano informed the Board that sales of the Cuppcar Service Plan had been higher than expected and that the initial problems associated with an aggressive selling of the plan had been dealt with.

Chander Shekhar, Chief Operating Officer, warned the Board that strong sales of the Cuppcar Service Plan could put dealership workshops under pressure. Previously, many Cuppcar customers took their cars to rival dealerships for servicing. Customers who buy the Cuppcar Service Plan will have to book their services at Cuppcar's workshops. That will put workshops under pressure, starting in the next few months when the first cars sold with the new plan require their first annual service.

Mr Shekhar reminded the Board that all services involve safety checks on car brakes and steering. Many of these checks require heavy workshop equipment and trained technicians to operate the equipment and interpret the results. Some dealership workshops are already operating at close to full capacity. Many dealership workshops will require expansion if they are to operate in a safe and efficient manner. He estimated the cost of the required expansion at W$600 million.

The Board discussed the changes that will be brought about by this additional pressure.

Mr Shekhar went on to inform the Board that several rival companies have introduced quality circles and that these are proving effective.

Close

Scratch Pad Calculator

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

To: Pavarit Chotisin, Senior Financial Manager
From: Financial Manager
Subject: RE: Workshop issues

Paragraph

Two months later, you receive the following email:

To: Financial Manager
From: Pavarit Chotisin, Senior Financial Manager
Subject: FWD: Cuppcar Service Plan

Hi,

I have forwarded a copy of an email that I received from Valerie Mizrahi.

I need your advice on two matters before I reply to her:

- Firstly, identify and evaluate the difficulties of detecting dysfunctional behaviour by new car sales executives and recommend a suitable response to such behaviour.

[sub-task (a) = 60%]

- Secondly, recommend with reasons the approach that Cuppcar should take to identifying dealerships that are operating as effective teams.

[sub-task (b) = 40%]

The email attachment can be found by clicking on the Reference Material button above.

Reference Material

To: Pavarit Chotisin, Senior Financial Manager
From: Valerie Mizrahi, Finance Director
Subject: Cuppcar Service Plan

Hi,

I have just had a disturbing conversation with Daniela Triggiano, our Marketing Director. The Cuppcar Service Plan sold strongly when it was first introduced, but sales of the plan have declined over the past few weeks.

The problem appears to be due to a conflict between new car sales executives, who sell new cars to customers, and business managers, who sell service plans and finance to customers who have already agreed to buy a new car. New car sales executives at some dealerships argue that they should receive a share of the bonus from the sale of the Cuppcar Service Plan because sales of the plan depend on sales of new cars. Business managers are understandably keen to keep all of the bonus on this product.

This conflict has arisen because Cuppcar makes more profit from the sale of the Cuppcar Service Plan than from the sales of a manufacturer's plan and so it pays business managers higher bonuses on sales of the Cuppcar product.

Business managers claim that some new car sales executives have started to advise customers not to pay, for example, W$600 in advance for a car service plan. Instead, they advise customers to use that money to upgrade their new car with, for example, leather seats instead of fabric. Sales executives earn bonuses on the total value of each sale, including upgrades, but Cuppcar may lose the opportunity to sell a far more profitable service plan because of the advice that has been given.

Regards
Valerie

Close

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below:

To: Pavarit Chotisin, Senior Financial Manager
From: Financial Manager
Subject: FWD: RE: Cuppcar Service Plan

Paragraph

Thank you for completing the Management Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.

Management Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.

This examination is structured as follows:

Section number	Time for section (minutes)	Number of tasks	Number of sub-task/s	% time to spend on each sub-task
1	45	1	2	(a) 60% (b) 40%
2	45	1	2	(a) 40% (b) 60%
3	45	1	2	(a) 60% (b) 40%
4	45	1	2	(a) 60% (b) 40%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.

You receive the following email:

From: Pavarit Chotisin, Senior Financial Manager
To: Financial Manager
Subject: Counterfeit parts

I've attached a news report that has just gone online.

Cuppcar's dealerships buy large quantities of spare parts for use in servicing or repairing customers' cars. Cuppcar requires its dealerships to buy from reputable wholesalers, but even they cannot always be 100% certain that all the parts that they sell are genuine because it is not always possible for them to buy directly from manufacturers. That means that Cuppcar cannot totally guarantee that the parts fitted when servicing or repairing customers' cars are genuine.

I need your advice on two matters that I plan to discuss with Valerie Mizrahi, our Finance Director:

- Firstly, evaluate the financial reporting challenges that Cuppcar's Board will have to consider in relation to counterfeit parts and recommend with reasons suitable responses.

[sub-task (a) = 60%]

- Secondly, identify and evaluate the product reputation risk and the operational risk associated with the possibility that Cuppcar might use counterfeit parts when servicing customers' cars.

[sub-task (b) = 40%]

Regards
Pavarit

The news report referred to by Pavarit can be found by clicking on the Reference Material button above.

Reference Material

Welland Business Daily

Counterfeit car parts cause concern

Motor industry experts are expressing concern about the growing quantities of counterfeit parts that are being sold as genuine. These parts often look identical to the genuine product and are often supplied in identical packaging to that used by the original manufacturer.

While counterfeit parts may look like the genuine article, they may be of inferior quality. There is an increased risk of failure, with the associated risk of an accident in the event that the part is a critical part of a safety-related system such as brakes or steering. The very best counterfeits can fool even qualified mechanics into believing that they are genuine.

Close

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

From: Financial Manager
To: Pavarit Chotisin, Senior Financial Manager
Subject: RE: Counterfeit parts

Paragraph

Reference Material Pre-seen

A month later, Pavarit Chotisin invites you to join him in a meeting room.

"Please read this extract from the minutes of this morning's Board meeting.

I will meet Valerie Mizrahi later today, and I require your advice on the following:

- Firstly, recommend with reasons how Cuppcar might use its business intelligence system (BIS) to evaluate the extent to which dealerships might have fitted counterfeit brake pads.

[sub-task (a) = 40%]

- Secondly, recommend with reasons the manner in which a project to recall cars to check their brakes should be organised."

[sub-task (b) = 60%]

The Board minute extract can be found by clicking on the Reference Material button above.

Reference Material

Extract from Board minutes

Chander Shekhar, Chief Operating Officer, informed the Board that a number of dealerships had reported concerns that brake pads that had been fitted to some customers' cars had worn badly and were having to be replaced, despite being just 1 year old. Brake pads are consumable items that are used to slow the car down when the brakes are applied. It is normal for brake pads to wear through use, but it is unusual for them to require replacement within a year of being fitted.

There have been no reports of accidents being caused by the worn brake pads, although the brakes on some affected cars would have failed within a few months if the problem had not been identified and rectified.

The Board discussed the possibility that this problem was caused by dealerships having fitted counterfeit brake pads, or whether there might be an alternative explanation. Reports had been received from several dealerships, but not all. Dealership workshops do not have the equipment required to test new or used parts to determine whether they are genuine.

Car manufacturers specify approved brands of replacement parts. Each of Cuppcar's dealerships purchases those approved brands, as appropriate to its new car franchise. For example, different car manufacturers approve different brands of brake pad. Cuppcar's dealerships have four different brands of brake pad in inventory because of this.

Lambros Liavas, Information Technology Director, offered to use Cuppcar's business intelligence system (BIS) to assist with any data analytics and data mining that might support any investigations relating to this issue.

The Board discussed the possibility of recalling cars in order to check their brake pads as a precaution.

Close

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

Paragraph

Reference Material Pre-seen

Two weeks later, you receive the following email:

From: Pavarit Chotisin, Senior Financial Manager
To: Financial Manager
Subject: FWD: Defective brake pads

Hi,

I have forwarded an email that I received from Valerie Mizrahi.

I need your help with the following matters:

- Firstly, evaluate the arguments for and against having individual dealerships bear the costs of inspecting customers' cars and replacing any counterfeit parts that are identified.
[sub-task (a) = 60%]

- Secondly, identify and evaluate the characteristics of debt that may make it sensible for Cuppcar to borrow to finance the W$50 million required to cover the costs associated with the purchase of counterfeits.
[sub-task (b) = 40%]

Regards,
Pavarit

The email referred to by Pavarit can be seen by clicking the Reference Material button above.

Reference Material

From: Valerie Mizrahi, Finance Director
To: Pavarit Chotisin, Senior Financial Manager
Subject: Defective brake pads

Hi Pavarit,

The Board has completed an initial investigation and has established that some of our dealerships have been unknowingly fitting counterfeit brake pads to customers' cars. Dealerships will have to check the brakes on all cars that may have been affected and will have to replace any counterfeit brake pads with genuine parts.

The Board is also concerned that purchases of counterfeits may not be limited to brake pads. Our dealerships could have unwittingly fitted other parts that could cause safety issues or increase the risk of breakdowns.

Each dealership's staff includes a buyer, whose responsibilities include the selection of suppliers and the ordering of parts. Buyers are expected to take account of suppliers' reliability and pricing when placing orders.

Recalling and checking customers cars and replacing parts at Cuppcar's expense will cost a great deal of money, although it appears that not all of our dealerships have ever purchased counterfeit parts. We need to consider how we hold individual dealerships, each of which is a profit centre, accountable.

Correcting this problem will put a severe strain on Cuppcar's cash flows over the next 12 months. We will have to spend heavily on genuine replacement brake pads and on overtime for workshop staff to ensure that replacements are fitted quickly. The reputational damage will also cost us in terms of sales revenues. We will have to spend heavily on advertising and public relations in order to repair our reputation. The Board believes that we may have to raise as much as W$50 million to ensure that we remain solvent while we recover.

Regards
Valerie

Close

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

From: Financial Manager
To: Pavarit Chotisin, Senior Financial Manager
Subject: FWD: RE: Defective brake pads

Paragraph

Reference Material Pre-seen

A month later, Pavarit Chotisin stops by your workspace and hands you a document:

"I have brought you an extract from the minutes of today's Board meeting.

I require your advice on two matters arising from this report.

- Firstly, explain the approach that Cuppcar should take in negotiating with other car dealers and with part manufacturers on the subject of addressing the problem of counterfeit parts.

  [sub-task (a) = 60%]

- Secondly, recommend with reasons whether Cuppcar should increase its charges for servicing and repairs in order to pass on any increase in the cost of parts to customers."

  [sub-task (b) = 40%]

The Board minute extract can be found by clicking on the Reference Material button above.

Reference Material

Close

Extract from minutes of Board meeting

Chandar Shekhar, Chief Operating Officer, informed the Board that he intended to meet with his counterparts at Milltro Motors and several other major car dealers. He hoped to persuade them to work with major car part manufacturers to develop a response to the problem of counterfeiting.

There are technologies that can be used to imprint distinctive patterns on packaging or even on the products themselves. Such technologies would enable workshop staff to scan items with special hardware to check that they are genuine. This would, of course, be potentially expensive, and there may be a need to develop new technologies in case counterfeiters learned to create their own imprints.

Part manufacturers might also consider investigating the sources of counterfeit products and take legal action against businesses responsible for their manufacture or distribution. This could be complicated because many counterfeiting operations are conducted overseas in countries that are tolerant of such illegal activities.

The Board discussed the implications of car dealers persuading car manufacturers to increase the charges to customers for servicing and repairs in response to any increase in the cost of parts arising from the prevention of counterfeiting.

Provide your response to Pavarit's requests in the box below.

Paragraph

Thank you for completing the Management Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.

Management Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.

The exam is structured as follows:

Section number	Time for section (minutes)	Number of tasks	Number of sub-task/s	% time to spend on each sub-task
1	45	1	2	(a) 40% (b) 60%
2	45	1	2	(a) 40% (b) 60%
3	45	1	2	(a) 60% (b) 40%
4	45	1	2	(a) 40% (b) 60%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.

Reference Material Pre-seen

Pavarit Chotisin, Senior Financial Manager, stops by your workspace and hands you a document:

"I have brought you the executive summary of a report that has been circulated to the Board.

I have to meet with Valeria Mizrahi, our Finance Director, and I need your assistance with the following:

- Firstly, evaluate the arguments for and against the proposition that accepting losses on trade-ins is consistent with Cuppcar's business model.

[sub-task (a) = 40%]

- Secondly, recommend with reasons how Cuppcar should apply the principles of business process re-engineering (BPR) to designing and implementing procedures for pricing customers' trade-ins."

[sub-task (b) = 60%]

The executive summary referred to by Pavarit can be found by clicking on the Reference Material button above.

Reference Material

Report on investigation into reduced profits on used cars – executive summary

Prepared by Norman Wilson, Senior Marketing Manager

This report was commissioned by the Board in response to a decrease in Cuppcar's average gross profit on the sale of used cars. Costs of used cars are determined by adding any workshop charges to the amount given for the car in trade-in allowance or paid for the car if it is purchased from a third party.

Cuppcar obtains 40% of its used car inventory through trade-ins against new car purchases. The average value allowed to customers on these trade-ins has increased over the past year, while the average cost of used cars obtained through other sources has remained constant.

New car sales executives negotiate the trade-in price of customers' old cars. The motor trade shares data on retail and wholesale prices of used cars, taking account of make, model, age, condition and mileage. Retail prices are charged when dealers sell to customers, and wholesale prices are charged on sales between dealers. Cuppcar's new car sales executives are supposed to offer less than the wholesale price for a trade-in if they can and to treat the wholesale price as the absolute maximum that they can allow customers. The trade-in can then be advertised for sale at its retail price. Unfortunately, valuing a trade-in requires subjective judgements about its bodywork and mechanical condition. Overlooking problems can lead to Cuppcar paying more than the trade-in is worth.

Used car sales executives are starting to complain that their counterparts in new car sales are often deliberately overpaying for trade-ins in order to sell more new cars and so earn higher bonuses. The cost of a used car sale is based on the amount paid to acquire the car, plus any workshop charges incurred on the car before sale. Profits on the sale of trade-ins are declining, and some sales are made at a loss.

Many new car sales executives cite Cuppcar's business model in their defence. For example, the business model defines value by offering "a positive experience to customers who buys its new and used cars". Cuppcar captures residual value by "selling high volumes of new cars [that] maximises manufacturers' sales incentives and creates additional opportunities to earn commissions and sell workshop services".

The Board discussed the possibility of applying business process re-engineering (BPR) to the pricing of trade-ins from customers purchasing new cars.

Close

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

Paragraph

Scratch Pad Calculator

Reference Material Pre-seen

A month later, you receive the following email:

To: Financial Manager
From: Pavarit Chotisin, Senior Financial Manager
Subject: Used car sales

Hi,

I have attached an extract from the minutes of this morning's Board meeting.

I am preparing a briefing for Valeria Mizrahi, and I require your help with two matters:

- Firstly, recommend with reasons how dealerships might make the best use of the lack of comparability between used cars when setting selling prices.

[sub-task (a) = 40%]

- Secondly, identify and evaluate the implications of including negotiation skills in employee performance appraisals for used car sales executives.

[sub-task (b) = 60%]

Regards
Pavarit

The Board meeting extract referred to by Pavarit can be found by clicking on the Reference Material button above.

Reference Material

Extract from Board minutes

Daniela Triggiano, Marketing Director, briefed the Board on the issues associated with selling used cars at a profit:

- Selling prices of used cars are set by the Head of Used Car Sales within each dealership.
- Cuppcar's inventory of used cars is listed on the company's website. Customers can search and browse used cars available at specific dealerships or across the company as a whole.
- Customers can buy cars by visiting a dealership or by buying online. Most sales are made in person through dealerships because customers are generally keen to inspect a car before they commit to such a major purchase.
- All of Cuppcar's used cars are less than 4 years old, have low mileage and are in good condition. The cars are also presented to a high standard, with polished bodywork and clean and tidy interiors.
- Used car sales executives are expected to negotiate with customers. Most customers attempt to obtain discounts from the price listed on Cuppcar's website, although some customers do simply pay the listed price. Used car sales executives have some discretion to offer discounts, subject to authorisation from used car sales managers.

Customers often claim that Cuppcar's used car prices are high, although it is difficult to make a direct comparison between the selling prices of used cars, even if they are of the same make and model and seem similar in terms of age, mileage and condition.

Close

Scratch Pad Calculator

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

Paragraph

Reference Material Pre-seen

A month later, Pavarit stops by your workspace and hands you a document:

"I have brought you an extract from the minutes of this morning's Board meeting.

I am assisting Valerie Mizrahi to prepare a briefing for the Board, and I need you to assist me with the following:

- Firstly, identify and evaluate the product reputation, operational and contractual inadequacy risks that might arise from Remoacar's operations as a member of the Cuppcar Group.

[sub-task (a) = 60%]

- Secondly, identify and evaluate the difficulties associated with determining goodwill on the acquisition of Remoacar."

[sub-task (b) = 40%]

The Board meeting extract referred to by Pavarit can be found by clicking on the Reference Material button above.

Reference Material

Extract from Board minutes

Michelle Brennan, Chief Executive Officer, informed the Board that she had been in discussions with the Board of Remoacar, a quoted company that operates an online used car dealership.

Remoacar was previously a traditional car dealer that operated 88 dealerships across Welland. Four years ago, Remoacar restructured its business to sell used cars online. Each of its sites has a professional photographic studio that enables cars to be photographed in high definition, with professional backdrops. Customers choose their cars online, with delivery to their homes, within 7 days of payment.

Customers can trade in their existing cars by using the Remoacar smartphone app to input details such as make, model and mileage and to upload photographs of any damaged bodywork. Remoacar software recommends a trade-in value and that is confirmed by Remoacar's staff. All communication with customers is through the app.

Customers can inspect their car on delivery. If they are dissatisfied, they can cancel the transaction and will receive a full refund, and the return of their trade-in, within 24 hours. Similarly, the delivery driver inspects the customer's trade-in vehicle and can cancel the transaction if the customer has withheld details of any mechanical or bodywork problems. Only 4% of sales are cancelled in this way.

The Board agreed that Cuppcar should consider acquiring Remoacar as a 100% subsidiary. In time, Cuppcar could expand Remoacar's operations to take over the sale of all of Cuppcar's used cars.

The acquisition would give the Cuppcar Group:

- 88 dealerships, already converted to facilitate online sales.
- Ownership of Remoacar's smartphone app, its website and associated software for the valuation of trade-ins.
- 9,000 used cars in inventory, all of which are less than 6 years old and have less than 100,000 kilometres recorded use.

Close

Reference Material Pre-seen

Provide your response to Pavarit's requests in the box below.

Paragraph

Two months later, Cuppcar has completed its acquisition of Remoacar, the online used car sales business. Pavarit Chotisin asks you to join him in a meeting room.

"I have brought a copy of an email that Valerie Mizrahi received.

Each of our dealerships is a profit centre. Remoacar will also be a profit centre.

I need your advice on the following two matters:

- Firstly, discuss the possible impacts of the plan described by Lambros on the operations of Cuppcar's dealerships and Remoacar.

[sub-task (a) = 40%]

- Secondly, identify and evaluate the characteristics of debt and equity in determining their suitability for financing the investment in software as described by Lambros."

[sub-task (b) = 60%]

The email referred to by Pavarit can be seen by clicking the Reference Material button above.

Reference Material

To: Valerie Mizrahi, Finance Director
From: Lambros Liavas, Information Technology Director
Subject: Remoacar's app

Hi Valerie,

Following our recent meeting, I am writing to confirm the matters that we discussed.

Our plan is as follows:

- We will switch all of the Cuppcar Group's used car sales to Remoacar, who will continue to make sales online.
- We intend to create a new version of the Remoacar app for our dealerships' new car sales executives. They will use the app to upload details of potential trade-ins to Remoacar's website. Remoacar's software will then use the information input through the website to value customers' trade-ins and will send that valuation back to Cuppcar's new car sales executives immediately.
- Remoacar will buy trade-ins directly from customers, paying the price determined by its software. Remoacar will operate as a profit centre.
- Dealerships will no longer sell used cars.

We will also have to make a significant investment in updating and upgrading software to integrate operations across the whole of the Cuppcar Group, including dealerships and Remoacar. The overall cost of the software changes will be W$120 million.

Regards
Lambros

Close

Provide your response to Pavarit's requests in the box below.

Paragraph

Thank you for completing the Management Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.

AICPA & CIMA
Together as the Association of International Certified Professional Accountants

MANAGEMENT CASE STUDY

NOVEMBER 2023 & FEBRUARY 2024

EXAM ANSWERS

Variant 1

These answers have been provided by CIMA® for information purposes only. The answers created are indicative of a response that could be given by a good candidate. They are not to be considered exhaustive, and other appropriate relevant responses would receive credit.

CIMA will not accept challenges to these answers on the basis of academic judgement.

SECTION 1

Disruptive technology

It could be argued that this is a disruptive technology as far as the Wellandian motor trade is concerned because the introduction of electric cars will change the nature of the product that is being sold. ICE cars offer motorists the freedom to drive long distances, with little concern about range. Fuel tanks can be refilled quickly and easily. Electric cars may be a very different product in the minds of Wellandian customers because their short range may make them suitable only for short-distance commuting. Motorists whose homes are unsuitable for the installation of charging points may decide that the inconvenience of owning an electric car outweighs the benefits and so might continue to use older cars or even switch to public transport. Car dealers may find themselves faced with a significant decrease in demand for new cars if electric cars are all that is available.

Major car dealers such as Cuppcar may find themselves relying increasingly on sales of used ICE cars once manufacturers cease the production of new petrol and diesel cars. If Wellandians remain reluctant to switch to electric cars, then their alternative will be to buy used ICE cars. That will leave dealers such as Cuppcar competing to obtain inventories of good quality used cars that will appeal to customers who would have previously been interested in new cars. There will also be a much greater emphasis on workshop services in order to ensure that customers' cars can be serviced properly with a view to extending their useful lives. The structure of dealerships may change, with less emphasis on the sale of individual brands of cars, other than the electric cars that will be of interest to a minority of customers.

Business risks

In this case, product risk is the risk that customers will not buy electric cars. In the short term, this seems like a serious risk because the market for electric cars in Welland has been seen to be weak. It may be that there are insurmountable cultural

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or geographical factors that make electric cars unsuitable for the Welland market. It is, however, possible that the poor demand to date is due to a lack of an alternative and concern about the infrastructure to support electric cars. Customers may be persuaded to buy electric cars once the manufacture of ICE models ceases and all new cars are powered by electricity. Any increase in sales of electric cars will create additional demand for charging points and that might address customers' concerns about their ability to recharge electric cars in Welland.

Product reputation risk exists because Welland's motorists seem to perceive electric cars as impractical and unreliable. There is already a negative perception of electric cars. It is possible that these negative perceptions will be amplified by social media posts that complain about the withdrawal of ICE models and concerns about the limitations of electric. This may become a newsworthy issue, with press articles highlighting the lack of charging points or the problems associated with relying on electric cars for long journeys. Initial problems with charging once electric cars start to become more widespread are likely to catch the public's attention. It is unlikely that positive news about the reliability of electric cars will be regarded as newsworthy, although it may be possible for car manufacturers to put their public relations departments to work in promoting improvements. The providers of charge points will also have an incentive to publicise the availability of improved services.

Operational risks could take several different forms. Sales executives will have to be trained to ensure that customers are properly advised about the performance and range of their new cars. Any errors or omissions in briefing customers could lead to complaints and requests for refunds from Cuppcar and in complaints to manufacturers. There could also be problems in managing service intervals for electric cars, especially if there are differences between models. If cars are not serviced properly then, they might break down or, worse, be involved in accidents. Customers may not realise that any carelessness or neglect in the operation of their cars could lead to safety or reliability issues because of the long periods between inspections by trained engineers. Cuppcar could also be at risk because the long service intervals could lead to customers taking their electric cars elsewhere for their first service after 2 years of ownership.

SECTION 2

Training and software

It is important to consider this expenditure in terms of the requirements of IAS38 *Intangible assets*. The main question is to decide whether the costs should be capitalised as intangible assets or written off as expenses.

With respect to the investment in training, the starting point is to consider whether the resulting benefit to Cuppcar can be accounted for as an asset. One of the criteria for the recognition of an asset is that it is a resource that is controlled by an entity. Investing in staff training clearly does create a resource that benefits the entity, but it is not necessarily under Cuppcar’s control. In principle, mechanics and sales executives will be required to exercise those skills for as long as they work for the company, but there is little to prevent them from resigning and taking those skills with them. Arguably, the training costs should be written off as expenses as and when the costs are incurred.

The software is a different matter because it meets both of the main criteria for recognition. It is both controlled by Cuppcar and it should provide a flow of future economic benefits to the company. The cost of the software can be capitalised as an intangible asset. The accounting treatment will be complicated by the fact that the cost should be amortised over the estimated useful life of the software, which may be difficult to determine. The starting point for this estimate could be to review the contract from the software’s supplier to establish whether there is an implied maximum life, such as a statement that the software will be supported for 10 years or that the licence is limited to 5 years.

Real options

One possibility would be for Cuppcar to aim to sell electric cars from all of its dealerships in a phased approach. For example, work could start on introducing electric cars at Barto Motors dealerships, with the intention of adding additional brands. That would enable Cuppcar to learn about the generic issues arising from the sale of electric cars before introducing them across all dealerships. Starting with a large manufacturer makes sense because Barto Motors will have had extensive experience of launching electric cars through dealerships in other countries and will know about the problems that have arisen elsewhere and will be equipped to advise Cuppcar. A large manufacturer should also have an established presence in the electric car market, with a wide range of different models of electric cars. That will give Cuppcar an insight into the types of electric cars that attract buyers in Welland.

The phased approach should make it possible for Cuppcar to negotiate a realistic schedule with all manufacturers to avoid the loss of brands to other dealers. Smaller brands will be reluctant to lose the potential demand for electric cars in Welland because Cuppcar appears to be favouring, say, Barto Motors. That may be sufficient for manufacturers to withdraw their franchises from Cuppcar in order to work with rival dealers. Manufacturers may be willing to tolerate a launch that is a little later than, say, Barto Motors’s because Cuppcar will be better equipped to promote their brands in the context of electric vehicles. A phased approach will also reassure customers who are unlikely to view electric cars as generic. A customer who has bought Kopower cars in the past may wish to remain with the brand and buy a Kopower electric car. If Cuppcar appears to be unwilling to commit to the sale of electric cars, then Wellandian motorists may feel reluctant to commit to buying them. Most customers regard a new car as a major purchase.

A phased introduction will offer Cuppcar a limited amount of discretion over the decision to sell electric cars from all 30 of the brands that it sells. If unforeseen problems arise and Cuppcar decides not to commit to selling cars from every manufacturer, then it will be easier to make a “no go” decision for brands that are not yet on sale through dealerships. Ideally, Cuppcar will not be bound by contracts to launch cars for every brand and so will be able to simply inform some manufacturers that it will not be launching their electric cars. Even if there is a contract, it may be possible to negotiate a break if initial experiences with other manufacturers prove to be negative. Manufacturers may prefer to avoid any association with weak sales or other problems. The ability to restrict the launches of electric cars to, say, 15 manufacturers could save a great deal of money if Welland’s motorists prove reluctant to buy this technology.

SECTION 3

Pricing

Pricing is complicated by the fact that Cuppcar depends heavily on servicing to ensure its profitability. Parts and service contributed 35% of the company's gross profit during the year ended 31 December 2022. Cuppcar faces the loss of volume because the service interval on electric cars is twice as long as that on ICE cars and so it may be necessary to charge a higher markup on cost in order to maintain profits. There will also be a period when the number of service visits will be reduced because none of the electric cars sold after the launch will require a service for 2 years. The displacement of ICE cars with electric will mean that there will be fewer customers requiring servicing or repairs after the first year of electric car sales, which could put Cuppcar in a difficult situation. It may be necessary to charge the same for an electric car's service as an ICE car, taking advantage of the fact that customers will be accustomed to spend that amount each year.

Cuppcar will have to consider the possibility that competing car dealers will undercut it on the price of services for electric cars and so fixing a high price may not be sustainable. It may be possible to address that problem by taking the lead in announcing servicing prices and so giving competitors the opportunity to follow Cuppcar's lead. It would be unlikely to benefit competing dealers to set lower prices in the long term because the need to generate profits from servicing is a common to all new car dealers. There would be a cost to undercutting Cuppcar. Competitors may take the view that they can afford to match prices set by major dealers such as Cuppcar and they can compete on more immediate factors, such as sales promotion on the cars themselves. If competitors do undercut Cuppcar on the price of servicing, then it would be possible to reduce prices during the 2 years before it will become necessary for customers to pay for a service.

Integrated report

Social and relationship capital focusses on stakeholder relationships and social wellbeing. One major stakeholder relationship that can be discussed in the integrated report is that between Cuppcar and its manufacturers. Manufacturers are under pressure to stop making ICE cars and to switch to electric. They will lose sales in Welland if major dealers such as Cuppcar do not agree to offer a retail service and customer support. If Cuppcar is one of the first dealers to sell electric cars in Welland, then it will provide a clear incentive for rival dealers to benefit manufacturers in the same way. Cuppcar will also be seen to be aligning itself with social and governmental norms to 5inimize the environmental damage caused by ICE engines. The company will be creating an opportunity for consumers to purchase and use electric cars that can be powered by electricity from renewable sources.

Intellectual capital deals with the acquisition and creation of intangibles. Cuppcar will have to work closely with car manufacturers in order to ensure that its staff acquire the skills and knowledge required to advise buyers and service their cars. Clearly, it will be in manufacturers' best interests to furnish information and possibly even provide training to sales executives and mechanics. Cuppcar should be able to work with that material, which will be available to all car dealers, in order to create its own unique intellectual property. Cuppcar's integrated report can then identify the intellectual property that it creates using this material in order to enable the company to compete with rival dealers. For example, promotional content, such as text on the company website. Cuppcar will also be able to identify ways in which it can develop its own processes and procedures, such as the most efficient way to carry out services and repairs to electric cars.

Natural capital deals with the impact that Cuppcar will have on the environment. The focus of this discussion will be complicated by the fact that Cuppcar has only just entered into the market for electric cars. Care will have to be taken to ensure that Cuppcar does not distort or exaggerate its positive impact on the environment because it will almost certainly continue to service ICE cars and so enable the continuing consumption of fossil fuels and associated carbon emissions. It would, however, be possible to disclose that Cuppcar was instrumental in leading the sale of electric cars in Welland. It would be realistic to argue that sales of electric cars have displaced sales of ICE cars and so it would be possible to estimate the reduction in emissions attributable to Cuppcar's policy of selling electric cars. Again, Cuppcar will have to take care to be honest and accurate with respect to any negative issues, such as the extent to which Welland's electricity is generated from renewable sources.

SECTION 4

Risks and opportunities

The shift to electric cars has been driven largely by legislation in other countries, with the introduction of legislation that will eventually ban the sale of ICE cars. There could be further changes that will affect the availability of electric cars. The fact that electric cars have to be scrapped after 8 years suggests that they may not be particularly environmentally friendly and so their manufacture may be curtailed. It may start to be viewed as undesirable to own cars in many countries and so global demand could start to decline, possibly putting manufacturers at risk. These changes could mean that Cuppcar will eventually start to find it difficult to buy new cars, whether ICE or electric, and increased prices may make the cars that are available too expensive for some consumers.

In the short term, the introduction of electric cars could affect consumer tastes, which could make it difficult for Cuppcar to manage sales and inventory. Brand preferences could change because some manufacturers could emerge as having superior motors and batteries and so some of Cuppcar's dealerships could struggle to make sales of new cars. Customers may also change their expectations with regard to future car sales, perhaps choosing to own smaller and cheaper electric cars than the ICE cars that they are replacing. It may make little sense to invest heavily in a luxurious car that has a restricted range.

The launch of electric cars could encourage some customers to replace their ICE cars sooner than they would have done normally, prompting an increase in demand. Cuppcar may have a brief opportunity to sell electric cars in large numbers. This "windfall" opportunity would enable the company to establish itself as a dominant force in electric cars provided it can keep up with demand. There could also be a brief opportunity to sell inventories of ICE cars at an increased price. Customers who are not keen to drive electric cars may be prepared to pay more for the few remaining petrol and diesel cars.

The market for used cars could be stimulated by the fact that customers are not keen to buy new electric cars. It may be possible to increase the selling prices of used cars. Those customers may also keep their ICE cars for longer, which would require them to continue to rely on Cuppcar for parts and service, generating additional revenue in the long term. Older cars will require more work and so the revenues from servicing could remain high for an extended period.

Engaging sales executives

The course should focus on the needs of sales executives who are learning about a new product. The course content should not waste participants' time by covering general sales techniques that they should already be familiar with. The content should address the specific issues that are likely to arise in discussion with customers who are seeking to buy their first electric car, such as the ranges of the different electric models sold from the executives' dealerships. Time could be set aside for course participants to discuss the issues associated with selling their brand of electric cars and the strengths and weakness of their models relative to rival brands.

One way to ensure engagement would be to set some form of assessment to be completed during the course or immediately after, with penalties for failing to score an adequate mark. Penalties could include requiring sales executives to retake the course or even disciplinary action in the event of a really poor performance or a clear lack of effort. Dealership principals could be required to participate in the courses, partly so that they better understand this new product and partly to set the tone in the sessions.

An alternative approach would be to set targets for the sale of electric cars. Sales executives could be required to hit separate targets for the sale of new ICE cars and for new electric cars. They will be more likely to take the sales training seriously if they are expected to persuade possibly reluctant customers to buy electric cars. If sales executives are informed that they will have a financial incentive to sell electric cars, then they will be more inclined to take an active interest in the content of the sales training on electric cars. Cuppcar could adjust the bonus rates, at least in the short term, so that there is an additional incentive to sell electric cars compared to ICE.

MANAGEMENT CASE STUDY

NOVEMBER 2023 & FEBRUARY 2024

EXAM ANSWERS

Variant 2

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SECTION 1

Implications

Manufacturers will be forced to take the view that many of Cuppcar's customers are dissatisfied with the aftercare support provided for their cars. Manufacturers may be reluctant to rely on Cuppcar for retail support because any customer dissatisfaction could lead to a loss of future sales. Customers who believe that they have been treated badly by, say, a Barto Motors dealership may decide to buy a different brand of car when the time comes for a replacement. The likelihood of manufacturers taking action against Cuppcar may be affected by the feedback obtained by other dealers. If negative feedback arises from factors over which Cuppcar has little or no direct control, such as the care with which customers drive their cars, then rival dealers for any given models should receive similar feedback. Manufacturers should then be less inclined to penalise Cuppcar in any way.

It is a concern for Cuppcar that customers appear to define the quality of the aftercare service that they receive in terms of irrelevant variables which do not reflect Cuppcar's efforts. It appears that customers are effectively evaluating Cuppcar in terms of its ability to repair their cars without making any charge, even when the need for repairs is due to carelessness by the customers. There is little that Cuppcar can do to address such criticisms other than by warning customers about common avoidable problems with new cars in general or with specific models. Regular emails might be a cost-effective response. Cuppcar is also open to blame for the fact that some models of car are inherently less reliable than others and so customers may have to suffer the inconvenience of having their cars repaired, albeit under warranty. Again, this would be a difficult problem to address. New car sales executives might lose sales if they warn customers that the model they are interested in can be unreliable.

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Data mining

The fact that Cuppcar has a business intelligence system means that it should be possible to combine both structured and unstructured data from different sources and to conduct analyses that will yield potentially useful insights. Cuppcar can start by analysing negative feedback from all customers across all dealerships to establish whether there are any common factors that might be causing dissatisfaction. For example, mechanics timesheets and workshop telephone logs might reveal that customers are more likely to complain that they are not being kept informed when the workshop is busy. If that is identified as a source of dissatisfaction, then it may be possible to develop a tailored response, such as increasing the number of workshop advisers on duty when the workshop will be busy or developing a web page that can keep customers informed. The fact that this analysis can be supported by data should help Cuppcar to establish whether a potential improvement is likely to be cost-effective.

The business intelligence system can break the data down between different manufacturers in order to establish whether customer satisfaction varies according to brand. It may be that some brands, or specific models, are less reliable than others and that customer satisfaction is being affected by inherently unreliable cars, creating the impression that dealership workshops are incompetent. Cuppcar should be able to address such concerns by briefing manufacturers on the reliability issues that have emerged with their models and by asking whether there could be modifications that could resolve the problems. Sharing this type of analysis with manufacturers could also identify design flaws that might be rectified under warranty or through a recall at the manufacturer's expense, so that customers are not burdened financially. Even if such findings do not emerge, Cuppcar may be able to reassure customers that they are experiencing problems that are common to their model of car and that compromises at the design stage may have affected ongoing reliability.

Cuppcar may be able to develop insights into the behaviour of individual customers in order to establish whether some have a natural tendency to offer negative feedback. The business intelligence system would make it possible to combine all feedback submitted by individual customers, including any questionnaires associated with the initial purchase and feedback relating to other cars purchased from Cuppcar. Any customers who submit consistently negative feedback may simply have pessimistic personalities and Cuppcar may be unable to address that problem. Alternatively, some customers may have had problems at an earlier stage in their relationship with Cuppcar, which is encouraging them to be negative about any feedback that they provide. In either case, it may be possible for Cuppcar to identify outliers whose feedback could justifiably be excluded from any analysis on the grounds that it is biased.

SECTION 2

Benchmarking

The lack of consistency between different manufacturers' questionnaires could hamper comparisons between dealerships with different franchises. It will be possible to tell whether customers are satisfied, but it will be difficult to identify the factors that have driven perceptions of satisfaction. If Cuppcar cannot tell why customers are satisfied or dissatisfied, then it will be difficult to evaluate the quality of the service that they provide, beyond simply reviewing the aggregate score. Response rates may also be a factor. Customers who had a bad experience might be more willing to participate in order to give a negative review. Differences in questionnaire wording might also influence customers' responses, with some questionnaires generating more positive responses than others. These concerns will be mitigated by the fact that Cuppcar need not necessarily equate feedback scores with satisfaction based on the quality of the work done. The two are clearly related, but they are not necessarily the same thing.

The variability in feedback scores over time suggests that they are unsuitable as a basis for measuring and managing performance for benchmarking purposes, even between dealerships that sell the same brands. The variability could imply that some manufacturers' questionnaires are badly written and are providing an inconsistent impression of customer satisfaction. It is also possible that the supervision at dealerships is inconsistent and so causes inconsistencies in responses over time. In that case, it would make little sense to benchmark dealerships against one another because variations may be due to random factors that cannot (and probably should not) be replicated. That invalidates the point of benchmarking because there would be little point in studying dealerships with high satisfaction scores in order to determine why they are better at delivering customer satisfaction.

The 3-month reporting period could render the reporting system unsuitable for benchmarking because the impact of any changes that are made in response to comparisons will not affect satisfaction scores until at least 3 months have passed. Changes will take some time to come into effect, so the scores from the next round of questionnaires may prove slightly misleading if some of the feedback relates to part of the period before any improvements were made. The feedback system has been designed to assist car manufacturers to evaluate and motivate their dealerships. It was not designed for ongoing benchmarking of dealerships from quarter to quarter. It would almost certainly be preferable for Cuppcar to focus more directly on observing and enhancing the quality of the services provided at each dealership. It would then be possible to demonstrate that any weak feedback had been received despite having a sound system of supervision in place. That should help Cuppcar in the event of any concerns raised by manufacturers.

Defining value

Cuppcar should consider what it means to offer manufacturers a "suitable retail service". Arguably, that suggests that Cuppcar should facilitate the sale of cars to customers and the provision of support for servicing and repairs. The fact that Cuppcar is selling and maintaining cars is a more direct indicator that it is meeting manufacturers' needs than the satisfaction scores do in themselves. The only possible concern is that the service provided to manufacturers may not be sustainable if customers are dissatisfied with their engagement with dealerships. Cuppcar has worked hard to develop a good reputation, developing sales leads and managing dealerships in a professional manner. Cuppcar's interests are aligned with those of the manufacturers and it appears that the company is creating value for manufacturers in the manner described in its business model.

Cuppcar also has to consider what it means to offer customers a positive experience. Customers would not trade with the company if their experience was negative. A successful car dealer will not, however, necessarily leave customers with positive feelings about their experience. Car buyers will often attempt to negotiate a discount or a higher trade-in value for their existing car and may be disappointed when they cannot do so. Customers whose cars break down and require repairs may be disappointed and stressed by the need to make the necessary arrangements. It may have to be enough for them to choose their Cuppcar dealership rather than a rival's for the work. Cuppcar maintains contact with new car customers and so it should be possible to determine whether there are any problems with their perceptions of the company. Cuppcar clearly meets the needs of its retail customers, so its approach to defining value is acceptable.

SECTION 3

Investment decisions

It could be argued that the purpose of this budget element is to enable dealership principals to use their discretion to invest in small projects that will benefit their dealerships. Each dealership is unique in terms of the combination of brand and location, meaning that it may be difficult for Cuppcar's Board to reach informed investment decisions. In this case, it appears that a number of dealership principals have identified a need for training in customer service and have been able to organise this quickly, using their capital items budgets. This investment appears to have yielded benefits in terms of increased profit and so it could be argued that the decision to invest has been justified.

This budget heading has been used for a variety of purposes in the past, some of which would not necessarily fall within the heading of "capital items". The fact that the Board has tolerated this suggests that it has become acceptable for dealerships to make small investments that fall within the monetary limits. The training is effectively an investment in an intangible resource that will benefit the dealership in the long terms. It could be argued that splitting the training cost into two elements is a potential breach of the spirit of the intended use of the budget, but the same thing could apply to, say, the purchase of multiple copies of a new tool for the workshop.

The purpose of this budget allocation appears to be that dealerships may require specialised equipment for workshops and showroom displays. For example, a new model of car may require specialised tools to enable mechanics to access parts for maintenance. The investment in training may be regarded as an unacceptable use of this budget because it is effectively using up almost 20% of each dealership's budget for capital items, which could delay the acquisition of new tools or other equipment. Having a small budget for contingencies is potentially sensible, but it would cost Cuppcar 214 x W$100,000 = W$21.4 million if every dealership invented reasons to spent the full amount.

All of the dealerships who have invested in training have used Tretrain, who appear to have been recommended on a word of mouth basis by the dealership principals who have used them. If all dealerships eventually commission this trainer, then it will cost the company a total of 214 x W$19,000 = W$4 million. That is a significant amount to commit to a single supplier, who may not necessarily be the best trainer. It might have been more cost-effective for Cuppcar's human resources staff to have obtained tenders from a number of training companies and to have chosen the best. It may also be that organising training on the basis of individual dealerships is costing the opportunity to bring staff together in larger groups to shares ideas and experiences.

Human capital

It is legitimate for Cuppcar to recognise continuing investment in training in customer service under the heading of human capital in the integrated report because such training enhances relevant competencies that will enable staff to implement goals set by the Board. These goals are long term in nature because car dealers will always benefit from creating and maintaining relationships with customers in the hope of repeat business from car sales and servicing. Training staff demonstrates a recognition that Cuppcar recognises their value to the business and a desire to equip them to make even greater use of their skills and experience. It may be helpful for shareholders to disclose this training in the integrated report because it will be written off as an expense in the financial statements and so the potential benefits from such training will not be recognised in the statement of financial position. The main difficulty that will have to be overcome is that shareholders may be of the opinion that staff in customer-facing roles should have these skills already.

It is debateable whether Cuppcar's integrated report should continue to refer to this training in future years because it is difficult to demonstrate that the company will have any continuing benefit. One concern is that staff are free to submit notice and to leave the company at any time, taking the skills and experience developed at Cuppcars with them. A second concern is that the skills imparted by the course may be depreciating and so the benefit in terms of improved performance may be lost of time, possibly within a year. It would be appropriate for the integrated report to refer to any ongoing training that is conducted in the form of an annual programme that ensures that skills are developed and maintained. Cuppcar's Board will quickly lose credibility if they continue to refer to a specific course that was run years before, even if it was effective at the time. Shareholders may be concerned that the course was not repeated if it was highly beneficial at the time.

SECTION 4

Goodwill

Presumably, the owner of Happicust will base the selling price of a controlling interest in the company on its fair value as at the time of acquisition. That fair value will take account of the skills of Happicust's workforce and the number of consultants that the company employs. Reducing the workforce by 20% after the acquisition will reduce the value of goodwill and so it may have to be treated as an impairment. There could also be a concern that making so many consultants redundant will encourage more consulting staff to leave, staff whom Happicust would wish to retain.

The total value of the impairment will be treated as an expense in the consolidated statement of profit and loss. The fact that the non-controlling interest was valued on the basis of the proportionate share of net assets means that all of the impairment loss will be offset against group profit. The overall impact will be to reduce the group's reported profit for the year and also group equity. The overall impact will affect the group's return on capital employed, with the direction of change being affected by the relative decreases in profit versus equity.

The office building will be valued at its estimated fair value as at Happicust's acquisition. That will require an estimate of the building's market value as at that date. It is unlikely that the building's selling price will be exactly the same as the estimated fair value and so any difference will have to be accounted for as a gain or loss in Happicust's financial statements. Happicust's profit for the year, including the gain or loss on disposal, will be shared between the group and the non-controlling interest on the basis of 51% to 49%.

The impact of the disposal on profitability ratios will be difficult to predict in advance, but it is unlikely to be significant because it is to be hoped that there will not be a major difference between the estimated fair value and the selling price. In the short term, the group will appear to be highly liquid because the proceeds of disposal will increase the group's bank balance. In the medium term, if the cash is used to settle group debt or to fund a dividend payment, then return on capital employed may increase.

Receptive to coaching

Dealership staff may resent the requirement that they should be coached in this manner, given that they are already working in customer-facing roles. Experienced staff may believe that they have already demonstrated their competence in this area and that it is insulting to interact with consultants. Sales staff are paid on the basis of performance, so they may be reluctant to spend time with consultants that might otherwise be used to generate leads or to meet with customers. Staff can be compelled to attend meetings and to participate in coaching sessions, but there is little that Cuppcar's Board can do to make them take the coaching seriously or to cooperate with consultants. That problem could be overcome by having consultants focus on observing dealership staff at work during their visits and reviewing records maintained at the dealership. It may then be possible to recommend changes that have a measurable output, such as having service advisors make courtesy calls to customers to check that they are satisfied with their repairs.

Cuppcar's staff may also believe that Happicust is managed by a former rival whose background does not necessarily qualify her to advise them on how best to engage with their customers. They may take the view that they have very little to gain from interacting with consultants whose qualifications and experience may be very similar to their own. It may be possible to resolve such attitudes by informing the dealership staff of the positive impact that coaching has had on Happicust's former clients, pointing out that independent observers may be able to make helpful recommendations. Happicust's approach to coaching relies on making repeat visits to dealerships and taking time to develop an understanding of issues that need to be addressed. Cuppcar's dealership staff should be reassured that there will be an opportunity to engage fully with consultants. It may also be possible to point out that having Happicust's consultants based at Cuppcar's Head Office will help them to understand the company's culture and to ensure that their approach to coaching is in line with the needs of dealership staff.

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MANAGEMENT CASE STUDY

NOVEMBER 2023 & FEBRUARY 2024

EXAM ANSWERS

Variant 3

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SECTION 1

Special edition

It could be argued that Barto Motors will be indifferent to the creation of this special edition because it will derive no real benefit from Cuppcar's sale of those cars. Manufacturers expect dealerships to accept cars in accordance with their needs and Cuppcar has already taken delivery of these. As far as Barto Motors is concerned, the cars were already "sold" when they were despatched to Cuppcar. If the special edition helps sell the remaining inventory of Hatch quickly, then there may be an indirect benefit to Barto Motors because Cuppcar will then be free to concentrate on the launch of Hatch 2. It may also discourage customers visiting Cuppcar's Barto Motors dealerships if there are old models for sale alongside the new.

The creation of an exciting special edition of Hatch may assist Barto Motors in terms of drawing attention to the forthcoming new model, which is essentially free publicity. Cuppcar will have to advertise the special edition in order to attract customers and will, hopefully, attract customers into its showrooms. Those customers may buy other models or place advance orders for Hatch 2, so there could be an indirect gain for Barto Motors. This new edition will be unique to Cuppcar and so it will give Barto Motors an insight into the company's understanding of its customer base and its ability to innovate.

Arguably, the creation and marketing of the special edition could be a distraction from the sale of other models of car, which could be contrary to aiming for the greatest possible sales volume. The promotion of the special edition will be short-lived and will cease once the 550 cars that Cuppcar has in inventory have been modified and sold. Having said that, the 550 cars cost Cuppcar W$14.85 million. If they are not sold soon, then their value will decline and Cuppcar will suffer a potentially serious loss.

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The use of high sales volumes to capture residual value does not necessarily mean that Cuppcar's management should concentrate on high volume to the exclusion of everything else.

The special edition cars themselves will provide Cuppcar with long-term workshop revenues, which is consistent with Cuppcar's business model. The revenues may be enhanced by the fact that the modifications may encourage customers to have their cars serviced by a Cuppcar dealership, who will be more familiar with the changes that were made to the original. The unique nature of the special edition may also encourage customers to keep them for longer and so provide workshops with long-term business.

Target costing

Target costing typically involves starting with a predetermined selling price that has been established on the basis of the entity's understanding of customers' willingness to pay. In this case, Cuppcar is faced with the challenge that the market for Hatch is in turmoil. Customers will be aware that a new Hatch will look outdated once Hatch 2 is launched. The intention behind the special edition is to attract customers by offering them the opportunity to buy an upgraded version of Hatch. Cuppcar will add value to the base model at its own expense. It may be difficult to estimate the impact that spending, say, W$7,000 on a paint scheme and improved wheels will have on customers' willingness to buy and whether that expenditure will return benefits in the form of increased sales. It may be more cost-effective to sell the base models as they stand and to discount their selling prices by the W$7,000 in order to sell the cars.

Target costing is generally about setting a target cost that will deliver a desired target profit. That is complicated in this case because Cuppcar is not setting a target profit for a product that will be sold in the long term. The intention is simply to maximise the net revenue from the disposal of Hatch. Relevant costs have to be considered. The 550 cars have already been purchased and so their unit cost of W$27,000 is not really relevant. The relevant cost could be viewed as the discounted selling price that can be obtained on the market, perhaps by observing the behaviour of rival Barto Motors dealerships. There could be similar issues with some of the upgrades to create the special edition because they may be designed to fit Hatch and will have a very limited market now that Hatch has gone out of production. The cost to Cuppcar of installing such parts will be restricted to the value of the workshop labour for fitting. It may also be preferable to negotiate individual upgrades with customers rather than committing to costly upgrades that may not be perceived as adding value. Sales executives could be authorised to offer upgrades that would cost up to, say, W$4,000 to make a sale.

SECTION 2

Responsibility centres

Under normal circumstances, dealership principals are responsible for maximising revenues from the selling prices of new cars and must accept the costs charged for the cars that they sell. Dealerships are required to accept the cars that are supplied by the manufacturers who provide their franchises, so they cannot necessarily manage profits by selecting models that are in greater demand or have higher margins. Cuppcar's Board may feel that holding dealership principals responsible for all losses on sales of new cars will motivate them to pay attention to their franchises and to respond to emerging issues. In this case, it may have been possible for Cuppcar's Barto Motors dealerships to have taken the lead in promoting sales of Hatch as soon as Hatch 2 was announced. Dealership principals may still have faced losses, but those losses could have been minimised, while freeing space for future deliveries of Hatch 2.

Given that Cuppcar has 214 dealerships and has franchises from 30 manufacturers, the launch of new models will be a relatively common event. New models may involve relatively minor changes, such as redesigned lights or new paint colours, but they will still leave dealerships holding cars in the old style. If Cuppcar relieves dealership principals of the pressure to sell outdated models at a profit, then it might set a very dangerous precedent, with excessive discounts against manufacturer's recommended retail price. Margins on new cars are slender at the best of times, so dealership principals should recognise that they are always under pressure to maintain sales volumes and that may require a particular focus on less popular cars. The new models should stimulate sales to keen customers who wish to own the latest model and so profits on those sales may be viewed as offsetting losses on the older versions.

Monthly management accounts for Barto Motors dealerships could reflect the revenues and costs associated with Hatch that are sold during the month as separate line items. That would not necessarily relieve dealership principals of the responsibility for any losses, but it would recognise that these cars are unlikely to be sold at a profit. Any such separation in reporting could be restricted to, say, the next 3 months, so that dealership principals have some incentive to sell the cars as quickly as possible. It should be borne in mind that dealership principals are in overall charge of their dealerships' operations and so selling these cars quickly will boost their performance ratings in other ways. For example, allowing the cars to remain unsold will slow down inventory turnover, which should reflect badly on the dealership principals.

Effective teams

The starting point will be to create a team structure that will benefit sales executives who join the team and who are active participants in achieving its goals. That will be necessary because sales executives are rewarded on the basis of their personal sales volumes and average gross profits. Individual sales executives may choose to actively discourage customers from buying Hatch at a discount if they could earn a larger bonus on a non-discounted model.

One possibility would be create a sales team that will sell Hatch. The team will be given specific targets, such as the number of Hatch that should be sold each month and the maximum discount that should be given from the manufacturer's recommended retail price. Team members should be rewarded for their successful participation and the rewards should be set at levels that ensure that selling Hatch is potentially better paid than selling other models.

Membership of the Hatch team should be open to all dealership sales executives so that none need feel excluded. Team members should, however, specifically opt in and those who do should commit themselves to active participation. Sales executives who choose not to participate should still be permitted to sell Hatch, but they should do so on the basis that they receive their regular bonus based on sales volume and average gross profit. A team leader should be appointed so that there is a designated point of contact between the sales team and other departments in the dealership. The team leader should convene regular team meetings, with a view to encouraging team members to develop plans and to share ideas that have proved successful. Bonuses should be awarded to the team as a whole, with individuals' shares of the total being based on the number of Hatch that they sell. Doing so will give team members an incentive to maximise the team's profits and also to compete to sell as many Hatch as possible on an individual basis.

SECTION 3

Transfer prices

Cuppcar's Barto Motors dealerships have surplus capacity in terms of inventory of Hatch. That usually implies a transfer price equal to the marginal cost. Some dealerships pay more than W$29,500 for a courtesy car and so there may be a willingness to agree internal trade on at least some of these cars. It may be difficult for dealerships to agree on the determination of marginal cost. Barto Motors dealerships paid W$27,000, but it could be argued that the opportunity cost is only W$26,000 if that is the discounted price set by a major rival. If selling dealerships accept that argument, then buying dealerships may argue that rivals such as Milltro Motors may not be able to sell their cars for that amount. The opportunity cost of selling Hatch as courtesy cars may be even less than W$26,000.

There is a further complication arising from the fact that dealerships generally use their own franchised brand of car as courtesy cars. They may be willing to buy Hatch in order to save on cost, but the savings may have to be significant to make it worthwhile. Dealerships may be reluctant to risk giving their customers the impression that Barto Motors cars are in any way better value or otherwise superior to their own brand. The dealerships that have the highest potential savings are the ones that are trading in expensive luxury cars, and they may be reluctant to risk annoying customers by lending them an inferior brand as a courtesy car. There is the further issue that some dealerships may lose sales incentives if they buy Hatch instead of their own brand of car as a courtesy car.

Even if there is a transfer price at which mutually advantageous trades might be made, there is the problem of the buying dealerships wishing to take advantage of the difficult position that the selling dealerships find themselves in. Barto Motors dealerships have a large inventory of cars that must be sold as a matter of some urgency. The other dealerships will need to replace their courtesy cars in due course, but they are unlikely to be under any great pressure to do so. Buyers may decide that there is no need to offer the optimal transfer price because sellers may be forced to accept even less. The fact that buyers will be buying several cars at once will make it even more pressing to accept lowball offers.

Suitability of debt

The most immediate advantage of debt is that it can be relatively quick to arrange a loan, compared to the time taken to organise a share issue. If the finance is required to fund an increase in working capital, then speed is of the essence. Cuppcar has tangible assets of W$2,473.6 million and existing loans of W$650 million, leaving W$1,823.6 million as potential security for further borrowing. Cuppcar's gearing is 650/(2,238.5+650) = 22.5%, which is not particularly high. Borrowing W$14 million will increase gearing to (650+14)/(2,238.5+650+14) = 22.9%, which is a very small increase. Most lenders would be willing to regard such a loan as relatively low risk and so the application should be expedited.

Debt is cheaper than equity, particularly after taking the tax relief on interest into account and so this should be an economical way to address the problems with working capital. Debt is also more flexible because term loans can be taken out with agreed repayment terms or with some flexibility as to when the loan can be repaid. The fact that the loan is required to meet problems with cash flow suggests that the need for this finance will only be temporary. In time, the inventory of Hatch will be sold, or the cars will replace courtesy cars that would otherwise have been purchased for cash and so Cuppcar's working capital will be restored. Repaying debt means that Cuppcar is no longer bearing the interest charges and so the cost of bridging the gap in cash flows is reduced even further.

SECTION 4

Predicting cash flows

The most immediate concern is the cost of preparing the cars to meet WMA's conditions. Repainting an entire car is a major task that requires the use of a spray booth and a skilled technician. Each of Cuppcar's dealerships has a booth, but there will be a potential opportunity cost to using the company's facilities to spray 500 cars. The fact that the cars will be leased as a fleet means that the work will have to be done to a high standard to ensure a uniform finish, which will add to the time required in preparation and painting. It may be necessary for Cuppcar to subcontract that work in order to ensure that the cars are ready for delivery by the agreed date and it may be difficult to predict how much that will cost at this early stage in negotiating the contract. There is a similar problem with regard to fitting the safety beacons to the 500 cars. If Cuppcar's focus is on preparing cars for sale to retail customers, then its workshops may have little experience of such modifications and it will be difficult to predict the time and cost involved.

The lease agreement commits Cuppcar to accepting the return of 500 cars after 3 years or 160,000 kilometres, whichever is sooner. It is unlikely that Cuppcar will be able to sell any of these cars because of the significant wear and tear that they will suffer in use by WMA. They will also have to be repainted to cover the WMA colours and graphics and have their orange lights removed. Cuppcar will have to comply with all regulations relating to the responsible disposal of scrap cars, the cost of which may be significant. The rules could change over the next 3 years and so the cost could increase substantially in that time.

Lessor

The accounting treatment will fall under the requirements of IFRS 16 *Leases.* Cuppcar will be the lessor because it is providing the right to use a fleet of cars to WMA, the lessee. This will be a finance lease because the cars are effectively being made available to the lessee for the whole of their useful lives**.** The cars will be returned to Cuppcar for disposal at the end of 3 years or when they reach 160,000 kilometres, suggesting that they will have little or no value at that time. The lease payments will continue, even after the cars reach 160,000 and are returned to Cuppcar.

Cuppcar will no longer account for the cars as assets. The value currently under inventory will be replaced with the "net investment in the lease". That will essentially be the present value of the future lease payments, discounted at the interest rate implicit in the lease. In this case, the interest rate implicit in the lease will be the market rate of interest that would be charged to WMA, allowing for the nature of the entity and the security arising from the fact that Cuppcar will remain the legal owner of the cars. The present value will be recognised as a financial asset in Cuppcar's statement of financial position. Each year, that asset will unwind, with interest being added to the asset, based on the interest rate implicit in the lease, and the lessee's cash payment being deducted from it.

At the commencement of the lease, Cuppcar will have to determine the profit on the lease, which will be recognised in the statement of profit or loss. The revenue from this sale will be based on the lower of the fair value of the vans, allowing for the cost of the paint scheme and beacons, and the present value of the lease payments. The cost of sale will be the cost of the vans to Cuppcar, including the cost of painting them and fitting the beacons. The difference between revenue and cost will appear in Cuppcar's statement of profit or loss. The statement of profit or loss will also include the finance charge based on the net investment in the lease and the interest rate implicit in the lease.

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MANAGEMENT CASE STUDY

NOVEMBER 2023 & FEBRUARY 2024

EXAM ANSWERS

Variant 4

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SECTION 1

Pricing

Cuppcar could start by setting prices that are consistent with those charged by car manufacturers for their service plans. Cuppcar plans to offer enhancements, such as the collection and return of cars, but they may add little perceived value to customers. Cuppcar may offer additional convenience in the form of being able to have a car serviced at any dealership. That may benefit customers whose cars have a limited dealership network in Welland because they will be able to use their closest Cuppcar dealership as an alternative. Customers may, however, prefer to have their cars serviced by their model's franchised dealership in order to be sure that workshop staff are trained to maintain their model and have access to the manufacturer's recommended parts and consumables. It is unlikely that Cuppcar will be able to sell its own service plan at a price that exceeds the prices charged by its manufacturers.

Cuppcar can draw upon data from past experience of selling manufacturers' service plans and of monitoring the number of customers who bring their cars back to a Cuppcar dealership for service. If Cuppcar is already selling large numbers of manufacturers' service plans, and if many of the customers who buy those are returning to Cuppcar dealerships for service, then there may be no real need to compete directly. In that case, Cuppcar will receive a 5% commission from manufacturers when the plan is sold and will also benefit from the charges made for servicing. In that case, it might be logical for Cuppcar to charge more than manufacturers for its service plan. Some customers may be prepared to pay the additional cost because of the collection service. Cuppcar may also stimulate additional sales of manufacturers' service plans by making them seem like good value because they are cheaper than Cuppcar's.

Pricing is complicated by the fact that it is not clear what real benefit customers obtain from buying a service plan. They are paying the full price of 3 years' services, possibly in a single lump sum. They are prepared to pay this amount, regardless of the fact that

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they receive no interest on the cash deposited in the plan. The only real benefit is that they are not exposed to price rises if the cost of servicing increases because of rising prices for parts or workshop labour. Cuppcar should consult with its dealership business managers to establish whether they frequently receive feedback from customers that they do not believe that manufacturers' service plans offer value for money. In that case, Cuppcar could set a lower price for its own scheme so that customers are prepared to pay. Apart from earning interest on customers' prepayments, the scheme will guarantee that participating customers have their cars serviced at a Cuppcar dealership.

Accounting for service plan

The scheme should be accounted for in accordance with the requirements of IFRS 15 *Revenue from contracts with customers*. This is applicable because there is a clearly defined contract in which the respective rights and obligations of the parties can be identified and Cuppcar is certain of payment because it will be paid in advance.

The transaction price will be the lump sum charged for the plan, or the total value of the 36 instalments, which will presumably be the same in line with industry practice. There is no financing element to the instalment option because the price is the same and the customer is paying in full and in advance for each year's service.

The contract commits Cuppcar to providing three annual services and each of those represents a separate performance obligation. The prices for services vary from year to year, so the transaction price can be allocated to different years on the basis of the normal retail price of each year's service.

Cuppcar cannot recognise revenue until services have been completed. The statement of profit or loss will carry the revenue from the services conducted under the service plan. Cuppcar will also recognise the costs incurred for those services in the same accounting period.

Cuppcar will have a liability in respect of advance payments received from customers. That liability will be debited with the revenue earned as services are provided and performance obligations are met.

SECTION 2

Business risks

Business managers are used to working for a bonus. Cuppcar has considerable experience of rewarding its business managers in this manner and is aware of the impact that it has on dealings with customers. Business managers were already incentivised to sell manufacturers' service plans before this new development and that does not appear to have led to customer complaints. It could be argued that increasing the bonus on the sale of the Cuppcar Service Plan reduced the pressure on business managers because they can earn an acceptable bonus from a smaller number of sales, compared to selling manufacturers' plans. Perhaps the imposition of a further bonus for hitting sales targets for the Cuppcar Service Plan could put business managers under some pressure if they were at risk of missing their targets. It could have been safer to have offered a simpler, bonus-based, incentive scheme in the first instance.

There was always a risk that this incentive would adversely affect Cuppcar's relationships with its manufacturers, who would prefer not to compete with dealerships for sales of these plans. Manufacturers' service plans deliver positive cash flows and may also yield useful information about the manner in which their cars are being used. There is a risk that manufacturers will resent any attempt by dealership business managers to persuade customers to buy an alternative service plan and so any negative customer feedback may be exaggerated. Business managers will always have had to offer some argument to persuade customers to buy the Cuppcar plan in preference to the manufacturers' plans that customers are used to. It was always necessary for Cuppcar to accept a small risk of undermining relationships with manufacturers if it was to sell a competing product.

Performance measures

It would be sensible to combine targets and to rationalise bonuses for the sale of both Cuppcar and a manufacturers' service plans to customers, so that there is no net incentive to sell Cuppcar's plan rather than a manufacturer's. Business managers would then be free to explain the features of the two service plans offered by their dealerships in a relatively objective manner, without being under any pressure to exaggerate the benefits of the Cuppcar plan. Cuppcar benefits from the sale of either type of plan, so it may be preferable to allow customers to make an informed choice on the basis of the facts. That will reduce the risk of damaging relationships with manufacturers. Care will have to be taken so that any restructuring of bonuses and targets does not necessarily penalise business managers in comparing the new scheme to the previous one. Business managers may be demotivated if Cuppcar reduces bonuses on the Cuppcar plan without an offsetting increase in the bonus on manufacturers' plans.

It may be preferable to replace the bonus for achieving sales targets with an increased bonus paid on all sales of service plans. Bonuses based on sales targets benefit Cuppcar by reducing the risk that business managers will be less inclined to push for sales once they have earned an "acceptable" bonus. The problem is that as the cut-off date for the sales target approaches, business managers who have not yet achieved their target will be under increasing pressure to make sales. Customers who do not wish to buy a service plan during that period may be subjected to significant pressure to change their minds which could lead to negative feedback, even if they subsequently agree. Cuppcar's approach to the appraisal of business managers should recognise that customers have just negotiated the purchase of a car and may find interaction with business managers quite daunting.

All customer-facing dealership staff, including business managers, should be evaluated on the basis of overall customer satisfaction. Negative responses should be reviewed carefully to establish why the customer was unhappy with the experience of buying a car from Cuppcar. If problems cannot be identified from questionnaires, then the dealership should have a designated member of senior staff make direct contact with the customer. Business managers and sales executives whose customers have expressed negative feedback should be asked to comment and explain how such a problem could have arisen. It would also be appropriate to reduce bonus payments to staff who have risked upsetting customers in order to inflate their own rewards at Cuppcar's expense.

SECTION 3

Quality circles

In this context, quality circles could comprise a group of workshop staff, including mechanics and service advisers, who will meet on an ongoing basis to offer senior management advice on the safe and efficient operation of workshops. Dealerships will require technical advice from workshop staff on the issues associated with maintaining quality and ensuring that there is sufficient capacity. Customers will be particularly unhappy if they pay for servicing in advance through a service plan and receive a substandard service that could put them at risk of an accident. For example, the workshop staff will be able to recommend whether there is a need for additional test equipment and, if so, how many staff would require to be trained to make use of it. Each dealership should have its own quality circle to allow for the specific issues associated with servicing the franchised manufacturer's cars and the local issues, such as room for expansion within the existing workshop.

Typically, quality circles consist of volunteers who would be expected to meet on a regular basis to discuss work-related problems. This expansion will affect workshop staff, so it is reasonable to expect volunteers to come forward to participate. In this case, it would be logical to brief each dealership's quality circle on the broad issues that must be established before staff are recruited and equipment is ordered. It is important for the dealership to know, for example, whether the existing facilities for testing brakes and steering would have sufficient capacity to meet the increased demand. The dealership should ensure that the quality circle has a clear remit that is within the areas of expertise of the members. For example, the quality circle might recommend the number of additional work bays that are required in the workshop, but budgeting for the costs of equipping those bays should be left to dealership management. The quality circle should be given a relatively open-ended remit in case there could be alternative solutions to expanding the workshop itself. A limited amount of shift work, for example, might enable more staff to be employed in the same space.

Debt and equity

Debt is generally cheaper than equity because lenders' interests are generally protected by rights that come into force if payments of interest or repayments of principal are not made on time. Lenders are usually protected by security over the borrower's assets. In the case of Cuppcar, the company has tangible assets with a book value of W$2,473.6 million and loans of W$650 million. That implies that there are plenty of assets against which to secure existing loans. Increasing both assets and loans by a further W$600 million should not create any serious issues. That assumes that the nature of the business and of its assets would not adversely affect the value of its assets in the event of a problem. Lenders could be concerned that the value of Cuppcar's assets could decline in the event of setbacks affecting the motor industry. The new assets being purchased will be of a specialised nature and so their market value may be substantially less than their cost price in the event that Cuppcar is wound up.

Loan interest is an expense for tax purposes, which further reduces the cost of debt. At present, Cuppcar's operating profit is more than 14 times its finance costs, so there is plenty of taxable profit against which to offset the interest on a further W$600 million of debt.

Equity is generally more expensive than debt because lenders are exposed to all of the risks associated with the business. They expect to be rewarded for taking those risks. Cuppcar's shareholders will expect a return in the form of enhanced dividends if they invest in additional equity. The share price will decrease if the company does not deliver that return. Cuppcar's Board may be prepared to rise to the challenge associated with issuing additional equity because the company has been successful in selling the Cuppcar Service Plan, which is expected to enhance revenues from parts and servicing. Financing the expansion in the workshop using equity will ensure that the additional profit goes to the shareholders in the form of dividends and retained profits, rather than going to lenders in the form of additional interest payments.

Cuppcar is a quoted company, which makes it reasonably practical to raise a large sum such as the W$600 million required for the expansion. The company could offer the shareholders a rights issue, which would be the simplest way to raise the additional equity.

Cuppcar should also consider the impact of equity on key ratios. At present, the company's gearing ratio is 650.0/ (650.0+2,238.5) = 23%, which is not excessive. Borrowing will increase gearing to (650.0+600.0)/ (650.0+600+2,238.5) = 36%, which is a significant increase. Using equity will reduce gearing to 650.0/ (650.0+2,238.5+600) = 19%, which would leave scope for further borrowing in response to any further needs for finance.

SECTION 4

Dysfunctional behaviour

It is impossible to supervise car sales executives when they are negotiating with customers on a one-to-one basis. If a sales contract shows that the customer has specified an upgrade, then that is hardly evidence that the sales executive has offered a convincing argument against the purchase of a service plan. Customers would not necessarily be truthful in telling business managers why they do not wish to buy a plan; they may simply want to prevent a prolonged discussion about a product that they are not interested in.

It may not be dysfunctional behaviour for a sales executive to persuade a customer to pay more for upgrades or accessories rather than buying a service plan. Persuading customers to spend more on their cars will benefit Cuppcar because of the additional revenue from the sale, but it need not necessarily cost the business manager the opportunity to sell a service plan. In Valerie's example, the car sales executive used that argument to increase the sale by W$600, which is not a substantial amount in the context of buying a new car. The business manager now has the opportunity to make a further sale of W$600 for a Cuppcar Service Plan by persuading the customer of the benefits that the plan offers. Even if the business manager fails, it should be borne in mind that many customers will see very little benefit to paying in advance for servicing costs that will be incurred over the next 3 years.

One possibility would be to combine the roles of car sales executives and business managers, so that there were fewer opportunities for dysfunctional behaviour. Business managers are required to have an understanding of the finance schemes that Cuppcar promotes and the service plans that it sells. It would not be difficult for sales executives to learn about those products. Sales executives must develop a rapport with customers in the course of negotiating the sale of a car and so they may already be well placed to sell service plans in addition. Cuppcar's present approach requires the sales executive to pass the customer over to a business manager after completing what could have been a prolonged negotiation and so it could cost sales.

An alternative would be to create a supplementary bonus for car financing packages and service plans, which would be payable to car sales executives in the event that the business manager makes a sale. The supplementary bonus would be paid in the expectation that sales executives will find subtle ways to prepare customers for their meetings with business managers. For example, a sales executive might argue that the model of car that a customer is interested in will be maintained to a very high standard by the dealership's workshop and that it is possible to buy a service plan that will ensure that servicing is carried out properly.

Effective teams

One technique would be to require each dealership to have a monthly management meeting, to be chaired by the dealership principal and attended by all department heads. The meetings themselves will create an opportunity for managers to communicate and to develop a response to any concerns that affect the dealership overall. The meetings should be minuted and a copy of each meeting's minutes should be submitted to the Chief Operating Officer (COO) for review. Managers from the COO's staff should review the minutes and should inform him if any of the discussion implies that there is conflict between departments at a particular dealership. Concerns should be communicated to the dealership principal, who should be required to comment on the matters raised and explain how they will be addressed.

Each dealership should prepare monthly management accounts for submission to the Finance Director. The management accounts should break performance down by department and should add non-financial data, such as staff losses and average customer feedback scores. The dealership principal should comment on key ratios and variances between actual and budgeted figures. Managers from the Finance Director's staff should review the management accounts, both in terms of the dealership's overall performance and the performances of individual departments. Reviewers should consider the possibility that one department is operating strongly at the expense of others. For example, if the workshop has excellent performance but used cars profit is weak, then perhaps the workshop is overcharging when preparing used cars for sale.

MANAGEMENT CASE STUDY

NOVEMBER 2023 & FEBRUARY 2024

EXAM ANSWERS

Variant 5

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SECTION 1

Reporting challenges

The most immediate challenge is that Cuppcar buys replacement parts from wholesalers in good faith. It does not know how many customers' cars have been serviced using counterfeit parts. Even if that figure can be estimated, counterfeit parts are not necessarily dangerous. Some parts are not critical to safety. Some counterfeits could be as good as, or better than, genuine parts. Nevertheless, Cuppcar could face significant costs associated with claims that customers' cars have been involved in accidents because dangerous parts were fitted before the year end. It may take some time for any such accidents to occur, which could lead to significant costs being excluded from the financial statements.

Cuppcar could deal with this problem through the application of IAS 37 *Provisions, contingent liabilities and contingent assets*. The IAS defines contingent liabilities in terms that allow for an inability to confirm the existence of an obligation at the reporting date and allows for the possibility that the obligation cannot be measured reliably. IAS 37 requires contingent liabilities to be disclosed by note, with no need to quantify the potential loss if it is not possible to do so. Reporting the possibility of accidents under the heading of contingent liabilities would alert shareholders to the possibility of claims and the possible uncertainty associated with the costs of settling any claims.

There is a further challenge associated with the valuation of the closing inventory of parts. The increasing attention that is being paid to concerns about counterfeits could lead to parts that have been included in closing inventory at cost being rejected after the year-end because they have been identified as counterfeit. Any such adjustment could lead to concerns that the cost of revenues from servicing has been understated and the value of inventory in the statement of financial position has been overstated. Clearly, the fact that counterfeits are difficult to identify means that it might not be practical to identify all problem items during the inventory count at the year-end.

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Cuppcar could adjust closing inventory by creating a provision for inventory losses under the terms of IAS 37. The IAS requires that Cuppcar can reach a reliable estimate of the future losses associated with disposing of counterfeit parts. If the Board is confident that its estimates of such losses are realistic, then the fact that they are unlikely to be fully accurate is not a problem. Creating such a provision and disclosing it as such will ensure that shareholders are aware of the possibility that the estimates may be inaccurate.

Product reputation and operational risks

If Cuppcar is found to be fitting counterfeit parts, then customers may be reluctant to trust the company for any future servicing work. Customers may be concerned that the use of fake parts has put their safety at risk. There is also a concern that a defective part could damage the car and shorten its life expectancy. If Cuppcar has a reputation for using counterfeit parts, then the resale value of customers' cars could be threatened because potential buyers could regard them as unsafe or unreliable. Servicing is an important source of profit for Cuppcar. The company is willing to accept small profits from the sale of new cars in order to have the opportunity of attracting customers to its workshops for servicing. Customers are not, however, required to return to their original dealership when their cars are due for an annual service. There is nothing to prevent them from using a rival dealership.

Operational risks arise from the possibility that business processes may fail. In this case, there is a risk that dealerships may order goods and be supplied with counterfeits instead of genuine products. Cuppcar will specify the items that it requires when placing orders and will check incoming parts against delivery notes and invoices. Those processes will not be effective if a supplier supplied counterfeit goods. Workshop staff should also check that they are fitting the correct parts when they service a customers' car, but it appears that counterfeits can often be convincing copies of genuine parts. It may be possible to identify wholesalers who can confirm the provenance of the parts that they sell, which would reduce operational risks, but might increase purchase prices. Alternatively, Cuppcar may have to accept the risk of fitting counterfeit parts, which could lead to serious consequences in the event that they lead to an accident.

SECTION 2

Business intelligence system (BIS)

The BIS could be used to look for patterns that might be helpful in identifying potential problems with brake pads. It should be possible to conduct a data mining exercise that identifies the sources of the brake pads that have been found to be defective. That could involve analysing the cases in which undue wear on brake pads has been discovered, breaking that down by make and model of car and the dealerships whose customers have been affected. It would also be possible to use this software to search through purchase invoices for parts, with a view to identifying suppliers who sold that particular make and model of brake pads to Cuppcar. Such an analysis will, hopefully, enable Cuppcar to identify the dealerships that have received potentially defective brake pads in order to create a list of customers whose cars might be at risk. The BIS may be able to restrict the list of customers whose cars are at risk if it can be demonstrated that, say, only two models of brake pad, as supplied by one specific wholesaler, can be associated with the cases of excessive brake wear.

The BIS can be used to extend the analysis to include unstructured past data that might give a better insight into the problem. It should be possible to analyse files of customer complaints to identify any relating to concerns about servicing and subsequent brake failure. The BIS could also be used to identify all cases in, say, the past 5 years in which a customer's car has required replacement brake pads in 2 successive years. Extending the analysis in this way will reduce the risk of overlooking problems that may not have been noticed by workshop staff or service advisers. It may also help Cuppcar to identify particular suppliers whose brake pads have been associated with concerns about quality and reliability, enabling Cuppcar to consider switching to more reliable sources.

Organising recall

The first step is to appoint a project team who will be responsible for the implementation of the project. The team members should probably be drawn from head office staff, which will make it easier for them to communicate and to hold meetings as required. The team will require members with experience of workshop operations. It is important to understand the work that is involved in receiving a car into a dealership workshop and to inspect its brake pads for wear. The team will also require input from IT. The BIS may already have been used to identify the cars that must be recalled, but it is important to be able to specify further data mining exercises as required and to carry those out quickly. The team will also require input from marketing, if only to ensure that the message that is being communicated to customers is clear and effective, with the least possible damage to Cuppcar's reputation. The team should be given specific objectives, including a deadline for the commencement of the recall and a further deadline for the completion of the work.

Cuppcar should announce the fact that a recall is underway and that customers should await further instructions as to when they will be asked to bring their cars in for inspection. It will be far more efficient to issue customers with invitations so that workshop time can be used as efficiently as possible and also to prevent reception staff being swamped by customers ringing for appointments. The recall should prioritise cars that have not been serviced for close to a year because those are the cars at greatest risk in the event of excessive wear. It may be possible to arrange that some cars could have their annual service completed during this visit so that inconvenience for customers is minimised. The recall notice should also provide information on the ways in which customers can tell whether their brakes are at serious risk of failure, in which case they should seek the advice of a qualified mechanic.

The Board should set priorities for the project team, taking account of cost and reputational factors. It is unlikely that dealership workshops will have a great deal of spare capacity and so it may take quite some time to complete the recall, unless routine servicing work is postponed. It may be possible to compromise by paying overtime so that existing bookings can be honoured without unduly delaying inspections of the brake pads. Dealerships will also have to identify reliable sources of good quality brake pads to ensure that they have sufficient replacements on hand to ensure that cars can be returned with their brakes repaired if necessary. The Board could also consider whether it would be preferable to replace the brake pads on all recalled cars so that customers can be reassured that their brakes are safe.

SECTION 3

Charging dealerships

Making dealerships bear the cost will provide a clear incentive to take greater care over the selection of reliable suppliers in the future. The fact that the problem with counterfeits has been restricted to only some of the dealerships suggests that the problem could have been avoidable. It may be that some buyers have been cutting corners by buying parts from cheaper wholesalers without taking care to check the provenance of those parts and so holding their dealerships responsible for the costs will encourage them to take greater care in the future. It is also likely that making these dealerships bear the price of the recall will send a very clear message to Cuppcar's other dealerships to motivate them on purchasing and checking inventory.

Holding dealerships responsible for the costs of their recalls will simplify the preparation of internal management accounts. It would be difficult to identify all costs that are directly attributable to the recall and so leaving costs unadjusted will avoid time being wasted on debates about what is appropriate. For example, paying overtime to enable workshop staff to avoid cancelling scheduled service appointments might be disputed as part of the cost of the recall. Leaving all costs in place will also ensure that somebody is held accountable for the costs, which can still be controlled by dealership staff to some degree.

Holding dealerships responsible for these costs may discourage dealership staff, especially if the costs of the recall are significant in comparison to regular activities. It could be argued that the buyer is the only member of the dealership staff who is directly responsible for the need to recall cars and replace parts. It is, however, debatable whether staff will regard this as a significant issue. Sales executives and business managers receive bonuses based on car sales and associated financing and service plan products. The dealership's profit will appear depressed for the duration of the recall and then it should recover, remedying any ongoing concerns.

Dealership principals may be demotivated because of the impact on their reputations within Cuppcar. Their performance-related rewards may also be adversely affected because their dealership profits will be depressed. Cuppcar may be willing to allow dealership principals to bear such costs because it should give them clear incentives to take greater care over supervision of staff and the close scrutiny of performance figures in the future.

Debt

Debt is generally quite a flexible form of finance, which could make it ideal for Cuppcar's present predicament. It should be possible to arrange a loan quite quickly, which is helpful, given that Cuppcar wishes to finance cash flows, which have been adversely affected in the short term. Cuppcar already has an ongoing relationship with lenders, who have advanced W$650 million, a balance that has been outstanding since at least 31 December 2021. If Cuppcar has been responsible in servicing that debt, it should not be particularly difficult to raise a further W$50 million, an increase of less than 8%. The fact that the cash is required to deal with the short-term problem of the recall suggests that Cuppcar should be able to offer a credible forecast that will indicate when the cash flows return to normal.

Taking out a loan will have very little impact on Cuppcar's long-term finances. Gearing will increase from 650.0/ (2,238.5+650.0) = 23% to (650.0+50.0)/ (2,238.5+650.0+50.0) = 24%, which is hardly a significant increase. Such a small loan would have no impact on the cost of debt or on Cuppcar's ability to borrow in the future. Hopefully, the loan can be repaid in the near future and so the interest will only have to be paid into the short-term future.

The fact that the cost of debt is generally quite low is a further benefit, particularly when the interest is tax deductible. The alternative of issuing share capital could be quite expensive when issue costs are taken into account.

SECTION 4

Negotiation

It is important to have a clear objective for any negotiations with other car dealers, bearing in mind that they are rivals. This is a situation in which there should be the possibility of a win-win outcome for all car dealers, if a way can be found to deal with the problem of counterfeit parts.

The car dealers will have to identify an approach that allows for mutual trust within the motor industry. There will always be a risk of potentially dysfunctional behaviour if one or more of the dealers seeks some advantage over the others. For example, it would be undesirable for, say, Milltro Motors to strengthen its relationship with part manufacturers so that it could guarantee the authenticity of its parts while rival dealers could not.

The dealers could create a framework that would allow for transparency in all dealings with part manufacturers. It would be sensible to establish a steering committee that could include representatives from all of the major dealers and all communications with manufacturers could be through that committee. Such a structure would make it easier for dealers to agree to sharing costs and developing standards that are appropriate to the industry as a whole.

Negotiations between dealers and manufacturers are complicated by the fact that they are affected by the problem of counterfeits in different ways. Car dealers are at risk of a potential reputational loss or financial penalty if they unwittingly fit poor quality counterfeit parts to customers' cars. Manufacturers will definitely suffer an opportunity cost from the loss of sales to manufacturers of counterfeit goods. The differences in risk may affect the respective willingness of dealers and manufacturers to incur costs in combatting forgery. Dealers may feel that they have less to lose in many cases and so they may argue that manufacturers should bear most of the cost.

Given their respective areas of expertise, it seems logical for the manufacturers to take the lead in terms of suggesting ways to make it easier to identify counterfeits and for dealers to respond with opinions based on practicality and cost. Dealers should insist that manufacturers develop a consistent standard that can be applied to all parts, which would require dealers to adopt only one technology in the identification of genuine parts. Manufacturers need to establish a realistic compromise in terms of the reliability of this technology and the impact that it will have on dealers' costs and on operations.

Pricing

The proposal that is being made here is for part manufacturers to introduce a new technology that will enable dealers to be sure that they are using only genuine parts. The cost of parts will increase across the motor trade as a whole because counterfeiters will no longer be able to undercut manufacturers on price and the cost of the technology will be passed on. Cuppcar's rivals will be affected in exactly the same way, so it is to be hoped that all dealers will start to charge more for parts in line with the industry-wide changes. Car dealerships rely heavily on profits from workshop activities in order to remain viable and so they may find it necessary to pass on increased costs of parts in order to maintain their profitability. It is debatable whether Cuppcar will benefit from undercutting rival dealers on price by bearing the cost of any increase in the cost of parts because it will eat into its overall profitability.

Cuppcar will have to be careful in passing on price increases because a large increase could remind customers that it has been guilty of fitting cheap counterfeits in the past. It might be preferable to increase prices steadily in the short to medium term so that customers do not see the full extent of the previous problem. In time, customers may be reassured that the additional cost is a sign that Cuppcar is increasing prices in order to be able to afford high-quality parts that are guaranteed genuine. Manufacturers could be persuaded to publicise the new imprinting technology and the need for dealers to pay more because of this cost. It could be argued that the alternative would be to ignore the problem of counterfeit parts, with the associated risks for road users and car owners.

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MANAGEMENT CASE STUDY

NOVEMBER 2023 & FEBRUARY 2024

EXAM ANSWERS

Variant 6

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SECTION 1

Losses on trade-ins

It could be argued that offering a generous trade-in valuation is part of offering customers a positive experience. A small overpayment may reassure customers that they are receiving value for money from the transaction. Customers may have had generous offers for their old cars from rival dealers and may be concerned that they are being underpaid unless Cuppcar offers more.

Cuppcar needs to sell as many new cars as possible in order to maximise manufacturers' sales incentives and build a strong customer base for sales of parts and servicing. It can make economic sense to accept a loss on the sale of a new car if the company is in danger of failing to achieve a manufacturer's sales target because a few additional sales may be sufficient to earn a large bonus. In that case, it makes more sense to accept a loss from overpaying for the trade-in because offering a customer a discount on a new car's manufacturer's recommended retail price may create a negative image of a dealership that is in difficulty.

It should be possible for Cuppcar's sales advisers and business managers to create a positive customer experience without compromising the commercial viability of the company. If Cuppcar accepts too many loss-making transactions, then the business may start to struggle to earn a profit and, in the longer term, staff may come under pressure to pressurise customers into accepting deals.

The business plan focusses on the importance of volume from new cars, but it could be argued that the plan itself ignores the importance of volumes from used cars. Cuppcar earns 35% of its revenue and 17% of its gross profit from the sale of used cars, making this slightly more profitable than the sale of new cars. Overpaying for trade-ins could put used car sales executives under pressure to overcharge customers or to steer customers away from "expensive" trade-ins towards bought-in used cars.

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Business process re-engineering

The starting point would be the identification of the process that is in need for redesign and the aspects that are in need of improvement. In this case, there is a lack of trust between new car and used car sales executives over the valuations of trade-ins. The valuation process is subjective and the need for judgement creates the potential for abuse. New car sales executives can benefit from overpaying for trade-ins and, in the process, can create problems for colleagues responsible for used car sales. Ideally, the valuation process should be redesigned so that trade-ins are purchased at prices that reflect their condition, with an upper limit set at each car's wholesale value. Such a redesign would enable used car sales executives to resell trade-ins at a break-even in the worst possible case (if they are resold to a car dealer) or at a profit (if they are resold to retail customers).

The valuation process involves inputting variables into a model that is based on historical data. Some of those variables are objective and can, presumably, continue to be used as they stand. For example, the make, model, mileage and age of a car are all matters of fact and there are industry statistics that reflect the impact of those variables on the car's wholesale and retail values. The concern is that variables such as the mechanical condition and the condition of bodywork are far more subjective, but they seem to have a material effect on valuation. It may be possible to develop objective measures to replace subjective classifications, in the interest of reducing scope for manipulation. For example, bodywork could be classified by inputting the number of body panels in need of repair. Mechanical conditions could be dealt with by having a mechanic conduct a quick inspection and estimating the cost of any repairs that are needed. It should be a relatively simple matter to adapt any software that is currently used to value trade-ins. The software will continue to rely on industry data, but factors such as the number of damaged panels will be used to classify subjective matters such as bodywork.

It would be possible to test this approach at the outset by using the redesigned variables to evaluate a number of trade-ins that are still in inventory. Used car sales executives should review the record of the valuation conducted by the new car sales executive who accepted the trade-in. They should indicate whether the valuation was realistic. The same car should then be revalued using the more objective variables, such as the number of scratched or dented body panels. The impact on the valuation determined by the model should be noted. Both new car and used car sales executives should be asked to comment on the results of this exercise. The focus should be on whether the redesigned inputs would produce a more consistent valuation. If the test indicates that new car sales executives have been overvaluing trade-ins, then dealership principals should be asked to comment on whether paying less for trade-ins would be in their dealerships' commercial interest.

SECTION 2

Pricing

The lack of comparability could be exploited by deliberately setting selling prices that slightly exceed those set by rival dealers for similar cars of the same make and model. Customers might perceive the high prices as confirmation that Cuppcar's used cars are of good quality and so may be better value than cheaper cars sold by rival dealers. The lack of direct comparability may also make it difficult for customers to tell just how much of a premium they are paying for a purchase from Cuppcar.

Cuppcar has luxury car dealerships, including two for Limmolux. That will provide it with trade-ins from luxury brands that may be quite scarce. That scarcity may make it even easier for the company to set high prices for second-hand cars from those brands because interested customers may have little or no choice but to buy from Cuppcar. The fact that Cuppcar has these dealerships will enable it to claim that it has serviced the cars from new and that it can provide reliable aftersales service. Customers may be prepared to pay a premium over any rival dealers' prices for such an experience.

Setting high selling prices gives Cuppcar's used car sales executives room to negotiate if customers threaten to purchase a similar, but cheaper, car from a rival. It is always possible to sell a car for less than its advertised price, but it is never possible to sell a car for more. The high prices can also be used as a justification to structure a deal in which the customer pays the full advertised price, but the sales executive offers a higher value for the customer's trade-in. Doing so could create the impression that the customer has paid extra for a top-quality car but has been able to afford the deal because of the extra paid for the customer's old car.

Negotiating skills

It would be ideal if Cuppcar evaluated negotiating skills because they are particularly important with respect to the sale of used cars. Customers are generally keen to negotiate discounts and may be prepared to threaten to take their business to a rival dealer. A sales executive who is a skilled negotiator should be able to complete a sale without having to give customers excessive discounts against advertised prices. Evaluating used car sales executives on negotiating skills could encourage them to take advantage of every opportunity that presents itself, including persuading customers to buy something rather than leaving the dealership empty handed. Recognising those skills could also encourage skilled sales executives to remain in their dealership, perhaps in response to rewards.

It may prove difficult to observe and measure sales executives' negotiating skills because they are already implied by variables such as sales and average gross profits. Placing excessive emphasis on negotiating skills could lead to some sales executives making unnecessary changes to the manner in which they interact with customers. They could lose sight of the importance of selling cars for the highest possible profit. Negotiating skills may also mean different things to different people. Some sales executives may be good at identifying potential buyers and may use their skills to discourage, say, visitors who wish to browse with little interest in buying. Observing sales executives in their dealings with potential customers could be distracting and could create a false impression of their skills.

Any definition of negotiating skills could result in dysfunctional behaviour by sales executives. For example, customers might be subjected to aggressive sales pitches rather than have them leave without buying. Any such behaviour could lead to potential customers who refuse to return to a Cuppcar's dealership or negative reviews on social media. Sales executives may become unwilling to engage with potential customers who do not seem like committed buyers. For example, a casually dressed "walk in" might be ignored by sales executives who are unwilling to appear to have failed to negotiate effectively. Sales executives might start to structure deals in ways that maximise their scores for negotiation rather than maximising the dealership's profits. For example, they may discourage customers from considering more expensive cars that may appear to be overpriced because they do not wish to be seen to grant a discount in order to make the sale.

SECTION 3

Risks

The biggest product reputation risk will arise from the possibility that customers will accept cars on delivery but will subsequently be disappointed when they discover a serious problem afterwards. Any dealer that sells used cars risks buying vehicles that seem to be in good condition, but that have been subject to temporary repairs that soon lead to failure. For example, damaged bodywork can be concealed with filler and spray paint, but the damage will soon become obvious and will adversely affect the value of the car. Cuppcar will have to put a robust system in place for addressing complaints about such defects. Unhappy customers could be told to take their cars to their nearest Cuppcar dealerships for evaluation. It may be necessary to offer customers full refunds months after they have taken delivery of their cars, otherwise Cuppcar could suffer significant reputational damage.

Operational risks could take a number of forms, including the possibility that the Remoacar smartphone app could be hacked, with associated reputational damage. The app will be used to process details of customers' transactions, including payments. It will be a tempting target for hackers, who may be keen to intercept payments or make fraudulent use of customers' banking details. Remoacar should be able to establish effective controls to protect customers. That could be as simple as warning customers to disregard any texts, emails or phone calls that claim to be from Remoacar because all communication will be via the app. There could be further operational problems, including the complex logistics that will be required to organise delivery of cars after payment and the collection of customers' trade-ins. Some potential customers will lack the necessary skills to feel confident in making a significant online purchase of a used car. The Group could lose sales because of this.

Contractual inadequacy risks could arise because customers may be used to transactions in which they can inspect cars at their leisure at the dealership, perhaps taking it for a test drive before making their purchase. It could prove inconvenient to customers if there are any problems with delivery. For example, if the delivery is late, then the customer may have to inspect the car by torchlight if night has fallen and may lack confidence in the condition of their purchase. When they buy from Remoacar, they have a limited opportunity to inspect their car when they take delivery. They are then committed to the purchase and the sale of their trade-in vehicle. If problems emerge with their cars after they have accepted delivery, then they may feel that the remedies that are available to them are inadequate. Arranging a repair at their nearest Cuppcar dealership may prove inconvenient, especially if the dealership's service advisers give priority to their own customers.

Goodwill

Goodwill is accounted for under the requirements of IFRS 3 *Business combinations*. That requires Cuppcar to determine the fair values of Remoacar's identifiable assets.

Determining the fair value of dealerships may be complicated by the fact that these are relatively specialised assets that will be affected by their location. It may be difficult to find an observable market for those assets. Hopefully, the fact that Cuppcar owns 214 dealerships across Welland will mean that the company has expertise in property management in the motor industry. That expertise should help to establish a defensible fair value for each of the newly-acquired dealerships. The fact that much of the site of any given dealership will be in the form of land used for parking and displaying cars should mean that the sites can be valued largely in terms of local land values.

The valuations of the app, website and software will be complicated by the fact that all three are unique and so there are unlikely to be any directly comparable market transactions. Cuppcar will have to make some assumptions as to the amount that would be paid for these intangibles in an open market. It may be possible to obtain some insight by reviewing Cuppcar's reasons for the acquisition of the subsidiary and considering the extent to which the decision to invest was based on the value attached to those assets.

Cuppcar should be able to use the data available to the motor trade to determine the value of the used cars included in the acquisition. Given that they are effectively inventory for resale, it would be acceptable to determine the expected retail selling price of the cars. The only problem arises from the fact that there are 9,000 cars to be valued. It may be possible to save time by using the value attributed to the cars according to Remoacar's software, after checking that the software's valuation is in line with industry valuations.

SECTION 4

Profit centres

Cuppcar dealerships will lose a significant source of profit, which could be discouraging for all dealership staff and dealership principals. Online sales will be organised centrally by Remoacar, meaning that used car sales executives will no longer be needed and may be made redundant as a result. Remaining staff will have to be reassured that the dealerships will continue in business, otherwise the loss of staff and the subsequent decrease in profit could lead to a round of resignations. The operation of new car sales might be affected by the reliance on the app for the valuation of trade-ins against new car sales. That could lead to further losses of profit if the app tends to undervalue trade-ins and so makes the deals on offer to customers less competitive than those from rivals who offer better terms. Dealerships will have to keep the impact of the app on trade-in prices under review and will have to ensure that the app is adjusted in the event that the Group as a whole is losing new car sales because Remoacar is paying customers less than competitors.

Remoacar will have to consider the logistical implications of this significant increase in the scale of operations. It is about to take over the responsibility for handling used car operations that were previously conducted from 214 dealerships. The email from Lambros does not indicate whether used cars will be stored at the dealerships that acquired them in trade-ins. If so, it is likely that there will be a transfer price for the provision of this facility. The fact that Remoacar's app will be used to value trade-ins will ensure that the company is charged an acceptable price for those cars and that it can sell them at a profit. The cars will effectively be transferred from dealerships to Remoacar at their cost to the group, which may lead to complaints from the dealerships that they are not receiving any benefit from the sourcing of inventory for online sales. There may be significant lobbying of the Cuppcar Board to adjust transfer prices for logistical support provided by dealership staff in valuing and collecting customers' used cars.

Debt and equity

Debt is a relatively cheap source of finance because borrowers are usually required to offer lenders a fixed rate of interest on the funds that they have advanced. Interest can be offset against profit for tax purposes, which is ideal in this case because Cuppcar has significant profit before interest, meaning that it should be able to claim the tax relief in full. Debt ranks ahead of equity in terms of repayment in the event that the borrower runs into financial difficulty, which does not guarantee repayment in full, but it does increase its likelihood. Borrowers often request that specific assets be pledged as security in the event of non-payment. That could be a problem in this case because the asset that is being funded is in the form of software that may have little value outside of the Cuppcar Group. Cuppcar might have to consider pledging some of its property, plant and equipment to secure the additional loan. There should be sufficient assets available for such cover, but it would mean that the loan would use up some of Cuppcar's capacity to take out further loans in the future.

Borrowing W$120 million will increase Cuppcar's gearing ratio from 650.0/(650.0+2,238.5) = 23% to (650.0+120.0)/ (650.0+120.0+2,238.5) = 26%, which is not a significant increase. It is unlikely that such an increase would concern shareholders or lenders unduly and so Cuppcar should consider itself free to take advantage of the lower cost of capital from debt rather than equity.

Issuing shares is a relatively expensive source of finance. Shareholders are exposed to volatility in the running of the business and are unlikely to recover their investment in full in the event of its failure. Companies must offer shareholders better rates of return than interest rates on loans. The cost of equity is not allowed as an expense for tax purposes, making it even more expensive. There is a further cost associated with the issue of shares, with a need to prepare documentation and pay professional fees associated with the issue.

Equity is effectively a permanent source of finance, making it suitable for financing investments assets that will have very long lives. The fact that the investment is for a long-term investment in software that will undoubtedly be upgraded over time suggests that it might be logical to fund it with equity. The software is unlikely to offer a rapid payback and so it is unlikely that this investment will leave Cuppcar with a large cash balance in the foreseeable future.

One drawback of equity in this context is that it can be difficult to develop software without an overrun on the budgeted cost. It can be difficult to raise additional funds from the issue of shares quickly. Debt is more flexible in that respect because additional loans can be organised relatively easily.

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Management Level Case Study November 2023 – February 2024

Marking Guidance

Variant 1

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General marking guidance

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- All marks on the scheme are designed to be awarded and full marks should be awarded when all level descriptor criteria are met.
- The marking scheme and indicative answers are provided as a guide to markers. They are not intended to be exhaustive and other valid approaches must be rewarded. Equally, candidates do not have to make all of the points mentioned in the indicative answers to receive the highest level of the marking scheme.

- An answer which does not address the requirements of the task must be awarded no marks.
- Markers should mark according to the marking scheme and not their perception of where the passing standard may lie. Where markers are in doubt as to the application of the marking scheme to a particular candidate script, they must contact their lead marker.

How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

- For each trait in the marking scheme, read each level descriptor and select one, using a best-fit approach.
- The response does not need to meet all of the criteria of the level descriptor – it should be placed at the level when it meets more of the criteria of this level than the criteria of the other levels.
- If the work fits more than one level, judge which one provides the best match.
- If the work is on the borderline between two levels, then it should be placed either at the top of the lower band or the bottom of the higher band, depending on where it fits best.

3. Select a mark within the level

- Once you have selected the level, you will need to choose the mark to apply.
- A small range of marks may be given at each level. You will need to use your professional judgement to decide which mark to allocate.
- If the answer is of high quality and convincingly meets the requirements of the level, then you should award the highest mark available. If not, then you should award a lower mark within the range available, making a judgement on the overall quality of the answer in relation to the level descriptor.

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Summary of the core activities tested within each sub-task

Sub Task	Core Activity		Sub task weighting (% section time)
Section 1			
(a)	**A**	Evaluate opportunities to add value	40 %
(b)	**C**	Manage performance and costs to aid value creation	60 %
Section 2			
(a)	**D**	Measure performance	40 %
(b)	**B**	Implement senior management decisions	60 %
Section 3			
(a)	**A**	Evaluate opportunities to add value	40 %
(b)	**E**	Manage internal and external stakeholders	60 %
Section 4			
(a)	**D**	Measure performance	60 %
(b)	**C**	Manage performance and costs to aid value creation	40 %

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SECTION 1			
Task (a) Discuss whether the switch to electric cars is a disruptive technology that will create a fundamental change for car sales by major car dealers such as Cuppcar.			
Trait			
Defines disruptive technology	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines disruptive technology	**1**
	Level 2	Relates definition to scenario	**2-3**
	Level 3	Relates definition to scenario with good justification	**4-5**
Discussion	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Offers argument for or against	**1**
	Level 2	Develops arguments for or against	**2-3**
	Level 3	Develops arguments for or against with justification	**4-5**

Task (b) Evaluate the product, product reputation and operational risks that the switch to electric cars might create for Cuppcar			
Trait			
Product risk	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines risk	**1**
	Level 2	Evaluates risk	**2-3**
	Level 3	Evaluates risk with good justification	**4-5**
Product reputation risk	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines risk	**1**
	Level 2	Evaluates risk	**2-3**
	Level 3	Evaluates risk with good justification	**4-5**
Operational risk	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines risk	**1**
	Level 2	Evaluates risk	**2-3**
	Level 3	Evaluates risk with good justification	**4-5**

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SECTION 2			
Task (a) **Discuss the challenges associated with determining how the training costs and the costs associated with purchasing software should be accounted for and recommend suitable accounting treatments**			
Trait			
Training costs	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issues	**1**
	Level 2	Discusses challenges	**2-3**
	Level 3	Discusses challenges and offers recommendations	**4-5**
Software	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issues	**1**
	Level 2	Discusses challenges	**2-3**
	Level 3	Discusses challenges and offers recommendations	**4-5**
Task (b) **Recommend with reasons whether Cuppcar's investment in the sale of electric cars should be limited initially to only one or two manufacturers or whether it should introduce electric cars** from all 30 manufacturers immediately at all of its dealerships.			
Trait			
Recommendation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Suggests course of action	**1-2**
	Level 2	Offers practical recommendation	**3-5**
	Level 3	Offers clear and comprehensive practical recommendation	**6-8**
Reason	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issues	**1-2**
	Level 2	Discusses impact of recommendation on issues	**3-5**
	Level 3	Discusses impact of recommendation on issues with justification	**6-7**

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SECTION 3			
Task (a) Recommend with reasons the approach that Cuppcar should take to pricing the servicing of electric cars			
Trait			
Revenue	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies impact on revenue and profit	**1**
	Level 2	Recommendation allows for impact	**2-3**
	Level 3	Recommendation allows for impact with justification	**4-5**
Competition	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies impact on competition	**1**
	Level 2	Recommendation allows for competition	**2-3**
	Level 3	Recommendation allows for competition with justification	**4-5**
Task (b) Recommend how Cuppcar's decision to sell electric cars should be treated in the social and relationship, intellectual and natural capitals in the integrated report			
Trait			
Social and relationship capital	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines capital	**1**
	Level 2	Recommends treatment	**2-3**
	Level 3	Recommends treatment with justification	**4-5**
Intellectual capital	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines capital	**1**
	Level 2	Recommends treatment	**2-3**
	Level 3	Recommends treatment with justification	**4-5**
Natural capital	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines capital	**1**
	Level 2	Recommends treatment	**2-3**
	Level 3	Recommends treatment with justification	**4-5**

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SECTION 4			
Task (a) Identify and evaluate the risks and opportunities for Cuppcar created by the changes to its ecosystem			
Trait			
Risks	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies risks	**1-2**
	Level 2	Identifies and evaluates risks	**3-5**
	Level 3	Identifies and evaluates risks with justification	**6-8**
Opportunities	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies opportunities	**1-2**
	Level 2	Identifies and evaluates opportunities	**3-5**
	Level 3	Identifies and evaluates opportunities with justification	**6-7**
Task (b) Recommend with reasons how Cuppcar might ensure the engagement of sales executives in training to sell electric cars			
Trait			
Motivation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes ways to motivate sales executives	**1**
	Level 2	Recommends ways to motivate	**2-3**
	Level 3	Recommends ways to motivate with justification	**4-5**
Control	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes ways to control sales executives	**1**
	Level 2	Recommends ways to control	**2-3**
	Level 3	Recommends ways to control with justification	**4-5**

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Marking Guidance

Variant 2

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Summary of the core activities tested within each sub-task

Sub Task	Core Activity		Sub task weighting (% section time)
Section 1			
(a)	**D**	Measure performance	40 %
(b)	**A**	Evaluate opportunities to add value	60 %
Section 2			
(a)	**C**	Manage performance and costs to aid value creation	60 %
(b)	**A**	Evaluate opportunities to add value	40 %
Section 3			
(a)	**B**	Implement senior management decisions	60 %
(b)	**D**	Measure performance	40 %
Section 4			
(a)	**E**	Manage internal and external stakeholders	60 %
(b)	**C**	Manage performance and costs to aid value creation	40 %

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SECTION 1			
Task (a) Discuss the implications of the report's findings for Cuppcar's relationships with both car manufacturers and new car customers			
Trait			
Manufacturers	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes implications	**1**
	Level 2	Discusses implications	**2-3**
	Level 3	Discusses implications with justification	**4-5**
Customers	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes implications	**1**
	Level 2	Discusses implications	**2-3**
	Level 3	Discusses implications with justification	**4-5**
Task (b) Recommend with reasons specific ways in which Cuppcar might use data mining to identify ways to enhance customer satisfaction with its aftersales support			
Trait			
Recommendations	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines data mining	**1-2**
	Level 2	Recommends some techniques	**3-5**
	Level 3	Recommends a range of techniques	**6-8**
Reasons	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes advantages of techniques	**1-2**
	Level 2	Discusses advantages of techniques	**3-5**
	Level 3	Discusses advantages of techniques with justification	**6-7**

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SECTION 2			
Task (a) Identify and evaluate the limitations of the feedback provided by manufacturers for the purposes of internal benchmarking of customer satisfaction across Cuppcar's 214 dealerships			
Trait			
Identification	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines continuous improvement	**1-2**
	Level 2	Identifies some limitations	**3-5**
	Level 3	Identifies a range of limitations	**6-8**
Evaluation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Expands on identification	**1-2**
	Level 2	Evaluates limitations	**3-5**
	Level 3	Evaluates limitations with justification	**6-7**
Task (b) Recommend with reasons whether the feedback supplied by manufacturers suggests that Cuppcar should modify the definition of value in its business model			
Trait			
Retail service	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines "suitable retail experience"	**1**
	Level 2	Offers recommendation	**2-3**
	Level 3	Offers recommendation with justification	**4-5**
Positive experience	**Level**	**Descriptor**	
		No rewardable material	**0**
	Level 1	Defines "positive experience"	**1**
	Level 2	Offers recommendation	**2-3**
	Level 3	Offers recommendation with justification	**4-5**

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SECTION 3			
Task (a) Evaluate the arguments for and against tolerating dealership principals' decisions to justify investment in this manner			
Trait			
Arguments for	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes arguments for	**1-2**
	Level 2	Evaluates arguments for	**3-5**
	Level 3	Evaluates arguments for with justification	**6-8**
Arguments against	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes arguments against	**1-2**
	Level 2	Evaluates arguments against	**3-5**
	Level 3	Evaluates arguments against with justification	**6-7**
Task (b) Identify and evaluate the difficulties associated with recognising Cuppcar's investment in this training as a long-term enhancement of human capital in the integrated report			
Trait			
Recognises	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines human capital	**1**
	Level 2	Identifies difficulty of recognising	**2-3**
	Level 3	Evaluates difficulty of recognising	**4-5**
Recognises as long term	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issues with long term	**1**
	Level 2	Identifies difficulty of recognising long term	**2-3**
	Level 3	Evaluates difficulty of recognising long term	**4-5**

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SECTION 4			
Task (a) Explain with reasons how the reduction in staffing will affect goodwill on consolidation of Happicust and how the sale of Happicust's office building will affect the Cuppcar Group's consolidated statement of financial position			
Trait			
Goodwill	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies accounting issues	**1-2**
	Level 2	Explains issues	**3-5**
	Level 3	Explains issues with justification	**6-8**
Building	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies accounting issues	**1-2**
	Level 2	Explains issues	**3-5**
	Level 3	Explains issues with justification	**6-7**
Task (b) Identify and evaluate the challenges associated with ensuring that dealership staff are receptive to being coached by Happicust's consultants			
Trait			
Identification (2)	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issues	**1**
	Level 2	Discusses issues	**2-3**
	Level 3	Discusses issues in some detail	**4-5**
Evaluation (2)	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Expands on identification	**1**
	Level 2	Evaluates issues	**2-3**
	Level 3	Evaluates issues with justification	**4-5**

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Management Level Case Study November 2023 – February 2024

Marking Guidance

Variant 3

About this marking scheme

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How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

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- If the work fits more than one level, judge which one provides the best match.
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3. Select a mark within the level

- Once you have selected the level, you will need to choose the mark to apply.
- A small range of marks may be given at each level. You will need to use your professional judgement to decide which mark to allocate.
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Summary of the core activities tested within each sub-task

Sub Task	Core Activity		Sub task weighting (% section time)
Section 1			
(a)	**A**	Evaluate opportunities to add value	60 %
(b)	**C**	Manage performance and costs to aid value creation	40 %
Section 2			
(a)	**C**	Manage performance and costs to aid value creation	60 %
(b)	**B**	Implement senior management decisions	40 %
Section 3			
(a)	**E**	Manage internal and external stakeholders	60 %
(b)	**B**	Implement senior management decisions	40 %
Section 4			
(a)	**A**	Evaluate opportunities to add value	40 %
(b)	**D**	Measure performance	60 %

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SECTION 1			
Task (a) Evaluate whether the proposal to create a special edition of Hatch is consistent with Cuppcar's stated approaches to defining value and capturing residual value			
Trait			
Defining value	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines manufacturers' needs	**1-2**
	Level 2	Discusses relevance to manufacturers	**3-5**
	Level 3	Discusses relevance to manufacturers with justification	**6-8**
Capturing residual value	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes need for volume	**1-2**
	Level 2	Discusses need for volume	**3-5**
	Level 3	Discusses need for volume with justification	**6-7**
Task (b) Explain whether it would be appropriate to use target costing in deciding on the suitability of modifications to create the special edition of Hatch			
Trait			
Identification	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines target costing	**1**
	Level 2	Identifies challenge	**2-3**
	Level 3	Identifies main challenges	**4-5**
Evaluation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes relevance of identified challenges	**1**
	Level 2	Evaluates challenges	**2-3**
	Level 3	Evaluates challenges with justification	**4-5**

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SECTION 2			
Task (a) Recommend with reasons whether dealership principals should be held responsible for losses on the sale of Hatch cars			
Trait			
Arguments	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines profit centre	**1-2**
	Level 2	Offers an argument for or against responsibility	**3-5**
	Level 3	Offers full argument for or against responsibility	**6-8**
Reasons	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Offers limited reasons for arguments	**1-2**
	Level 2	Offers reasons for arguments	**3-5**
	Level 3	Offers full reasons for arguments	**6-7**
Task (b) Recommend with reasons how Cuppcar could establish effective teams of sales executives within Barto Motors dealerships to sell the remaining inventory of Hatch cars			
Trait			
Attributes	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes effective team	**1**
	Level 2	Recommends attributes for team's organization	**2-3**
	Level 3	Recommends detailed attributes for team's organization	**4-5**
Justification	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes need for effectiveness	**1**
	Level 2	Discusses justification for recommendation	**2-3**
	Level 3	Offers full discussion of justification for recommendation	**4-5**

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SECTION 3			
Task (a) Identify and evaluate the difficulties associated with setting transfer prices for Hatch cars that will encourage their release in a manner acceptable to Cuppcar's Barto Motors dealerships and its other dealerships, while being optimal for Cuppcar overall			
Trait			
Difficulties	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines goals of transfer pricing	**1-2**
	Level 2	Identifies difficulties in scenario	**3-5**
	Level 3	Offers full identification of difficulties in scenario	**6-8**
Evaluation of difficulties	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Offers some evaluation of difficulties	**1-2**
	Level 2	Offers detailed evaluation of difficulties	**3-5**
	Level 3	Offers detailed evaluation of difficulties with justification	**6-7**
Task (b) Discuss the characteristics of debt that would affect its suitability for funding the W$14 million required to pay for the purchase of the Hatch cars			
Trait			
Timing	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies urgency	**1**
	Level 2	Explains benefit in terms of urgency	**2-3**
	Level 3	Explains benefit in terms of urgency with justification	**4-5**
Cost	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies cost	**1**
	Level 2	Explains benefit in terms of cost	**2-3**
	Level 3	Explains benefit in terms of cost with justification	**4-5**

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SECTION 4			
Task (a) Identify and evaluate the difficulties associated with predicting the cash flows to be used in calculating the net present value to Cuppcar of this lease arrangement			
Trait			
Identification (2)	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes need to forecast	**1**
	Level 2	Offers some difficulties	**2-3**
	Level 3	Offers detailed description of difficulties	**4-5**
Evaluation (2)	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Offers some discussion of difficulties	**1**
	Level 2	Evaluates difficulties	**2-3**
	Level 3	Evaluates difficulties with justification	**4-5**

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Task (b) Explain how Cuppcar would account for this arrangement in its published financial statements, assuming that it proceeds			
Trait			
Classify lease	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Finance v operating lease	**1**
	Level 2	Recommends correct treatment	**2-3**
	Level 3	Recommends correct treatment with good justification	**4-5**
Net investment	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes net investment	**1**
	Level 2	Offers some discussion of net investment	**2-3**
	Level 3	Offers full discussion of net investment	**4-5**
Statement of profit or loss	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes issues associated with profit or loss	**1**
	Level 2	Offers some discussion of profit	**2-3**
	Level 3	Offers full discussion of profit	**4-5**

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Management Level Case Study November 2023 – February 2024

Marking Guidance

Variant 5

About this marking scheme

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2. Select the level

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3. Select a mark within the level

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Summary of the core activities tested within each sub-task

Sub Task	Core Activity		Sub task weighting (% section time)
Section 1			
(a)	**D**	Measure performance	60 %
(b)	**D**	Measure performance	40 %
Section 2			
(a)	**A**	Evaluate opportunities to add value	40 %
(b)	**B**	Org Implement senior management decisions	60 %
Section 3			
(a)	**C**	Manage performance and costs to aid value creation	60 %
(b)	**B**	Implement senior management decisions	40 %
Section 4			
(a)	**E**	Manage internal and external stakeholders	60 %
(b)	**A**	Evaluate opportunities to add value	40 %

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SECTION 1			
Task (a) Evaluate the financial reporting challenges that Cuppcar's Board will have to consider in relation to counterfeit parts and recommend, with reasons, suitable responses			
Trait			
Challenges	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies challenges	**1-2**
	Level 2	Discusses impact of challenges	**3-5**
	Level 3	Discusses impact of challenges with justification	**6-8**
Responses	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies IAS 37	**1-2**
	Level 2	Applies IAS to challenges	**3-5**
	Level 3	Applies IAS to challenges with justification	**6-7**

Task (b) Identify and evaluate the product reputation risk and the operational risk associated with the possibility that Cuppcar might use counterfeit parts when servicing customers' cars			
Trait			
Product reputation risk	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines risk	**1**
	Level 2	Discusses risk	**2-3**
	Level 3	Discusses risk with good justification	**4-5**
Operational risk	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines risk	**1**
	Level 2	Discusses risk	**2-3**
	Level 3	Discusses risk with good justification	**4-5**

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SECTION 2			
Task (a) Recommend with reasons how Cuppcar might use its business intelligence system (BIS) to evaluate the extent to which dealerships might have fitted counterfeit brake pads			
Trait			
Use of BIS	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies possible searches	**1**
	Level 2	Describes possible searches	**2-3**
	Level 3	Describes possible searches in detail	**4-5**
Purpose	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies possible benefits	**1**
	Level 2	Explains recommendation	**2-3**
	Level 3	Explains recommendation with justification	**4-5**
Task (b) Recommend with reasons the manner in which a project to recall cars to check their brakes should be organised			
Trait			
Recommendation 1	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Outlines approach	**1-2**
	Level 2	Offers some recommendations	**3-5**
	Level 3	Offers detailed recommendations	**6-8**
Reasons 1	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Offers some reasons	**1-2**
	Level 2	Discusses reasons for recommendation	**3-5**
	Level 3	Discusses reasons for recommendation with justification	**6-7**

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SECTION 3			
Task (a) Evaluate the arguments for and against having individual dealerships bear the costs of inspecting customers' cars and replacing any counterfeit parts that are identified			
Trait			
For	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Outlines arguments for	**1-2**
	Level 2	Evaluates arguments for	**3-5**
	Level 3	Evaluates arguments for with justification	**6-8**
Against	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Outlines arguments against	**1-2**
	Level 2	Evaluates arguments against	**3-5**
	Level 3	Evaluates arguments against with justification	**6-7**
Task (b) Identify and evaluate the characteristics of debt that may make it sensible for Cuppcar to borrow to finance the W$50 million required to cover the costs associated with the purchase of counterfeits			
Trait			
Identification	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes debt	**1**
	Level 2	Discusses characteristics of debt	**2-3**
	Level 3	Offers full discussion of characteristics of debt	**4-5**
Evaluation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes relevance	**1**
	Level 2	Evaluates relevance	**2-3**
	Level 3	Evaluates relevance with justification	**4-5**

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SECTION 4			
Task (a) Explain the approach that Cuppcar should take in negotiating with other car dealers and with part manufacturers on the subject of addressing the problem of counterfeit parts			
Trait			
Dealers	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes approach	**1-2**
	Level 2	Recommends approach	**3-5**
	Level 3	Recommends approach with justification	**6-8**
Manufacturers	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes approach	**1-2**
	Level 2	Recommends approach	**3-5**
	Level 3	Recommends approach with justification	**6-7**
Task (b) Recommend with reasons whether Cuppcar should increase its charges for servicing and repairs in order to pass on any increase in the cost of parts to customers			
Trait			
Recommendation 2	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Offers argument	**1**
	Level 2	Offers recommendation	**2-3**
	Level 3	Offers detailed recommendation	**4-5**
Reasons 2	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes reasons	**1**
	Level 2	Discusses reasons	**2-3**
	Level 3	Discusses reasons with justification	**4-5**

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Management Level Case Study November 2023 – February 2024

Marking Guidance

Variant 6

About this marking scheme

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Summary of the core activities tested within each sub-task

Sub Task	Core Activity		Sub task weighting (% section time)
Section 1			
(a)	**A**	Evaluate opportunities to add value	40 %
(b)	**C**	Manage performance and costs to aid value creation	60 %
Section 2			
(a)	**A**	Evaluate opportunities to add value	40 %
(b)	**E**	Manage internal and external stakeholders	60 %
Section 3			
(a)	**D**	Measure performance	60 %
(b)	**E**	Manage internal and external stakeholders	40 %
Section 4			
(a)	**C**	Manage performance and costs to aid value creation	40 %
(b)	**B**	Implement senior management decisions	60 %

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SECTION 1			
Task (a) Evaluate the arguments for and against the proposition that accepting losses on trade-ins is consistent with Cuppcar's business model			
Trait			
For	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies arguments for	**1**
	Level 2	Evaluates arguments for	**2-3**
	Level 3	Evaluates arguments for with justification	**4-5**
Against	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies arguments against	**1**
	Level 2	Evaluates arguments against	**2-3**
	Level 3	Evaluates arguments against with justification	**4-5**
Task (b) Recommend with reasons how Cuppcar should apply the principles of business process re-engineering (BPR) to designing and implementing procedures for pricing customers' trade-ins			
Trait			
Recommendation 1	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines BPR	**1-2**
	Level 2	Recommends approach	**3-5**
	Level 3	Offers full recommendation of approach	**6-8**
Reasons 1	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes possible reasons	**1-2**
	Level 2	Discusses possible reasons	**3-5**
	Level 3	Discusses possible reasons with good justification	**6-7**

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<table>
<tr><td colspan="4">SECTION 2</td></tr>
<tr><td colspan="4">Task (a) Recommend with reasons how dealerships might make the best use of the lack of comparability between used cars when setting selling prices</td></tr>
<tr><td>Trait</td><td colspan="3"></td></tr>
<tr><td rowspan="5">Recommendation 2</td><td>Level</td><td>Descriptor</td><td>Marks</td></tr>
<tr><td></td><td>No rewardable material</td><td>0</td></tr>
<tr><td>Level 1</td><td>Describes pricing approaches</td><td>1</td></tr>
<tr><td>Level 2</td><td>Recommends approach</td><td>2-3</td></tr>
<tr><td>Level 3</td><td>Offers detailed recommendation of approach</td><td>4-5</td></tr>
<tr><td rowspan="5">Reasons 2</td><td>Level</td><td>Descriptor</td><td>Marks</td></tr>
<tr><td></td><td>No rewardable material</td><td>0</td></tr>
<tr><td>Level 1</td><td>Describes possible reasons</td><td>1</td></tr>
<tr><td>Level 2</td><td>Discusses possible reasons</td><td>2-3</td></tr>
<tr><td>Level 3</td><td>Discusses possible reasons with good justification</td><td>4-5</td></tr>
<tr><td colspan="4">Task (b) Identify and evaluate the implications of including negotiation skills in employee performance appraisals for used car sales executives</td></tr>
<tr><td>Trait</td><td colspan="3"></td></tr>
<tr><td rowspan="5">Identification</td><td>Level</td><td>Descriptor</td><td>Marks</td></tr>
<tr><td></td><td>No rewardable material</td><td>0</td></tr>
<tr><td>Level 1</td><td>Defines negotiating skills</td><td>1-2</td></tr>
<tr><td>Level 2</td><td>Describes some implications</td><td>3-5</td></tr>
<tr><td>Level 3</td><td>Offers full description of implications</td><td>6-8</td></tr>
<tr><td rowspan="5">Evaluation</td><td>Level</td><td>Descriptor</td><td>Marks</td></tr>
<tr><td></td><td>No rewardable material</td><td>0</td></tr>
<tr><td>Level 1</td><td>Describes importance of skills</td><td>1-2</td></tr>
<tr><td>Level 2</td><td>Evaluates implications</td><td>3-5</td></tr>
<tr><td>Level 3</td><td>Evaluates implications with justification</td><td>6-7</td></tr>
</table>

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SECTION 3			
Task (a) Identify and evaluate the product reputation, operational and contractual inadequacy risks that might arise from Remoacar's operations as a member of the Cuppcar Group			
Trait			
Product reputation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines risk	**1**
	Level 2	Identifies risks	**2-3**
	Level 3	Identifies and evaluates risks	**4-5**
Operational	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines risk	**1**
	Level 2	Identifies risks	**2-3**
	Level 3	Identifies and evaluates risks	**4-5**
Contractual inadequacy	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines risk	**1**
	Level 2	Identifies risks	**2-3**
	Level 3	Identifies and evaluates risks	**4-5**

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Task (b) **Identify and evaluate the difficulties associated with determining goodwill on the acquisition of Remoacar**			
Trait			
Dealerships	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Refers to IFRS 3	**1**
	Level 2	Discusses valuation issues	**2-3**
	Level 3	Discusses valuation issues with justification	**4**
App and website	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies valuation issues	**1**
	Level 2	Discusses valuation issues	**2**
	Level 3	Discusses valuation issues with justification	**3**
Cars	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies valuation issues	**1**
	Level 2	Discusses valuation issues	**2**
	Level 3	Discusses valuation issues with justification	**3**

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SECTION 4			
Task (a) Discuss the possible impacts of the plan described by Lambros on the operations of Cuppcar's dealerships and Remoacar			
Trait			
Dealerships	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes implications	**1**
	Level 2	Evaluates implications	**2-3**
	Level 3	Evaluates implications with justification	**4-5**
Remoacar	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes implications	**1**
	Level 2	Evaluates implications	**2-3**
	Level 3	Evaluates implications with justification	**4-5**
Task (b) Identify and evaluate the characteristics of debt and equity in determining their suitability for financing the investment in software as described by Lambros			
Trait			
Debt	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes characteristics	**1-2**
	Level 2	Describes characteristics in context	**3-5**
	Level 3	Describes characteristics in context with justification	**6-8**
Equity	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes characteristics	**1-2**
	Level 2	Describes characteristics in context	**3-5**
	Level 3	Describes characteristics in context with justification	**6-7**

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Management Level Case Study November 2023 – February 2024

Marking Guidance

Variant 4

About this marking scheme

This marking scheme has been prepared for the 2019 CGMA Professional Qualification Management Case Study [November 2023 – February 2024].

The indicative answers will show the expected or most orthodox approach; however the nature of the case study examination tasks means that a range of responses will be valid. The descriptors within this level-based marking scheme are holistic and can accommodate a range of acceptable responses.

General marking guidance is given below, markers are subject to extensive training and standardisation activities and ongoing monitoring to ensure that judgements are being made correctly and consistently.

Care must be taken not to make too many assumptions about future marking schemes on the basis of this document. While the guiding principles remain constant, details may change depending on the content of a particular case study examination form.

General marking guidance

- Marking schemes should be applied positively, with candidates rewarded for what they have demonstrated and not penalised for omissions.
- All marks on the scheme are designed to be awarded and full marks should be awarded when all level descriptor criteria are met.

- The marking scheme and indicative answers are provided as a guide to markers. They are not intended to be exhaustive and other valid approaches must be rewarded. Equally, candidates do not have to make all of the points mentioned in the indicative answers to receive the highest level of the marking scheme.
- An answer which does not address the requirements of the task must be awarded no marks.
- Markers should mark according to the marking scheme and not their perception of where the passing standard may lie. Where markers are in doubt as to the application of the marking scheme to a particular candidate script, they must contact their lead marker.

How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

- For each trait in the marking scheme, read each level descriptor and select one, using a best-fit approach.
- The response does not need to meet all of the criteria of the level descriptor – it should be placed at the level when it meets more of the criteria of this level than the criteria of the other levels.
- If the work fits more than one level, judge which one provides the best match.
- If the work is on the borderline between two levels, then it should be placed either at the top of the lower band or the bottom of the higher band, depending on where it fits best.

3. Select a mark within the level

- Once you have selected the level, you will need to choose the mark to apply.
- A small range of marks may be given at each level. You will need to use your professional judgement to decide which mark to allocate.
- If the answer is of high quality and convincingly meets the requirements of the level, then you should award the highest mark available. If not, then you should award a lower mark within the range available, making a judgement on the overall quality of the answer in relation to the level descriptor.

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Summary of the core activities tested within each sub-task

Sub Task	Core Activity		Sub task weighting (% section time)
Section 1			
(a)	**A**	Evaluate opportunities to add value	60 %
(b)	**D**	Measure performance	40%
Section 2			
(a)	**D**	Measure performance	40 %
(b)	**C**	Manage performance and costs to aid value creation	60 %
Section 3			
(a)	**C**	Manage performance and costs to aid value creation	40%
(b)	**B**	Implement senior management decisions	60 %
Section 4			
(a)	**E**	Manage internal and external stakeholders	60 %
(b)	**B**	Implement senior management decisions	40 %

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SECTION 1			
Task (a) Recommend with reasons the factors that the Board should consider when setting the selling price of the Cuppcar Service Plan			
Trait			
Recommendation 1	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes pricing strategies	**1-2**
	Level 2	Offers recommendation	**3-5**
	Level 3	Offers detailed recommendation	**6-8**
Reasons 1	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes advantages	**1-2**
	Level 2	Offers detailed explanation	**3-5**
	Level 3	Offers detailed explanation with justification	**6-7**
Task (b) Explain how service contracts with customers for the Cuppcar Service Plan would be reflected in the company's published financial statements			
Trait			
Principles	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Refers to IFRS 15	**1**
	Level 2	Describes approach to accounting for contracts	**2-3**
	Level 3	Offers clear discussion of approach	**4-5**
Application	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Offers some application to scenario	**1**
	Level 2	Applies principles to scenario	**2-3**
	Level 3	Applies principles to scenario with justification	**4-5**

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SECTION 2			
Task (a) Evaluate the argument that Cuppcar took an excessive risk in giving business managers such strong incentives to sell the Cuppcar Service Plan.			
Trait			
For	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies possible arguments for acceptable risk	**1**
	Level 2	Discusses possible arguments for acceptable risk	**2-3**
	Level 3	Discusses possible arguments for acceptable risk with justification	**4-5**
Against	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies possible arguments against acceptable risk	**1**
	Level 2	Discusses possible arguments against acceptable risk	**2-3**
	Level 3	Discusses possible arguments against acceptable risk with justification	**4-5**
Task (b) Recommend with reasons three ways in which we can better align business managers' performance measures and bonuses with Cuppcar's interests in relation to service plans			
Trait			
Recommendation 2	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies possible measures	**1-2**
	Level 2	Recommends some measures	**3-5**
	Level 3	Recommends set of measures	**6-8**
Reasons 2	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Offers some explanation	**1-2**
	Level 2	Explains recommendations	**3-5**
	Level 3	Explains recommendations with justification	**6-7**

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SECTION 3			
Task (a) Evaluate the potential usefulness of quality circles comprising workshop staff and recommend with reasons the approach that Cuppcar might take to establishing effective quality circles			
Trait			
Usefulness	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines quality circles	**1**
	Level 2	Evaluates usefulness and/or evaluates quality issues	**2-3**
	Level 3	Evaluates usefulness with justification and/or evaluates quality issues	**4-5**
Approach	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Offers some suggestions for creation	**1**
	Level 2	Recommends creation	**2-3**
	Level 3	Recommends creation with justification	**4-5**
Task (b) Identify and evaluate the characteristics of debt and equity that are relevant to the decision as to how the expansion of Cuppcar's workshops should be financed.			
Trait			
Debt	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines debt	**1-2**
	Level 2	Discusses relevant characteristics	**3-5**
	Level 3	Discusses relevant characteristics with justification	**6-8**
Equity	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines equity	**1-2**
	Level 2	Discusses relevant characteristics	**3-5**
	Level 3	Discusses relevant characteristics with justification	**6-7**

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SECTION 4			
Task (a) Identify and evaluate the difficulties of identifying potential instances of dysfunctional behaviour by new car sales executives and recommend a suitable response to such behaviour.			
Trait			
Identifying cases	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes dysfunctional behaviour	**1-2**
	Level 2	Evaluates difficulties of identifying dysfunctional behaviour	**3-5**
	Level 3	Evaluates difficulties of identifying dysfunctional behaviour with justification	**6-8**
Recommend response	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Offers some response	**1-2**
	Level 2	Recommends response	**3-5**
	Level 3	Recommends response with justification	**6-7**
Task (b) Recommend with reasons the approach that Cuppcar should take to identifying dealerships that are operating as effective teams			
Trait			
Recommend approach	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines effective teams	**1**
	Level 2	Offers some suggestions	**2-3**
	Level 3	Offers full recommendation	**4-5**
Explanation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes advantages	**1**
	Level 2	Offers reasons for recommendation	**2-3**
	Level 3	Offers reasons for recommendation with justification	**4-5**

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Management level case study – Examiner's report

November 2023 – February 2024 exam session

This document should be read in conjunction with the examiner's suggested answers and marking guidance.

General comments

The Management Case Study (MCS) examinations for November 2023 and February 2024 were based on a pre-seen scenario relating to Cuppcar, a car dealership that sells new and used cars. This is a complicated business because car manufacturers have significant influence through their ability to ward and withdraw the rights to sell their cars. There is also the need to support retail customers who are making very significant purchases. Customers have considerable choice as to the make and model of car that they will buy and the dealership from whom they will make that purchase.

Six variants were set on Cuppcar:

- Variant 1: Some manufacturers are planning to switch to electric cars, despite weak demand for those vehicles in Cuppcar's home market.
- Variant 2: Cuppcar must maintain strong customer satisfaction scores across all of its dealerships or it will lose the confidence of manufacturers.
- Variant 3: Cuppcar is finding it difficult to sell a previously popular model of car because the manufacturer has announced that it plans to introduce an updated version.
- Variant 4: Cuppcar is considering a new service plan that will enable customers to pay in advance for maintenance.
- Variant 5: Cuppcar has unwittingly purchased counterfeit parts on the open market.
- Variant 6: Profits from the sale of second-hand cars has been declining.

All six variants complied with the published blueprint and covered the core activities in the prescribed weightings. Each variant consisted of four tasks and each task was further subdivided into two separate requirements. The weighting attached to each requirement was stated and candidates were advised to allocate the time available for each requirement on the basis of those weightings. Markers were

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instructed to adopt a holistic approach to marking, which meant that the answer to each requirement was read and judged on its merits. Markers were provided with specific guidance as to the characteristics of level 1, level 2 and level 3 answers for each separate requirement.

From the candidate's perspective, the key to scoring well is to read and then answer the questions. The expectation is that candidates will be familiar with the context of the company and its industry from their prior study of the pre-seen. This is a large company that sells a wide range of different makes and model of car through its dealerships. It is important to maintain steady sales from each dealership because manufacturers offer financial incentives to achieve sales targets. It is important to address the specific requirements set in each task. Higher marks are awarded to fuller answers that are relevant and correct. Relevance and correctness are frequently judged in the context of the scenario, taking account of the nature of the business and the specific issues raised by the new information provided in the variant itself and the tasks set by the requirements.

A level 3 score generally requires a combination of good technical understanding and good application to the issues arising from the scenario. Scripts that receive level 3 scores generally demonstrate clear and comprehensive discussion and frequently offer an explanation or justification for the candidate's recommendations or arguments. Candidates should always bear in mind that the MCS is essentially a simulation of a series of work-based tasks that represent the professional competence appropriate to this level.

Level 1 scores tended to be awarded to answers that demonstrated some or all of the following:

- failure to address the requirement in the task.
- limited technical understanding of the syllabus content.
- unsupported assertions that had little or no justification.
- illogical or unrealistic application to the issues arising from the scenario.

Variant 1 Comments on performance

	Designed to test	Core activity
Task 1	Should the move towards electric cars be classed as disruptive?	A – I can analyse the impact of disruptive and digital operating business models in the context of digital ecosystems
	What business risks will this create for Cuppcar?	C – I can apply the techniques that quantify and present risk to stakeholders
Task 2	How will the investment in training, software, etc. be accounted for?	D – I can select appropriate accounting treatments and explain their implications for users of the financial statements
	Should the investment be made as a single commitment or should it be phased?	B – I can apply appropriate project management tools and techniques to effectively manage projects at the appropriate stage in the project life cycle
Task 3	Would it be sensible to charge more for servicing electric cars, despite their relative simplicity?	A – I can explain which pricing strategies are appropriate
	Would it be legitimate to claim the adoption of electric cars as a positive change in the integrated report?	E – I can explain the implications of Integrated Reporting for the reporting entity and its stakeholders
Task 4	What are the implications for the wider ecosystem in which Cuppcar operates?	D – I can select and apply suitable tools and techniques for managing risk and uncertainty in business models
	What are the challenges associated with ensuring staff engagement in additional training for sales of electric cars?	C – I can advise on the measurement, analysis and reporting on the performance of responsibility centres

Task 1

Electric cars are not popular in Cuppcar's home country, but that may change in the medium-term future because many countries are introducing legislation that will ban the sale of new internal combustion engine (ICE) cars. Some manufacturers are starting to phase out the manufacture of ICE cars in favour of switching to electric. If sufficient manufacturers make such a move, then motorists will be forced to buy electric cars even if they are not particularly keen to do so.

The first sub-task asked whether the switch to electric cars is a disruptive technology. The requirement reminded candidates that a disruptive technology would lead to a fundamental change. This requirement was generally answered well. Candidates at this level demonstrated some thought about the nature of Cuppcar's business and the implications of a switch to electric cars. Answers discussed the impact on sales volumes of car sales and the impact on the sale of maintenance and repairs. Level 1 answers tended to confuse the issues affecting Cuppcar and those that will affect their customers. For example, it is unlikely that the present shortage of charging points for electric cars will persist indefinitely if all consumers are forced to switch to electric cars. There will be commercially viable opportunities for third parties to provide public charging points and so car dealerships will not have to provide all customers with that facility.

The second sub-task asked about three specific business risks associated with the increased sale of electric cars. Level 1 answers were generally focussed on defining and describing the types of risk specified in the requirement. Candidates at this level frequently failed to discuss the actual risks faced by Cuppcar. Level 3 answers generally demonstrated a clearer understanding of Cuppcar and its business and offered valid explanations of the risks faced by the company within each of the categories listed in the requirement. Better answers were generally careful to distinguish each of the three risks, while weaker answers often discussed business risk in very general terms.

Task 2

Cuppcar does not presently sell electric cars because of limited demand in its home country, but that is expected to change because of improvements in electric car technology, the provision of charging points for electric cars and, in the long term, the eventual cessation of the manufacture of electric cars.

The first sub-task asked about the accounting treatment of staff training and software that Cuppcar will have to purchase in order to maintain and service electric cars and to sell electric cars effectively. Level 1 answers frequently made the same errors that have arisen in previous exam sessions, with respect to the treatment of costs that might be accounted for as intangible assets. One frequent distraction is the listing of the factors that distinguish research and development. Those are not relevant to questions involving expenditure that is neither research nor development. Level 3 answers focussed on the application of the requirements of IAS 38 *Intangible assets*. Candidates at this level recognised that training costs were likely to be accounted for differently from software and so were able to offer separate arguments for each cost. Level 3 answers correctly identified the relevant issues associated with the application of the IAS and correctly applied those to the requirement.

The second sub-task asked about the implications of introducing electric cars gradually, perhaps by selling one or two brands of electric car, as opposed to a more aggressive switch for all 30 of the brands whose ICE cars the company presently sells. Most candidates were able to make some sensible comments on the respective risks associated with these alternatives. The biggest distinguishing features arose with respect to understanding of the business. Level 1 answers frequently offered suggestions that seemed unrealistic given the relationship between dealers and manufacturers. For example, some candidates at this level suggested that Cuppcar could sell Barto Motors electric cars from all 214 of its dealerships. Such an arrangement seems unrealistic because Barto Motors cars would then be sold alongside other manufacturers' ICE vehicles. It is unlikely that any manufacturers would agree to such a practice. Level 3 answers identified the implications of both limited and extended introduction of electric cars, taking account of the fact that Cuppcar has different numbers of dealerships for each brand whose cars it sells.

Task 3

Cuppcar intends to sell electric cars from all of its dealerships. That will have implications for the sale of servicing of electric cars and may have an impact on the company's reputation.

The first sub-task asked about the pricing of the servicing of electric cars. This is a complicated issue because manufacturers are permitting dealerships to set their own prices for this work. Most candidates identified the commercial implications of the switch to electric cars, most notably the fact that services are required only once every 2 years. Level 1 answers tended to consist largely of a description of different pricing models, with little real attempt to justify a specific approach to pricing. Level 3 answers reflected on the commercial implications of recommended models and justified the advice that is being offered to the Board in implementing this change.

The second sub-task asked about Cuppcar's treatment of its switch to electric cars in three sections of its integrated report. Answers were generally good, albeit with different levels of development. Level 1 answers often explained the content of each of the three designated headings in the integrated report. Such answers often lacked application to the scenario, saying little about the application to Cuppcar. Some answers at this level also described the headings that were not listed in the requirement. Level 3 answers explained how Cuppcar might describe the introduction of electric car sales and discussed the implications of those disclosures for the company's relationships with stakeholders.

Task 4

Cuppcar has decided to sell electric cars alongside ICE cars from all of its dealerships. Sales of electric cars have only just begun.

The first sub-task asked about the risks and opportunities for Cuppcar arising from this change in its ecosystem. Candidates generally offered sensible points, with stronger answers being distinguished by greater development. Level 1 answers tended to offer relatively few risks and opportunities, often focussing almost entirely on risks and saying very little about opportunities. Candidates at this level also tended to offer incorrect arguments in support of the points that they raised. For example, many suggested that Cuppcar could earn revenue from the replacement of batteries after eight years, despite the fact that it is uneconomic to replace batteries in electric cars. Level 3 answers tended to offer a good range of risks and opportunities that reflected the implications of selling electric cars.

The second sub-task related to a lack of engagement by sales executives in training courses relating to the new ranges of electric cars. It is important to address this because customers frequently complain that they receive poor or inaccurate advice about the features of the electric cars that they are considering buying. Level 1 answers frequently failed to offer realistic suggestions as to ways in which these members of staff might be motivated to participate fully in this training. Answers at this level often lacked substance. Level 3 answers were generally better supported with explanations as to how attempts to encourage engagement might be followed up and evaluated. These answers generally distinguished themselves by offering practical suggestions as to how engagement might be monitored and encouraged.

Variant 2 Comments on performance

	Designed to test	Core activity
Task 1	What are the report's implications for relationships with suppliers and customers?	D – I can select and apply suitable tools and techniques for managing risk and uncertainty in business models
	How might data mining be used to find ways to enhance customer satisfaction?	A – I can identify and use relevant digital data sources to assist in capital investment decisions
Task 2	What are the limitations of the feedback for use in internal benchmarking?	C – I can advise on the measurement, analysis and reporting on the performance of responsibility centres
	Should the definition of value being used in the business model be redefined?	A – I can select and implement suitable business models that will create value for stakeholders, including business models in the context of digital ecosystems
Task 3	Should dealership principals be permitted to justify their investment?	B – I can apply appropriate project management tools and techniques to effectively manage projects at the appropriate stage in the project life cycle
	Can the company capitalise its training costs?	D – I can select appropriate accounting treatments and explain their implications for users of the financial statements
Task 4	How will the reduction in staffing affect goodwill on consolidation and how will the sale of the office building affect the Group's consolidated statement of financial position?	E – I can explain the financial reporting implications of additions to the group
	What are the challenges associated with ensuring that dealership staff are receptive to being coached?	C – I can analyse the processes needed to ensure employee engagement, empowerment and alignment to enhance individual and team performance

Task 1

Candidates were first asked to discuss the implications of the report's findings for Cuppcar's relationships with both car manufacturers and new car customers.

Level 3 responses differentiated between the implications for the relationship with manufacturers and that with customers. They also recognised that a concern for Cuppcar would be that customers appear to evaluate the company in ways which the company cannot influence – for example, Cuppcar repairing vehicles without charge, even when the need for repairs is due to the customer's own carelessness. They provided clear discussion of the implications for Cuppcar of the feedback for both manufacturers and customers.

Level 2 responses were often less detailed, and many missed the issue of control of factors on which customers based their ratings and the fact that this makes it difficult for the company to improve the ratings. Level 1 answers identified some issues but did not explore them in any depth or explore their implications for Cuppcar.

Candidates were next asked to recommend with reasons specific ways in which Cuppcar might use data mining to identify ways to enhance customer satisfaction.

Level 3 responses recommended an appropriate range of data mining techniques and explained their advantages. For example, they suggested analysing negative feedback from customers to look for common factors, using the business intelligence system to break down data between different manufacturers and combining all feedback from individual customers which might identify outliers whose feedback could be excluded.

Level 2 answers were less well focussed and often discussed big data in general terms rather than focussing on data mining in this specific scenario. Level 1 answers explained data mining but did not focus on the range of techniques which would be appropriate in this situation.

Task 2

Candidates were first asked to identify and evaluate the limitations of the feedback provided by manufacturers for the purposes of internal benchmarking of customer satisfaction across Cuppcar's 214 dealerships.

Level 3 responses explained that the lack of consistency between manufacturers' questionnaires could make comparison difficult, so variations may be due to random factors but also that the levels of supervision in dealerships may be inconsistent. The 3-month reporting period may also make the reporting system unsuitable for benchmarking, as changes will not affect scores for at least 3 months.

Level 2 answers discussed issues in less depth and detail and were often more generic, with a number of candidates focussing too much on the fact that customers can choose not to complete the questionnaires when Cuppcar has no way of forcing them to do so.

Level 1 responses identified some issues but did not evaluate them or develop their arguments.

The next requirement was to recommend with reasons whether the feedback supplied by manufacturers suggests that Cuppcar should modify the definition of value in its business model.

Level 3 answers were often well-structured, exploring what it means to offer manufacturers a suitable retail experience and customers a positive experience. They offered reasoned recommendations about whether Cuppcar's approach to creating and defining value is acceptable.

Level 2 answers offered recommendations, but they were less well supported by analysis. Level one answers often quoted information on Cuppcar's business model from the pre-seen document but did not add sufficient analysis to score highly.

Task 3

Candidates were asked to evaluate the arguments for and against tolerating dealership principals' decisions to justify investment in this manner.

Level 3 answers recognised both arguments for and against, for example, that the investment in training appears to have been beneficial and that the budget heading has been used in the past for items which may not fall under the heading of capital items. They also identified that if Cuppcar dealerships need this training, it would be better for the company to commission it for all, selecting the best trainer and negotiating a lower price.

Level 2 answers tended to focus on either argument for or against rather than finding a balance of points to discuss. Some were overly focussed on the fact that the training costs would not be able to be capitalised in the financial statements. Level 1 answers identified some arguments but did not expand on them or provide analysis.

Candidates were then asked to identify and evaluate the difficulties associated with recognizing Cuppcar's investment in this training as a long-term enhancement of human capital in the integrated report.

Level 3 responses showed a good understanding of integrated reporting and explored the fact that training enhances relevant competencies, but that it is difficult to demonstrate that there will be long-term continuing benefit as staff are free to leave the company at any time. It might therefore be appropriate to refer to ongoing training if there is an annual programme ensuring that skills are updated and maintained.

Level 2 answers were less well developed but did identify difficulties associated with recognising the investment and show understanding of integrated reporting. Level 1 responses often confused integrated reporting with the capitalisation of capital items in the financial statements and therefore only identified a very limited range of relevant issues.

Task 4

Candidates were first asked to explain with reasons how the reduction in staffing will affect goodwill on consolidation of Happicust and how the sale of Happicust's office building will affect the Cuppcar Group's consolidated statement of financial position.

Level 3 responses recognised that the fair value of Happicust would reflect the skills of Happicust's workforce and the number of consultants employed. Reducing the number would therefore reduce the value of goodwill, and further consultants might choose to leave. They also explained the implications of the sale of the building, with an estimate of the building's fair value being likely to be different from the sale price, and the gain or loss on disposal being divided between the group and the non-controlling interest.

Level 2 responses often showed some understanding of the relevant accounting rules but identified the need to make redundancy payments as the reason for goodwill being reduced. Level 1 answers identified some issues but did not show good technical knowledge or develop their analysis.

The final part of this task asked candidates to identify and evaluate the challenges associated with ensuring that dealership staff are receptive to being coached by Happicust's consultants.

Level 3 responses recognised that coaching is different from training courses and explained that dealership staff may resent being coached when they are already working in customer-facing roles. They also often identified the issue that dealership staff will be paid on the basis of performance, so time spent being coached may well be time when they are not earning commission. They also explored the fact that Happicust being managed by a former rival may make it hard to convince staff that she is well qualified to advise them.

Level 2 answers tended to identify fewer issues and explore them in less depth, often making more general points about why staff might not be receptive to training. Level 1 responses tended to identify a few issues but not explore them sufficiently for a higher level of marks.

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Variant 3 Comments on performance

	Designed to test	Core activity
Task 1	Is the proposal consistent with the business model?	A – I can select and implement suitable business models that will create value for stakeholders, including business models in the context of digital ecosystems
	Would target costing be suitable for deciding the suitability of modifications to a new product?	C – I can identify and apply value management techniques to enhance value
Task 2	Should dealership principals be held responsible for the losses incurred on a new product?	C – I can advise on the measurement, analysis and reporting on the performance of responsibility centres
	How might sales teams be established?	B – I can recognise the characteristics of high-performing teams
Task 3	What are the difficulties associated with setting transfer prices that will optimise internal trading?	E – I can explain the behavioural and transfer pricing issues associated with internal trading
	What are the characteristics of debt that would affect its suitability for the purchase of new cars?	B – I can select suitable financing sources and explain the characteristics of the different types of funding
Task 4	What are the difficulties associated with predicting the cash flows for use in a net present value calculation?	A – I can select appropriate capital investment appraisal techniques and apply them in order to support capital investment decisions, including product/ service development, digital transformation projects and acquisitions
	How should sales be accounted for?	D – I can select appropriate accounting treatments and explain their implications for users of the financial statements

Task 1

Level 3 candidates were quick to point out that the Barto Motors company simply do not appear in the requirement here. The cars on Cuppcar's forecourts and showrooms are effectively sold units in Barto's eyes so defining value and capturing residual value has to be seen from the customer aspect alone, with Barto at best getting some additional advertising. Good candidates argued that special edition vehicles could generate additional sales on longer ownership and servicing. Level 3 candidates on the whole argued against the proposal saying that it would cause distraction for the sales force. Level 2 candidates tended to be less decisive about the decision process and gave weaker arguments, whereas level 1 answers tended to agree on the principle without any real follow through on the impact and effects.

Candidates were then asked to explain whether it would be appropriate to use target costing in deciding on the suitability of modifications to create the special edition of Hatch.

Level 3 candidates were aware that late life cycle modifications are not what target costing is about. They explained the principles of target costing, showing how profit target with incremental cost to get rid of residual stock is not a good mix and were able to give simple examples showing that Cuppcar would be better deploying other methods. Level 2 candidates tended to be less specific in identifying the potential obstacles, or simply abandoned the more expensive modifications leaving not much of a differentiator to sell. Level 1 candidates tended to confuse target costing with pricing models and were generally vague.

Task 2

Level 3 responses were on the whole tied closely into the scenario presented and in the Cuppcar regular business mode. The best dealership principles would be to be alert to changing market conditions. Allowing movement from normal business goals sets precedents and could result in multiple distractions. Level 2 answers were usually less balanced in their approach with fewer arguments, whereas level 1 answers tended to give single sided arguments in very general terms.

The second part of task 2 asks candidates to recommend with reasons how Cuppcar could establish effective teams of sales executives within Barto Motors dealerships to sell the remaining inventory of Hatch cars.

Good answers got straight to objective definition and key leadership skills, optional participation based on carefully balanced additional individual and team goal incentives. Level 2 answers showed rather less awareness of sales management and motivational forces at work in team dynamics. Level 1 answers tended to discuss generic team building and participation; forming, storming, membership mix, training etc., not correctly applied to the scenario.

Task 3

Level 3 answers gave a detailed description of the range of possible bias which could be used with clear recommendation as to the most appropriate, based on the market forces in play. Good candidates gave both sides of arguments and highlighted the need for a win-win, with Cuppcar ensuring goals are set and met that meet overall company objectives rather than local goals.

Level 2 tended to list possibilities without much in the way of justification or application of the information provided on this particular scenario circumstances. Level 1 answers did not go much beyond a description of different methods for arriving at a transfer price.

Recognising that the stock of Hatch cars has cost Cuppcar W$14 million, the second part of task 3 asks candidates to discuss the characteristics of debt that would affect its suitability for funding that W$14 million and thus free up cash flow for the business.

Level 3 answers tended to quickly identify characteristics directly pertinent to the scenario, showing an awareness of impact on gearing ratio; speed, flexibility, plenty of tangible assets to provide as security, speed of arrangement to enable short-term needs to free up cash flow, early redemption if units are moved and the tax advantage on interest.

Level 2 answers were less complete but usually missed the urgency implied by cash flow issues or failed to develop the overall picture relating to the wealth of information provided. Level 1 answers tended to give generic debt vs equity theory without proper application to the scenario.

Task 4

Finally, an alternative solution has been identified, leasing all 500 Hatch cars to the Welland Motorway Authority for use by staff maintaining motorway signage. Candidates were asked to identify and evaluate the difficulties associated with predicting the cash flows to be used in calculating the net present value to Cuppcar of this lease arrangement.

This was, on the whole, answered well, with most candidates identifying the difficulties in providing uniform modifications across all dealerships and the associated costs of workshop activity which may already be fully booked. Better candidates took into account that rules may have changed in 3 years' time and that vehicles may be in significantly poorer condition mechanically after 3 years hard use.

The second part of task 4 asks candidates to explain how Cuppcar would account for this arrangement in its published financial statements, assuming that it proceeds.

Level 3 candidates quickly distinguished themselves here with accurate assessment of lease treatment which could be argued operational or finance, according to how interpretations were made. Level 3 answers discussed both cases well, drawing on the plentiful information supplied in the scenario. Level 2 answers were less precise in defining correct assessment of the lease treatment and subsequent treatment, whereas level 1 answers were often very brief.

Variant 4 Comments on performance

	Designed to test	Core activity
Task 1	What factors should be considered when pricing a new service plan?	A – I can explain which pricing strategies are appropriate
	How should service contracts be accounted for?	D – I can select appropriate accounting treatments and explain their implications for users of the financial statements
Task 2	Did the company take an excessive risk when it set sales incentives for its business managers?	D – I can select and apply suitable tools and techniques for managing risk and uncertainty in business models
	How might managers' performance measures be better aligned with the company's interests?	C – I can analyse the processes needed to ensure employee engagement, empowerment and alignment to enhance individual and team performance
Task 3	What are the potential benefits of quality circles and how might they be established?	C – I can identify and apply appropriate quality management techniques to enhance value
	What are the characteristics of debt and equity that affect their usefulness in financing expansion of workshops?	B – I can select suitable financing sources and explain the characteristics of the different types of funding
Task 4	What are the difficulties associated with detecting dysfunctional behaviour?	E – I can explain the behavioural and transfer pricing issues associated with internal trading
	How might the company identify dealerships that operate as effective teams?	B – I can recognise the characteristics of high performing teams

Task 1

It has been proposed that Cuppcar should offer a service plan, which would enable customers to prepay for the first 3 years of annual servicing on their new cars. At present, manufacturers offer such plans, and they pay Cuppcar a royalty of 5% on sales of their plans. Cuppcar's proposal offers some features that are not offered by manufacturers.

The first sub-task asked for an indication of the factors that should be taken into account when setting the selling price of Cuppcar's servicing plan. That was generally answered well, with most candidates offering a number of relevant factors and discussing each to a reasonable depth. Many candidates achieved level 3 answers in this manner because they demonstrated a sound grasp of the commercial issues affecting this new product. Level 1 answers were generally short and did not develop a sensible range of factors. The only frequent error was confusion over the routine annual service and the possibility of repairs of accidental damage.

The second sub-task asked how Cuppcar should account for the service contracts. The challenge here is that the service plan is effectively a contract that enables Cuppcar to generate revenue over a 3-year period and will require the company to incur costs in order to provide the services that have been contracted for. This requirement was frequently answered poorly, with many short answers or answers that were technically incorrect. Level 3 answers understood that the service plan will have to be accounted for in terms of IFRS 15. Answers at this level demonstrated an awareness of the requirements of the IFRS and then explained how the standard should be applied to the service contracts. Level 1 answers tended to make some very basic errors that candidates should have been able to prevent simply by thinking the scenario through from fist principles. For example, many candidates argued that the contractual relationship with the customers should be accounted for as an asset, despite the fact that customers are paying in advance for a service and so their advance payment should be accounted for as a liability. A significant number of candidates gave very poor answers to this task and demonstrated poor understanding of this topic.

Task 2

Cuppcar has started to sell its own service plan. Business managers have been offered a significantly higher bonus on the sale of Cuppcar plans than on the sale of the plans provided by leading manufacturers. A leading manufacturer has submitted a formal complaint that business managers have responded to this by exaggerating the advantages of the Cuppcar plan over the manufacturer's alternative.

The first sub-task asked whether Cuppcar had taken an excessive risk in offering business managers such a generous incentive to sell its own plan in relation to the plans offered by manufacturers. Answers to this varied significantly in terms of quality. Level 3 answers focussed on the possibilities that should have been considered by the Board in advance of the plan's launch. Candidates at this level correctly identified the possibility that business managers would indulge in dysfunctional behaviour by actively discouraging the purchase of manufacturers' service plans. Some of these answers correctly raised the possibility that it might be necessary to offer a higher bonus for the Cuppcar plan because it may prove more difficult to sell this plan rather than the manufacturers' products. Level 1 answers tended to focus on issues that had not been raised by the requirement, such as the implications of upsetting major motor manufacturers.

The second sub-task asked for recommendations concerning better alignment of business managers' interests with those of the company. Many candidates offered weak sets of recommendations that were pitched at level 1. These tended to offer generic responses, such as the suggestion of balanced scorecards, with very little direct application to the scenario. Some suggestions were somewhat impractical, such as tracking the number of customers who subsequently returned as repeat customers, ignoring the fact that many motorists might keep their cars for several years. There were some good answers at level 3 that managed to make some practical suggestions concerning the revision of bonus structures and performance measures.

Task 3

It has been suggested that Cuppcar should introduce quality circles in its workshops in order to address concerns arising from the fact that the new service plan will increase sales of routine services. This is clearly an important aspect of operations because servicing involves checks on brakes and steering and so there could be safety issues for customers.

The first sub task asked for an evaluation of the usefulness of quality circles and the approach that the company should take to establishing effective quality circles. Marks were also awarded for discussing quality issues relating to the case study. Level 3 answers generally addressed both of the issues raised in the requirement and also discussed appropriate quality issues, there were some very good answers. Candidates at this level tended to demonstrate a good understanding of the purpose of quality circles and applied that to Cuppcar's situation. They also offered practical responses to establishing effective quality circles. Level 1 answers often demonstrated a very limited understanding of the purpose of quality circles and offered impractical suggestions, such as establishing a single quality circle that would address the whole company with its hundreds of workshops.

The second sub-task asked about the characteristics of debt and equity that affected their suitability for funding the expansion of workshops. The quality of answers varied, although most candidates were aware of the broad characteristics of debt and equity and were able to use that to good effect. Level 3 answers applied their understanding of debt and equity to the specifics of Cuppcar's current financial position and the nature of the assets that had to be funded. Such answers included sensible discussion of gearing ratios and the impact that the choice of either debt or equity might have. Level 1 answers tended to offer limited descriptions of the generic issues associated with funding. Some answers included technically incorrect arguments, such as the possibility that Cuppcar's retained earnings could be spent instead of raising funds from debt or equity.

Task 4

The Board is concerned that sales executives are advising customers to upgrade and accessorise their cars instead of purchasing service plans. They are motivated to do so because they receive incentives for upgrades but not for service plans. In many cases, it would be in Cuppcar's best interests for customers to buy service plans.

The first sub-task asked about the difficulties associated with identifying and addressing dysfunctional behaviour by sales executives. Level 3 answers applied common sense to the scenario and pointed out a number of difficulties faced by Cuppcar. It is, for example, difficult to claim that the sales executives are failing in their duties if they are selling cars and encouraging customers to spend more on improvements. Generally, answers at this level offered logical responses, including the possibility of restructuring sales incentives so that both sales executives and business managers could act in the company's best interests. Level 1 answers were often naïve and offered impractical suggestions. For example, some answers at this level argued that customers should be asked whether they have been badly advised by the sales executives who dealt with them. It is to be hoped that none would view that as a possibility.

The second sub-task asked how Cuppcar could identify dealerships that were operating as effective teams. This requirement was generally answered well, with a number of sensible recommendations that could be used by senior management. Most such answers focussed on performance measures, either financial or non-financial. Level 1 answers often wasted time by summarising study materials in describing the characteristics of effective teams, with little or no attempt to use this structure as the basis for an explanation of whether a particular dealership had those characteristics.

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Variant 5 Comments on performance

	Designed to test	Core activity
Task 1	What are the financial reporting challenges associated with unwittingly purchasing counterfeit parts?	D – I can select appropriate accounting treatments and explain their implications for users of the financial statements
	What are the product reputation and operational risks associated with unwittingly fitting counterfeit parts to customers' cars?	D – I can select and apply suitable tools and techniques for managing risk and uncertainty in business models
Task 2	How might a business intelligence system be used to evaluate the extent to which dealerships have fitted counterfeit parts?	A – I can identify and use relevant digital data sources to assist in capital investment decisions
	How might a project to recall customers' cars be organised?	B – I can apply appropriate project management tools and techniques to effectively manage projects at the appropriate stage in the project life cycle
Task 3	What are the arguments for and against having dealerships bear inspection costs relating to counterfeits?	C – I can advise on the measurement, analysis and reporting on the performance of responsibility centres
	What are the characteristics of debt that may make it a sensible means of funding costs?	B – I can select suitable financing sources and explain the characteristics of the different types of funding
Task 4	How should Cuppcar approach negotiations with other car dealers and part manufacturers?	E – I can advise on the negotiation process
	Should the company pass increased costs on to customers?	A – I can explain which pricing strategies are appropriate

Task 1

Candidates were first asked to evaluate the financial reporting challenges that the Board will have to consider in relation to counterfeit parts and recommend with reasons suitable responses.

Level 3 responses correctly identified that the application of IAS 37 is relevant for the definition of provisions and contingent liabilities and the requirements for reporting them. They also discussed the challenge of valuing inventory when it might include counterfeit parts. Level 2 responses often discussed either IAS 37 or inventory issues but not both. They tended to be less technically precise and detailed than level 3 answers. Level 1 answers were frequently less well focussed on the question asked, discussing in general the issues arising from counterfeit parts rather than specifically describing the financial reporting challenges.

Candidates were next asked to identify and evaluate the product reputation risk and the operational risk associated with the possibility that Cuppcar might use counterfeit parts when servicing customers' cars.

Level 3 responses addressed both product reputation and operational risks, evaluating the possibility of loss of customer trust as well as the potential for the failure of business processes. Level 2 answers were less well developed and often identified risks well but did not fully evaluate them. Level 1 answers did not provide more than identification of risks.

Task 2

Candidates were first asked to recommend with reasons how Cuppcar might use its business intelligence system to evaluate the extent to which dealerships might have fitted counterfeit brake pads.

Level 3 responses showed good understanding of business intelligence systems and how the BIS could be used in this situation, such as identifying the sources of defective brake pads and the suppliers who sold them. Level 2 answers discussed issues in less depth and detail and often provided a general explanation of BIS rather than identifying specific uses for it for Cuppcar. Level 1 responses identified some potential benefits of BIS but did not evaluate them or develop their arguments.

The next requirement was to recommend with reasons the manner in which a project to recall cars to check their brakes should be organized.

Level 3 answers provided well-structured advice on the project, including appointing an appropriate team, making announcements and setting priorities. Answers were detailed and recommendations well justified.

Level 2 answers offered recommendations, but they were less well supported by analysis. Level 1 answers identified some appropriate issues but did not move beyond outlining an approach for the project.

Task 3

An initial investigation has established that some dealerships have inadvertently fitted counterfeit brake pads to customers' cars. Other car parts may also be affected. Recalling and checking cars and replacing parts will cost Cuppcar a great deal of money.

Candidates were asked to evaluate the arguments for and against having individual dealerships bear the costs of inspecting customers' cars and replacing any counterfeit parts that are identified.

Level 3 answers recognised both arguments for and against; for example, that some dealerships avoided using counterfeit parts and so it would appear fair that those which did not bear the cost. It would also send a clear message to other dealerships to take care when purchasing inventory. On the other hand, the costs of the recall could be significant and could discourage dealership staff and impact their reputation within Cuppcar. Level 2 answers often focussed on either points for or points against rather than presenting a balanced evaluation. These arguments were less fully developed than in level 3 responses. Level 1 answers identified some arguments but did not expand on them or provide analysis.

Candidates were then asked to identify and evaluate the characteristics of debt that may make it sensible for Cuppcar to borrow to finance the W$50million required to cover the costs associated with the purchase of counterfeits.

Level 3 responses showed a good knowledge of the characteristics of debt and applied that knowledge to the scenario; for example, pointing out that debt is flexible and could probably be arranged quite quickly. Level 2 answers were often less well applied, with some providing less relevant information such as the characteristics of equity and descriptions of different forms of equity. Level 1 responses often provided some description of debt and its characteristics but did not apply this to the specific scenario described in the case study.

Task 4

The final task began by explaining that the CEO intended to meet with his counterparts at other major car dealers in order to persuade them to work with car part manufacturers to develop a response to the counterfeiting problem. The use of technology to imprint patterns on the packaging or products would be expensive but could enable staff to check that parts are genuine.

Candidates were first asked to explain the approach that Cuppcar should take in negotiating with other car dealers and with part manufacturers on the subject of addressing the problem of counterfeit parts.

Level 3 responses made sensible suggestions for an approach and included consideration of both car dealers and part manufacturers, recognising that the two groups are affected by the counterfeits in different ways. Level 2 responses were often less well developed and often focussed almost exclusively on the requirements of the car dealers, omitting consideration of manufacturers. Level 1 answers often provided generic advice on negotiations without focus on the specific scenario.

The final part of this task asked candidates to recommend with reasons whether Cuppcar should increase its charges for servicing and repairs in order to pass on any increase in the cost of parts to customers.

Level 3 responses recognised that Cuppcar's rivals will be similarly affected so all might start to charge more. They also pointed out the importance of workshop profits to the dealerships and the danger that price rises might remind customers that Cuppcar has been fitting counterfeit parts. Level 2 answers tended to identify fewer issues and explore them in less depth, making recommendations which were not fully justified. Level 1 responses tended to identify a few issues but not explore them sufficiently for a higher level of marks.

Variant 6 Comments on performance

	Designed to test	Core activity
Task 1	What are the arguments for and against accepting losses on trade-ins?	A – I can select and implement suitable business models that will create value for stakeholders, including business models in the context of digital ecosystems
	How should business process re-engineering be applied to designing and implementing the management of trade-ins?	C – I can identify and apply appropriate quality management techniques to enhance value
Task 2	How might the lack of comparability between used cars benefit Cuppcar?	A – I can explain which pricing strategies are appropriate
	Should negotiation skills be included in used car sales executives' performance appraisals?	E – I can explain the behavioural and transfer pricing issues associated with internal trading
Task 3	What are the business risks associated with the acquisition of a used car specialist?	D – I can select and apply suitable tools and techniques for managing risk and uncertainty in business models
	What are the difficulties of determining goodwill on the acquisition of this specialist?	E – I can explain the financial reporting implications of additions to the group
Task 4	How will a change to the management of used car sales affect the operations of dealerships and the specialist trader?	C – I can advise on the measurement, analysis and reporting on the performance of responsibility centres
	How will the characteristics of debt and equity affect their suitability for the funding of the purchase of new software?	B – I can select suitable financing sources and explain the characteristics of the different types of funding

Task 1

Level 3 and 2 responses were well balanced, giving arguments both for and against accepting losses on trade ins. Level 3 responses tended to give better in-depth justifications for both sides, whereas level 2 responses were often quite biased and less detailed. Level 1 tended to be vague or one sided or failed to relate to the scenario. This was generally reasonably answered.
The second part of task 1 went on to ask candidates to recommend with reasons how Cuppcar should apply the principles of business process re-engineering (BPR) to designing and implementing procedures for pricing customers' trade-ins.

Candidates were remarkably weak on business process re-engineering, wide variation of definitions often partially or completely wrong, sometimes omitting to answer the question.

Those who did know and understand the principles were able to define them and then achieve level 3 by laying out design principles and implementation process as requested. The best candidates were able to give good reasons for integrated and feedback testing and validation of the new systems being implemented highlighting also the need for change management, training and good communications throughout. Level 2 displayed either good imagination or a partial grasp of the process, and level 1 often had no idea how to answer the question.

Task 2

Task 2 moves the scenario forward a month and highlights the difficulties in accurately comparing used car values for sale. Candidates were asked to recommend with reasons how dealerships might make the best use of the lack of comparability between used cars when setting selling prices.

This was reasonably well answered since good use was made of the scenario in many cases; dealing with pristine second-hand cars from the luxury end of the market presenting sales with unique opportunities to differentiate their product. Level 3 answers were able to bring this out with examples and good justifications. Level 2 answers were less detailed, and level q often strayed pricing theory without any application to the scenario.

Part 2 of the task proceeded to request candidates to identify and evaluate the implications of including negotiation skills in employee performance appraisals for used car sales executives.

Level 3 continued to give good answers with close reference to the scenario and the interpersonal skills involved in successful negotiation where different types of customers are left fully satisfied with the outcome of their discussion. Level 2 tended to treat negotiation skills as a means to win an argument, and level 1 often interpreted the negotiation skills as those needed in the execution of the performance appraisal, not as a human skill for use in the workplace.

Task 3

Answers here were generally good across reputation and operational elements with basic differences being in how well level 3 answers were applied to the scenario and reflected on potential damage and damage mitigation possible. Level 3 responses tended to highlight the loss of interpersonal contact and opportunity for upselling. Contractual adequacy very poorly understood by all candidates.

Part 2 of task 3 requires candidates to identify and evaluate the difficulties associated with determining goodwill on the acquisition of Remoacar.

This was very badly answered. There are clear difficulties in assessing fair values with varied car sales plots, with the second-hand value of 9000 cars highlighted in the previous question as being difficult to quantify and the value of a bespoke application and website. All specialist assets which 60% of candidates failed to recognise.

Level 3 candidates had no problem with identifying these issues and justified alternative means and policies to arrive at sensible valuation and therefore goodwill definition. Level 1 and 2 responses had no idea how to answer this question.

Task 4

Following the acquisition of Remoacar, the Board decides to switch all of Cuppcar's used car sales to Remoacar, and candidates were asked to discuss the possible impacts of this plan on the operations of Cuppcar's dealerships and Remoacar.

This was reasonably answered, with differentiation in level 3 to 1 being in the degree to which candidates described the various impacts on profit, employment, footfall, restructuring of dealerships, downsizing of plots, workshop workload, application and website rescaling. Level 3 candidates recognised this as potentially a major business rupture needing a great deal of management to ensure the survival of the business. Level 2 and one were simply less detailed and complete in their answers. Many level 2 answers were adequate from either Cuppcar or Remoacar viewpoint but failed to answer for both as was clearly requested in the question.

Finally, candidates were asked to identify and evaluate the characteristics of debt and equity in determining their suitability for financing the investment in software used by Remoacar to accommodate the Cuppcar used car sales integration.

Many level 2 and level 1 candidates simply identify the characteristics of sources of funding without any reference to the purpose of the funding. Bespoke software applications may have little or no value outside the organisation so may give significant difficulties when raising finance both in the first instance and in the case of any subsequent needs. Although candidates do not need to analyse ratios. The level 3 candidates usually had awareness of the impact on any such borrowing which has a significant impact in the choice of funding.