

May and August 2021
Management Case Study and CIMA Gateway
2019 CIMA Professional Qualification
Full post exam support materials

Below is the full post-exam supporting material for the management/gateway case study exam.

Pre-seen material

May and August 2021 management/gateway case study pre-seen can be found [here](#)

Examiner's report (available from 22 October)

The May and August 2021 examiner's report can be found [here](#)

Exam variants

- Variant 1 can be accessed [here](#)
- Variant 2 can be accessed [here](#)
- Variant 3 can be accessed [here](#)
- Variant 4 can be accessed [here](#)
- Variant 5 can be accessed [here](#)
- Variant 6 can be accessed [here](#)

Suggested solutions

- Suggested solutions for variant 1 can be accessed [here](#)
- Suggested solutions for variant 2 can be accessed [here](#)
- Suggested solutions for variant 3 can be accessed [here](#)
- Suggested solutions for variant 4 can be accessed [here](#)
- Suggested solutions for variant 5 can be accessed [here](#)
- Suggested solutions for variant 6 can be accessed [here](#)

Marking Guidance (available from 22 October)

- Marking guidance for variant 1 can be accessed [here](#)
- Marking guidance for variant 2 can be accessed [here](#)
- Marking guidance for variant 3 can be accessed [here](#)
- Marking guidance for variant 4 can be accessed [here](#)
- Marking guidance for variant 5 can be accessed [here](#)
- Marking guidance for variant 6 can be accessed [here](#)

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May & August 2021 Management Case Study Examination

Pre-seen material

COVID-19 Statement

This pre-seen and the case study in general (while aiming to reflect real life), are set in a context where the COVID-19 pandemic has 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 the pandemic or social distancing will, of course, be marked on their merits. In most cases, however, candidates may find it helpful to assume that there are no restrictions to the movement of people, goods or services in place.



TRAYYNER

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Introduction

Trayyner is an unquoted company that offers executive training courses. The company is based in Capital City in Northland, but it offers its courses at several international locations.

Northland is a developed country that has a high standard of living. The country has an excellent higher education system, with relatively high proportions of its population holding undergraduate and postgraduate degrees.

Northland's currency is the N\$. Northlandian company law requires companies to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS).

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

Executive Training Industry

Executive training companies provide short courses, typically lasting for 3 to 5 working days. They provide course participants, more commonly known as “delegates”, with the opportunity to update their existing skills or to develop skills and knowledge that they require in order to be more effective in the workplace.



Executive training courses take a variety of different forms and they are provided by a range of different organisations. Many colleges and universities offer executive training courses, some of which are led by prominent academics. There are also many private sector training companies.

Course fees are generally paid by delegates' employers and so it is usually possible to charge a significant amount for course participation. Senior managers and directors are often entrusted with key decisions and so enhancing their competence through relevant training can be a highly cost-effective investment.

Training is also potentially good for morale. Training courses provide delegates with an opportunity to step back from the pressures of running the business, without requiring them to make use of their annual leave entitlements. They also reassure delegates that they are valued by their employers because they take their needs for personal development seriously.

Having directors and senior managers participate in ongoing executive training also sets a good example for more junior employees in organisations that encourage their workforces to engage in lifelong learning.

Training courses take two main forms:

Public courses	<p>Public courses are open courses that are advertised publicly and can be taken by anyone whose employer is prepared to pay the course fee. The course outline is published in advance and so delegates can decide whether it suits their needs.</p> <p>The fact that the outline is developed by the training company's experts suggests that it covers material that should be of value, perhaps because the course facilitator regards it as current or because it is frequently misunderstood.</p> <p>Delegates enjoy the opportunity to interact with their fellow participants, who will come from different employers and may have very different backgrounds. All delegates have an interest in the course subject matter and so it may be possible to share insights and seek advice about the practical issues arising from the course content.</p> <p>Class sizes are usually restricted to a maximum of, say, 20–25 delegates. That makes it easier for individuals to engage with the course content.</p>
Bespoke courses	<p>Bespoke courses are designed in consultation with clients, with a view to covering material that is relevant to the client organisation's needs and the needs of the delegates. The course might cover a particular topic area from the perspective of the client's industry, or it may be designed to assist a particular group with their specific needs. For example, if a company has recently appointed new directors then it might develop a training course to help them understand their responsibilities.</p> <p>Bespoke courses often give delegates an opportunity to relax and interact as a management team, without the immediate pressures of being in the work environment.</p> <p>Class sizes for bespoke courses are determined by the client, but are generally small. In principle, it would be possible to offer training to an individual delegate if that was what the client wished.</p>

Executive training courses take two main forms, either developing new skills for delegates or updating delegates' existing skills.

The early careers of company directors and senior managers typically start in a functional or professional area. For example, in engineering or finance. Generally, careers progress through various stages of seniority, with managers taking on more supervisory responsibilities and moving into a position that requires the ability to contribute to the management of the organisation's strategy. For example, a geologist might work her way through the ranks of an oil company before being appointed to the Board of Directors. As a newly appointed director, she would almost certainly find it useful to receive some training on aspects of her new responsibilities in order to augment the knowledge that she gathered earlier in her career.

Training companies frequently offer courses covering generic skills required by senior managers and directors, such as:

- Budgeting and financial management
- Corporate governance
- Leadership.

Training companies also provide courses that update or extend skills and knowledge in ways that are appropriate to the professional backgrounds of senior managers and directors. For example, the following courses might be offered for HR professionals:

- Recent developments in employment law
- Recruitment using social media
- Artificial intelligence in selection.

These courses are often designed to meet the needs of professional bodies for continuing professional development. For example, the Northland Institute of Personnel and Development requires its members to complete an annual return that confirms they have taken appropriate steps to remain current. While that requirement can be satisfied in several ways, members can demonstrate compliance by participating in formal training.

There is considerable competition in this industry. New training companies require little initial investment. Most large hotels rent out meeting rooms that are fully equipped with all of the necessary audio-visual equipment required for presentations. Trainers are often employed as contractors for the duration of their courses. Trainers are expected to use their own laptop and presentation software.



The low set-up costs mean that there is a steady flow of newly established training companies. The resulting competition also means that there is a very high failure rate, with many newly established companies struggling to generate sufficient revenue to remain viable.

There are relatively few well-established training companies. These companies generally rely heavily on repeat business from corporate clients who often work closely with training providers to develop relevant training courses for their senior management teams.

Trayyner

Trayyner was founded in the 1990s by the Nasir family. Asif and his sister Miriam were the original directors and they built up the business together.

Asif and Miriam are on Trayyner's Board: Asif as Executive Chair and Miriam as Chief Executive.

Trayyner's Head Office is in Northland's Capital City. It offers a wide variety of courses that are generally 3–5 working days in duration, with its longest courses lasting 10 working days.

Trayyner is based in an office building that it owns and uses as a base for 60 staff, who are split between administration and accounting, global marketing and course management. There are also three overseas sales offices, each of which is incorporated as a 100% subsidiary in its host country. These employ a total of 24 staff whose job is to market courses to potential delegates from the host countries.

Head Office staff are split into three main departments:

- Administration and accounting
- Global marketing
- Course management – each training course has a designated course manager, who liaises with delegates before they travel and who will be present at the venue to supervise the course and deal with any problems or concerns that arise.

Marketing activities

Trayyner has an extensive client base that is drawn mainly from regions that had developing economies until relatively recently, but that have transitioned to maturity. Countries in those regions frequently have large numbers of professional people who occupy senior roles within indigenous and parastatal (government-owned) organisations. Those managers are typically graduates and have significant business experience. They share the same needs as managers from more developed countries to receive training that challenges them by exposing them to new ideas.

Trayyner takes two main approaches to marketing its courses:

- Course managers are active in developing and maintaining relationships with delegates and their employers. There is always a course manager present during any given course and that gives them an opportunity to promote future bookings in a low-key manner, through chatting at breaks and seeking feedback about delegates' needs.
- Course managers constantly seek useful intelligence, such as asking each course delegate for the contact details of the person who selects and books courses for their organisation.
- Course managers maintain regular email contact with past delegates and their training managers, recommending upcoming scheduled courses or asking whether a bespoke course might be of interest.
- The three overseas sales offices are each located in a different foreign country (Southland, Eastland and Westland). Each host country is home to many of the companies who have booked courses in the past.

The local sales teams work to develop contacts with employers who might book executive training courses. They also assist the course managers at Head Office by maintaining contact with local training managers who have previously booked Trayyner's courses.

This local presence helps maintain bookings from these three countries. The overseas sales offices ensure continuity of contact with important clients and also reduce the pressure on the course managers at Head Office, particularly when they are overseas and busy supervising courses. Trayyner is, however, happy to accept clients from any country. Course managers maintain regular contact with clients and potential clients from many different countries and new clients are sometimes recruited through Trayyner's website.

The Head Office and each of the three overseas sales offices are run as separate profit centres. Each is responsible for signing up delegates for public courses and working with corporate clients to develop bespoke courses.

The overseas sales offices incur all costs locally. They are credited with a commission from Trayyner's Head Office whenever they enrol delegates on public courses or sign a contract for a bespoke course. Delegates simply join the public courses that they have signed up for. Bespoke courses negotiated by the overseas sales offices become the responsibility of course managers at Head Office.

Course locations

None of Trayyner's training is undertaken in Northland or in the host countries occupied by the overseas sales offices. Courses tend to be conducted in locations that are within a day's travelling distance for both Trayyner's staff and course delegates. That is usually defined as being within a day's flying time. Many courses are offered at a location that is an 8-hour flight from Capital City and a similar flying time for most delegates.

Delegates are willing to make such long journeys because Trayyner's courses are generally based in cities that are regarded as attractive destinations and that are usually served by major hub airports. The vast majority of course delegates are senior managers, frequently Board members, and they can justify the cost of an intercontinental flight to maintain their competency or to learn new skills.



Trayyner's courses are all conducted in luxury hotels. These generally offer fully equipped meeting rooms that have the necessary facilities to project the course materials from the trainer's laptop. Trayyner generally accommodates the course manager and their trainers at those same hotels. Trayyner aims to build relationships with specific hotels so that it can negotiate discounts on meeting room hire and on accommodation and also ensure that hotel staff are instructed to provide good service.



Traynner's courses generally run from 9.00 hrs until 13.30 hrs. Delegates are provided with tea, coffee and snacks during all breaks and a full lunch at the end of each day's training.

Traynner can arrange accommodation for delegates at the hotel, although many delegates work for companies that have corporate accounts with international hotel chains and so they often make their own arrangements.

Ideally, Traynner will have two or three courses running simultaneously in any given hotel. The same course manager can then supervise more than one course and the costs associated with travel and accommodation can be spread across multiple courses.

Trainers

Traynner has approximately 300 trainers, all of whom are employed on a part-time basis. Each has an area of specialism and must fit in presenting courses for Traynner alongside their other work and personal commitments.

Trainers are recruited mainly through direct approaches made by Traynner's course managers. They might, for example, study catalogues of major publishers, looking for authors whose books are in relevant areas. Once recruited, those trainers may be able to recommend colleagues and acquaintances who would also be worth approaching.

Many of Traynner's courses require specialist knowledge of topics that are likely to challenge many potential trainers. For example, several courses are designed to assist delegates who have recently been appointed as pension fund trustees, which means that trainers must be capable of delivering credible and useful courses on the management of different types of pension schemes.

Trainers are required to develop their own course materials, even if the course is a public one that has been taught previously by someone else. Trainers do not receive any separate payment for developing the materials, but they are motivated by the possibility that they will be asked to repeat the course at a different location or at a later date and so they will have little or no preparation for any repeats.

Delegates are asked to evaluate trainers at the conclusion of each course. The course manager then provides the trainer with feedback and suggestions for improving future courses. The course manager will also have sat in on the course for at least part of the time and will have personal observations to make. It is not sufficient for courses to be technically correct, they also have to be delivered in a lively and engaging manner.

Trainers are only asked back to deliver future courses if their overall performance is deemed satisfactory. Trayyner has many trainers who have worked for the company for several years, but even long-serving trainers can be withdrawn from service if their course evaluations are weak.

It can be challenging to deliver courses with qualified trainers. Even a 3-day course requires a day's travel both at the beginning and the end and so the trainer must be able to commit to a week or more at a time. Trayyner requires trainers to commit to the whole course from beginning to end because it is not cost-effective to fly two trainers out to share a few days each on a training course.

Trayyner does not employ any trainers on a permanent basis, which can make it difficult to facilitate courses. Some trainers are unable to commit to more than one or two courses a year, despite the fact that Trayyner pays an attractive daily fee. Most competent trainers have significant prior work commitments and may have to take annual leave from their full-time jobs in order to accept an assignment. Some trainers are full-time lecturers at colleges or universities who use part of their vacation time to work for Trayyner.

Trayyner forbids its trainers from working for any other training company. Any who are found to be doing so will not be used again, even if they are popular with delegates.

Course Managers

Course managers have a range of responsibilities:

- They create schedules of courses, both public and bespoke, that will be potentially attractive to clients. Public courses may deal with obvious topics, such as leadership, and so Trayyner may be competing directly with other training companies in order to attract delegates.
- Course managers work constantly to develop leads with corporate clients. They approach delegates from past courses in order to ask about their needs for further training, either through participation in a public course or through a bespoke course. Course managers also work with the HR departments of corporate clients to identify the managers who are responsible for training budgets and who might be in a position to request bookings.



- Course managers use break times during courses to interact with delegates. They use these opportunities to gather intelligence, such as checking that they have the latest contact details for the corporate managers who make training decisions.
- Course managers also engage with delegates to ensure that they are happy with the course so far and to assist with any

problems that they might have with travel or accommodation. They also organise social activities during the course.

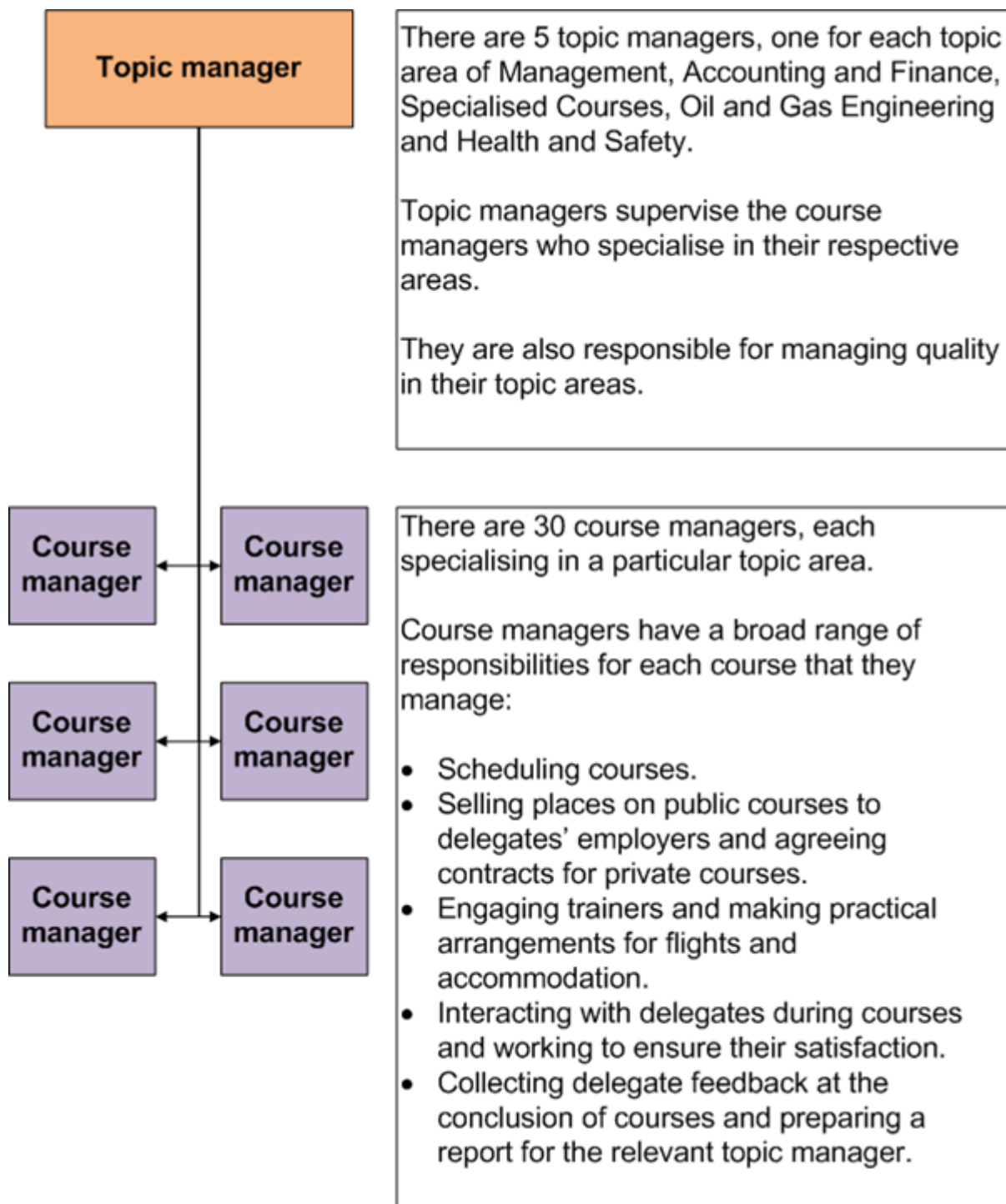
- Course managers are also expected to plan and make the arrangements for future courses. They need to recruit trainers, organise flights and accommodation and track bookings for public courses to ensure that numbers are viable. Those duties might conflict with overseeing courses that are under way and so they may have to take time out of the training room to work on their laptops and mobile phones.
- Course managers are responsible for briefing staff at the three overseas sales offices on any information they have collected that will help the sales office staff to sell courses to delegates and employers from their host countries. The sales office staff and course managers must coordinate their efforts to make the most effective use of contacts. Marketing activities carried out by the course managers are supported by colleagues who are based in Traynyer's three foreign subsidiaries. Each of these subsidiaries is based in a host country that is home to several of Traynyer's major clients. The subsidiary staff are responsible for maintaining good relationships with those local clients, often using information collected by the course managers. They also engage with potential clients in their host countries.

Topic Managers

Traynyer offers a wide range of courses, broadly grouped under the topic areas of Management, Accounting and Finance, Specialised Courses, Oil and Gas Engineering and Health and Safety. Each topic area has its own topic manager, who has overall responsibility for the public and bespoke courses within that topic area.

Topic managers supervise the activities of course managers. For example, at the conclusion of each course, the course manager who was responsible for supervising it must compile a report for the topic manager that summarises delegate feedback along with costs and revenues.

Topic managers must also approve the appointment of any new trainers before they can conduct a course for the first time.



Courses

The following is just a sample of the public courses that Trayyner offers:

Management

- Leadership Skills for the Technical Manager in the Non-technical Role
- An Introduction to HR
- Strategic Leadership for Directors
- Managing Effective Teams
- Corporate Social Responsibility
- Managing Risk
- Serving on the Audit Committee
- Corporate Governance
- Marketing for Directors
- Big Data Analytics
- Supply Chain Management for Directors
- Cyber Security for Directors

Accounting and Finance

- Accounting for Directors
- Financial Statement Analysis
- Understanding IFRS
- Valuing Companies
- Raising Finance
- Recent Developments in Financial Reporting

Specialised Courses

- Valuing Pension Funds
- Pension Fund Board Responsibilities
- Internal Audit in Parastatals
- Board Duties in Parastatals
- Valuation in Alternative Energy Organisations
- Governance in Charities
- Raising Venture Capital in the Technology Industry

Oil and Gas Engineering

- Oil and Gas Accounting
- An Introduction to the Oil and Gas Industry
- Oil and Gas Safety
- Procurement in the Oil and Gas Industry
- Managing Construction in the Oil and Gas Industry
- Offshore Safety Management
- Risk Management in Oil Exploration

Health and Safety

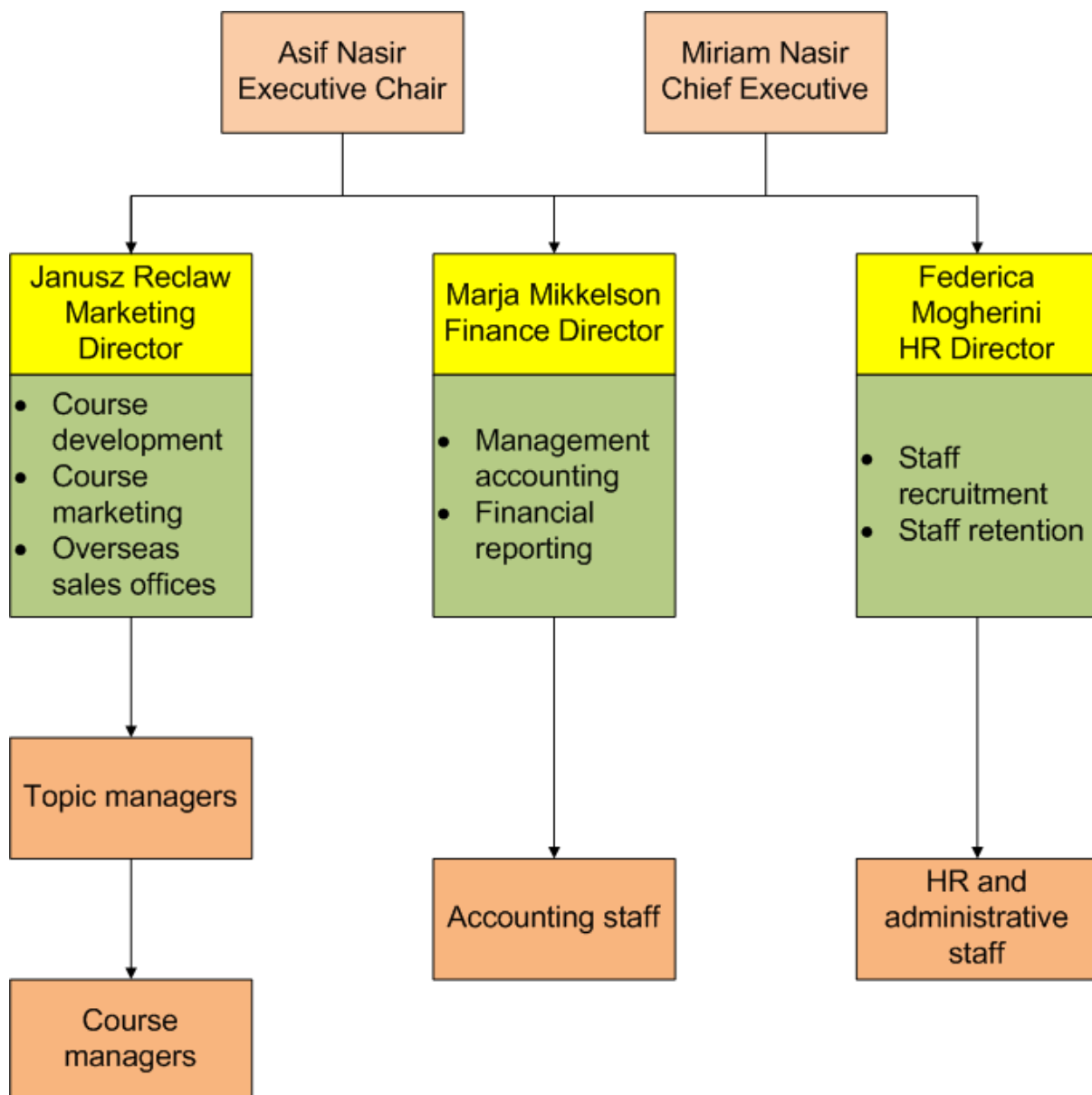
- Risk and Incident Analysis
- Health and Safety in the Oil and Gas Industry
- Safety Compliance and Inspection
- An Introduction to Health and Safety Management
- Risk Assessment in Vehicle Operation and Maintenance
- Risk Assessment in Manufacturing Operations

Some of these courses are very popular and run several times a year. For example, Accounting for Directors and Managing Risk both run four times a year.

Bespoke courses can be based on public courses or they can be designed to the client's specific needs. For example, the directors of a major teaching hospital recently requested a course on the recruitment and training of junior nurses. One of Trayyner's course managers identified a trainer with considerable experience in that area and organised a four-day course that covered the client's requirements.

There are 30 course managers, each of whom specialises in one of the five topic areas, although there is a constant need for them to be flexible. If there are three courses running simultaneously in a particular venue then it is more cost-effective to send just one course manager to supervise them all, even if they are spread across unrelated topics. It may also be cheaper to have the same course manager stay at a particular hotel for two or three weeks in order to oversee a succession of different courses, rather than incur the cost of air fares to change between course managers. That can mean that a course manager who specialises in, say, Accounting and Finance must also supervise courses from different topics.

Trayyner's management structure



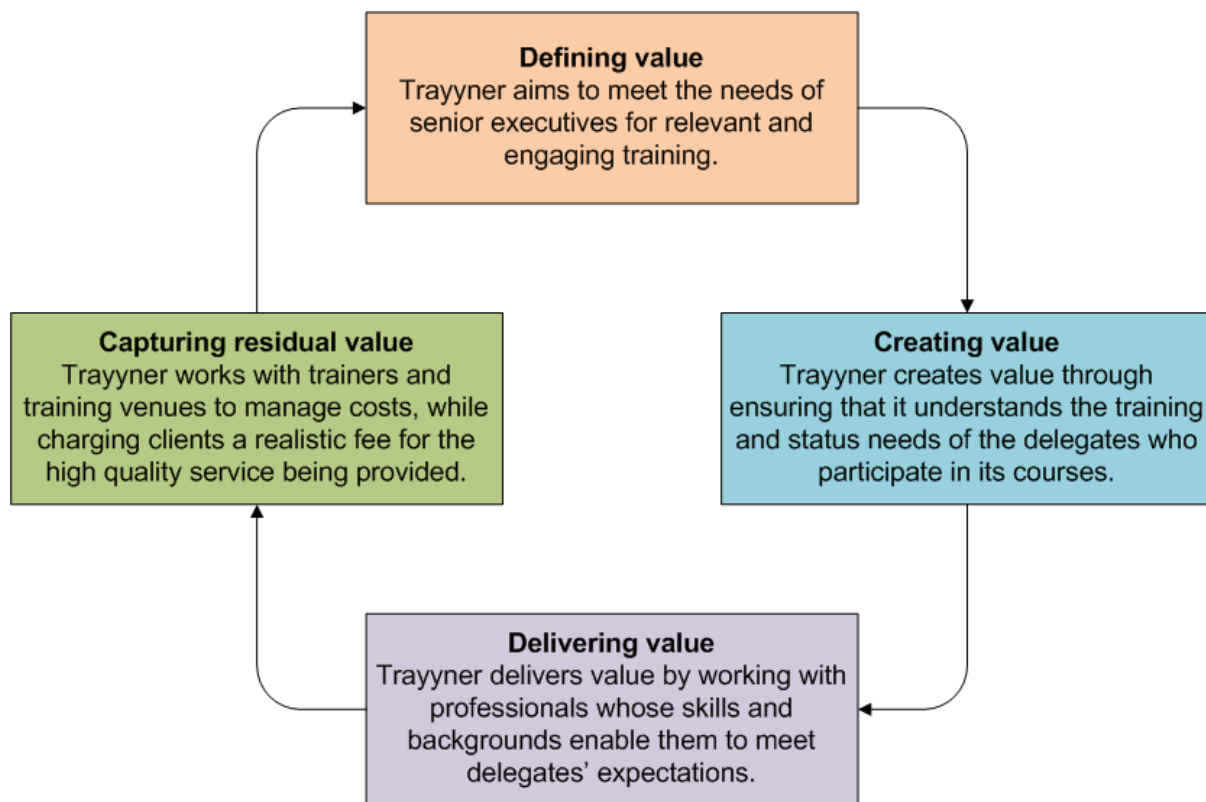
Trayyner's Board comprises only executive directors. That is common practice for unquoted companies.

Asif and Miriam Nasir share responsibility for the overall strategic direction of the company. Asif chairs Board meetings and deals with key external stakeholders, including lenders and shareholders. Miriam focusses more on oversight of ongoing operations.

Asif and Miriam each own 10% of Trayyner. The remainder of the shares are owned by individuals who were invited to invest to assist with the company's expansion.

The Trayyner Group comprises a parent company, based in Northland and three 100% overseas subsidiaries: Trayyner Southland, Trayyner Eastland and Trayyner Westland. Each of the subsidiaries is a sales office. All courses are organised by course managers from Trayyner's Head Office.

Trayyner's business model



Trayyner focusses on developing courses that are relevant to client needs. For example, it offers several courses that are aimed at delegates who have recently gained new responsibilities as non-executive directors. For example, a course on audit committees has been extremely popular with non-executive directors who do not have an accounting background. The need for such courses only became apparent because of conversations between course managers and delegates during breaks and lunches on unrelated courses.

Delegates also have high expectations with regard to the ambience of courses. They appreciate the fact that public courses offer the opportunity to network with senior managers from other companies. On all courses, they enjoy the opportunity to travel and to work in pleasant surroundings. Trayyner always organises at least one social event, such as a dinner for delegates, to enhance that ambience.

Trayyner pays close attention to feedback from delegates on its trainers. New trainers are monitored closely by course managers, but even experienced trainers are supervised and any whose evaluations are deteriorating are unlikely to be invited back.

Course managers are expected to control costs carefully. The company always uses good quality hotels, but it negotiates substantial discounts in return for offering repeat business. Trainers are offered generous daily rates for days spent training, but no payment is made for travelling time or for preparing course materials, even if the course is cancelled at the last minute after the course has been written. Trayyner insists on being paid in advance by all clients, thereby eliminating the costs of uncollectable receivables.

Costing information

The costs and revenues associated with a typical course are as follows:

	N\$
Delegate fees (N\$3,000 x 15 delegates)	45,000
Commission to overseas sales offices	(3,000)
Cost of training room (including snacks and lunches)	(4,000)
Trainer's fee	(4,250)
Air fares for trainer and course manager	(1,700)
Accommodation for trainer and course manager	(3,400)
Entertaining delegates	(3,375)
Course manager	(400)
Head Office costs	<u>(2,500)</u>
Profit from course	<u><u>22,375</u></u>

Each course is the responsibility of an individual course manager. Course fees are based on a set price of N\$3,000 per delegate on public courses and N\$45,000 per bespoke course. These set prices are established and updated by the Board. Course managers have limited discretion to discount those fees in order to sell places on public courses or reach agreement on bespoke courses.

Entertaining costs are incurred because Traynyer organises social activities for delegates in the evenings. These include providing tickets for sporting or cultural events and a dinner on the last evening before the end of the course.

The charge for the course manager is based on a daily rate that reflects the average course manager's annual salary and the expected number of days spent each year supervising. This charge can vary depending on the number of courses being supervised simultaneously. Course managers are expected to supervise up to three courses at any one time, but there may only be one or two courses running at one time in a particular location.

Head Office costs are based on the running costs of staffing and operating the Head Office in Capital City, including Topic Managers' salaries. The total cost is apportioned based on expected annual costs divided by the estimated number of courses.

Course managers are responsible for making all arrangements in advance of their courses. They usually have discretion over budgeted costs and revenues, but are expected to notify their topic managers in advance if the expected surplus from a course is less than N\$10,000. Delegate fees are the main concern, with some courses being less popular than others. Traynyer will sometimes run a public course at close to breakeven or even at a small loss if the delegates who have signed up for it are from an important client. Costs can also be affected by seasonal variations in the cost of air fares and hotel rates.

Course managers submit a statement of costs and revenues to the relevant topic manager at the conclusion of each course. Course manager performance is evaluated, in part, on the surplus from the course.

There is also a non-financial aspect to the evaluation of each course. At the end of each course, the course manager asks each delegate to complete a short questionnaire which asks them to rate each aspect of the course using a five-point scale, where 1 is extremely dissatisfied and 5 is extremely satisfied. Aspects include the administration of the course, the course content and the trainer's presentation skills. The course manager collates the

responses and discusses the results with the trainer. The course manager then prepares a report, drawing upon delegate feedback, the manager's personal observation of the course and the trainer's responses. The reports and the delegates' questionnaires are submitted to the relevant topic manager upon the course manager's return to Head Office.

When a course manager organises a course but is unable to supervise it personally then the colleague who undertakes the supervision is responsible for collecting and reporting back on delegate feedback. The course manager who organised the course must review that report and comment on it, as well as preparing the statement of costs and revenues.

Extracts from Trayyner's annual report**Trayyner Group****Consolidated statement of profit or loss****For the year ended 31 December**

	2020 N\$ thousand	2019 N\$ thousand
Revenue	98,465	92,557
Cost of revenue	(36,542)	(34,715)
Gross profit	61,923	57,842
Administrative expenses	(1,143)	(1,097)
Selling and marketing expenses	(4,262)	(4,134)
Operating profit	56,518	52,611
Finance costs	(60)	(114)
Profit before tax	56,458	52,497
Tax	(11,856)	(9,974)
Profit for year	44,602	42,523

Trayyner Group**Consolidated statement of changes in equity for the year ended 31 December 2020**

	Share capital and premium	Foreign currency reserve	Retained earnings	Total
	N\$ thousand	N\$ thousand	N\$ thousand	N\$ thousand
Balance at 31 December 2019	3,700	1,963	9,809	15,472
Exchange losses for year		(1,677)		(1,677)
Profit for the year			44,602	44,602
Dividends			(42,390)	(42,390)
Balance at 31 December 2020	3,700	286	12,021	16,007

Trayyner Group
Consolidated statement of financial position
As at 31 December

	2020 N\$ thousand	2019 N\$ thousand
Non-current assets		
Property, plant and equipment	25,575	24,041
Intangible assets	2,887	2,912
	<u>28,462</u>	<u>26,953</u>
Current assets		
Trade receivables	997	984
Bank	412	396
	<u>1,409</u>	<u>1,380</u>
Total assets	<u><u>29,871</u></u>	<u><u>28,333</u></u>
Equity		
Share capital and share premium	3,700	3,700
Foreign currency reserve	286	1,963
Retained earnings	12,021	9,809
	<u>16,007</u>	<u>15,472</u>
Non-current liabilities		
Borrowings	1,000	1,900
Current liabilities		
Trade payables	1,012	997
Tax	11,852	9,964
	<u>12,864</u>	<u>10,961</u>
Total equity and liabilities	<u><u>29,871</u></u>	<u><u>28,333</u></u>

Extract from Masterkles's annual report

Masterkles is a rival training company that operates in a very similar manner to Trayyner. It offers a wide range of public and bespoke courses that are facilitated by part-time trainers.

As with Trayyner, Masterkles is based in Northland's Capital City, but it provides most of its training in other countries.

Masterkles Group

Consolidated statement of profit or loss

For the year ended 31 December

	2020	2019
	N\$	N\$
	thousand	thousand
Revenue	83,695	80,525
Cost of revenue	(32,157)	(30,896)
Gross profit	51,538	49,629
Administrative expenses	(1,017)	(987)
Selling and marketing expenses	(3,878)	(3,803)
Operating profit	46,643	44,839
Finance costs	(56)	(106)
Profit before tax	46,587	44,733
Tax	(9,783)	(8,499)
Profit for year	36,804	36,234

Masterkles Group

Consolidated statement of changes in equity for the year ended 31 December 2020

	Share capital and premium	Foreign currency reserve	Retained earnings	Total
	N\$ thousand	N\$ thousand	N\$ thousand	N\$ thousand
Balance at 31 December 2019	3,441	1,865	6,501	11,807
Exchange losses for year		(1,599)		(1,599)
Profit for the year			36,804	36,804
Dividends			(34,422)	(34,422)
Balance at 31 December 2020	3,441	266	8,883	12,590

Masterkles Group
Consolidated statement of financial position
As at 31 December

	2020 N\$ thousand	2019 N\$ thousand
Non-current assets		
Property, plant and equipment	20,716	19,473
Intangible assets	2,338	2,359
	<u>23,054</u>	<u>21,832</u>
Current assets		
Trade receivables	828	817
Bank	358	341
	<u>1,186</u>	<u>1,158</u>
Total assets	<u><u>24,240</u></u>	<u><u>22,990</u></u>
Equity		
Share capital and share premium	3,441	3,441
Foreign currency reserve	266	1,865
Retained earnings	8,883	6,501
	<u>12,590</u>	<u>11,807</u>
Non-current liabilities		
Borrowings	930	1,767
Current liabilities		
Trade payables	941	927
Tax	9,779	8,489
	<u>10,720</u>	<u>9,416</u>
Total equity and liabilities	<u><u>24,240</u></u>	<u><u>22,990</u></u>

News reports

Northland Business Daily

Parastatals in transition



Parastatals are essentially companies that are owned by a government, but that are managed by a Board of directors. Many recently developed countries use this structure to operate utilities such as electricity, gas and telecommunications.

The Boards of parastatals are held accountable to the government in a similar manner to the accountability of any company's Board to its shareholders. The only real difference is that parastatals generally have more complicated purposes. While they may be expected to operate at a profit, they are also expected to operate in the national interest. That could mean that they must cap prices in order to ensure that the needs of domestic and commercial customers are met.

The roles of parastatals are changing in many countries, with a greater emphasis on creating profit and maximising wealth. Nancy Chitera, Chair of the Eastland Telecommunications Corporation described this change when she announced that a substantial loan had been raised in order to finance the installation of new optical cable links across the country. She stated that this project had been evaluated primarily on a commercial basis and that Eastland's Minister of Telecommunications was looking forward to increased dividends once the project has been completed.

Southland Gazette

TeCoS Board criticised over training course



The Minister for Telecommunications has criticised the Board of The Telecommunications Corporation of Southland (TeCoS), the parastatal responsible for the provision of telecommunications across Southland, for attending a training session in a luxury hotel in Hopeland. She queried the cost of this training and asked for a justification of its value.

A spokesperson for TeCoS explained that the course was a bespoke course on business intelligence (BI) systems. The TeCoS Board is considering the acquisition of a BI system and had taken the opportunity to discuss the issues associated with doing so under the guidance of an expert in data analysis.

BI systems are relevant to TeCoS because they are used to make more effective use of data that is generally already being collected or is available from external sources. The systems enable managers to make unstructured analyses that can be presented in many different ways. So-called “data mining” enables managers to process both structured and unstructured data, even if none of that data has been gathered with that particular interest in mind. Such a system would be of immense value to TeCoS. It is also worth noting that telecommunications companies are interested in any developments that might encourage demand for the transmission of data.

The spokesperson assured the Southland Gazette that the TeCoS Board had worked very hard throughout this 5-day course and that the directors had returned to Southland with a much deeper understanding of a key technology.

Northland Daily News

Action stations – stand by your spreadsheets!



Northland's Navy has announced that it plans to incorporate budgets and financial planning into the training programmes for all of its senior officers.

Commander Andrews, a Navy spokesperson, assured the Northland Daily News that the additional training would be added to the curriculum and would not be replacing any of the existing content. "Our officers will still be able to navigate ships and operate their systems, but we have identified a growing need for training in various aspects of management alongside

technical specialisms. Ships' captains frequently have to manage complicated budgets."

The Navy pointed out that it has always trained its officers to be competent managers. For example, all officers have to manage the crew members in their divisions and so they are all taught to be competent in human resource management. The new initiative will simply broaden the scope of management training.

Northland Business Daily

Home workers need to check over their shoulders



It is becoming increasingly common for office workers to work from home. The workplace has changed, with individuals being asked to hot-desk in the office, rather than having their own personal desk. Files are stored on laptops issued by employers and networks can be accessed from anywhere that has an internet connection.

Previous concerns that home working inhibited interactions are being overcome by teleconferencing. Those same laptops that are used for email and work storage can also

be used to conduct online meetings, with colleagues being able to make eye contact and read facial expressions and body language.

Teleconferencing is not without its drawbacks and there have been some well-documented disasters.

Maurice Dechamp, author of the self-help book “Get Yourself Promoted This Year” advises the following:

- Look over your shoulder before you join the meeting because your colleagues will see exactly that view. A bookcase full of intelligent books makes you look studious. A sink full of dirty dishes is not so good.
- Participants are also often guilty of looking at their laptop screens instead of their cameras. That makes it look as if you are avoiding eye contact.
- Invest in a good webcam. You will never look good when seen through a low-resolution camera on a cheap laptop.
- Check your internet connection. A slow connection will affect the quality of the audio and the video on your meeting.
- Finally, make sure that the other members of your household are aware that you need privacy. It is a distraction if your partner or your children wander into the background or play loud music in another room.

Many large companies have strict rules that prevent home-based participation in teleconference meetings with clients or other external contacts. When a teleconference is necessary then the meeting should be hosted from a properly equipped meeting room at the corporate office.

Extracts from Grumpy Trainer's (very unofficial) Blog

Worst course ever!



I have just got home after a very horrible bespoke course. My course manager had told me to keep things light because the delegates were looking for a basic introduction to financial reporting. Unfortunately, one of those delegates was the client's Finance Director, who complained constantly that he was learning nothing. He kept asking really complicated questions, that were interesting to him, but that would have really confused the other Board members if I had answered them.

Needless to say, he persuaded the other delegates to give me a poor evaluation.

COMMENTS

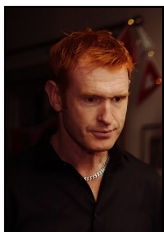
I have had similar experiences. I think that part of the problem is that the course managers promise the clients that our courses will suit any possible delegate, even when they have very different needs and expectations.

Quiet Shouter

It will be interesting to see whether you get asked back.

Lonely Talker

Is it asking too much?



I have just finished the first day of a new course. My plane was due to land at 03.20 in the morning, but a delay meant it didn't get in until 07.00. By the time I had cleared immigration and got to the hotel there was barely time to have a quick shower and change into my suit before heading straight to the training room.

I hope I didn't look too tired today. First impressions count. Anyway, I am off to bed for a sleep.

COMMENTS

Trayner always asks us to fly the day before we start teaching. I used to do courses for Masterkles and they used to fly us down a day early. That meant you could check into your hotel room and spend a day recovering from the journey before you had to start teaching.

Dan Planet

Goodbye forever



I won't be teaching for Trayyner ever again. I was supposed to be starting a course today. I spent a week preparing the materials and then got up early this morning to fly from North Airport to catch the intercontinental flight from Capital City Airport.

When I tried to board my flight at Capital City, I was told that my ticket had been cancelled while I was in mid-air! Apparently, the delegates had some last-minute problems with their visas and so they couldn't travel and Trayyner cancelled the course at – literally – the very last minute.

I had to wait at Capital City Airport until lunchtime before I could fly back to North Airport.

COMMENTS

Bad luck! You could always do what Dan Planet did when he decided to quit. He agreed to teach a course that was a repeat, so he didn't have to prepare any new materials. Then he deliberately missed his flight. The course manager was left sitting in a training room with a group of unhappy delegates. Apparently, it took two days to locate a suitable replacement and fly her to the venue.

Quiet Shouter



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

Dzodzi Tsikata, Trayyner's Senior Financial Manager, stops by your workspace and hands you a document.

"I have just come from a meeting of senior managers that was called to discuss a new service that the Board has decided to offer. I have printed an extract from the proposal for you.

I am preparing a briefing for the Finance Director. I need you to help me with the following:

- Firstly, identify and explain the impact that the provision of online courses to mid-level managers could have on Trayyner's business model.
- Secondly, identify and explain the business risks that might be created for Trayyner if we offer online delivery of our courses for a less senior audience."

[sub-task (a) = 40%]

[sub-task (b) = 60%]

The proposal referred to by Dzodzi can be found by clicking on the Reference Material button above.

Proposal for the development of online training

Executive summary

- Prepared by Mohd Ishak Amri, Marketing

Some delegates have commented recently that they would be keen for the mid-level managers who report to them to be able to take the same courses that they have just completed. For example, several HR directors who had just completed our public course "HR Update" commented that it would be desirable for their mid-level HR managers to be able to take that course.










Clearly, it would be impractical and expensive for employers to send their mid-level managers to the cities in which we teach. Similarly, our trainers are reluctant to travel to delegates' home countries.










One possibility would be to offer online courses for mid-level managers. Trainers could use teleconferencing to make presentations to groups of up to 25 delegates. A course could be delivered in an interactive and participative manner over the internet. This would allow it to be viewed in different locations. Delegates could join in individually using their laptops or by sitting together in a suitably equipped meeting room.



Trayyner's Board has decided to proceed with this, offering online versions of popular courses exclusively for mid-level managers. We will continue to offer face-to-face courses for directors and senior managers, who generally benefit from and enjoy our existing approach to training and would not be interested in switching to online courses for their own training needs.

 Reference Material Pre-seen

Provide your response to Dzodzi in the box below.

       **B** *I* U  x_2 x^2 

Paragraph         

 Reference Material Pre-seen

Four months have passed. Dzodzi Tsikata says to you:

“Trayner has been offering online courses for mid-level managers for 3 months. I have brought you a summary report on the initial feedback.

I need you to address the following matters arising from this feedback:

- Firstly, recommend the approach, stating reasons, that we might take to secure the commitment of our trainers to the online courses.

[sub-task (a) = 60%]

- Secondly, evaluate the implications of assessing course managers based on profit from online courses.”

[sub-task (b) = 40%]

The summary report referred to by Dzodzi can be found by clicking the Reference Material button above.

Initial feedback on the provision of online training

Executive summary

- Prepared by Mohd Ishak Amri, Marketing

For the past 3 months, course managers have been making delegates on our traditionally taught courses aware of the fact that Trayyner can now offer both public and bespoke courses online. These are designed to offer the delegates' mid-level managers the same training opportunities that they have just enjoyed, but at a significantly lower cost.

Course managers have been made responsible for negotiating the timing and fee for these courses and for appointing trainers to present them. The trainers must present their courses over the internet from the meeting rooms at Trayyner's Head Office.

The following concerns have emerged during this initial period:



- Firstly, several trainers have refused requests to conduct online courses. This has been particularly disappointing because the hope has always been that the same trainer will teach the online version of the traditional face-to-face course.
- Secondly, there have been significant differences between course fees negotiated by course managers. Their feedback has generally been that clients differ in terms of the amount that they are prepared to pay for these courses. For example, the following bespoke courses were provided to two different clients during this period:

	Managing Risk N\$	Safety Management N\$
Course fee	27,000	16,000
Commission to overseas sales office	-	(3,000)
Trainer's fee	(4,250)	(4,250)
Travel and accommodation for trainer	(1,200)	(80)
Course manager	(400)	(1,200)
Head Office meeting room	(200)	(200)
Profit from course	20,950	7,270










The trainer for Managing Risk lives in the west of Northland and had to spend the week in a hotel close to Trayyner's Head Office. The trainer for Safety Management lives within easy commuting distance.










The course manager for Managing Risk had two other online courses running in different training rooms that week.

The meeting room costs were based on the estimated costs of electricity and wear and tear to the rooms' audio-visual equipment.

 Reference Material Pre-seen

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

       **B** *I* U  x_2 x^2 

Paragraph         

 Reference Material Pre-seen

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

From: Dzodzi Tsikata, Senior Financial Manager

To: Financial Manager

Subject: Acquisition target

Hi

Trayner's Board has decided to improve Trayner's video facilities in order to provide high quality online courses. I need your help with some of the implementation issues arising from that decision.

I have attached a scanned copy of a letter that was received by Asif Nasir, our Executive Chair.

I need you to draft a paper for me that covers the following:

- Firstly, identify the difficulties we would face when calculating the present value of the cash flows resulting from the ownership of Tellitek Small Productions (TSP) and explain how they could be overcome. Do not include a discussion of the purchase price of TSP.

[sub-task (a) = 60%]

- Secondly, explain how Trayner should go about negotiating a price for TSP.

[sub-task (b) = 40%]

Thanks

Dzodzi

The letter received by Asif Nazir can be found by clicking on the Reference Material button above.

Tellitek Group

Asif Nasir
Trayyner
Capital City

Dear Asif

Tellitek Small Productions

It was a pleasure to meet with you yesterday and to discuss your plans for the provision of online training.

As discussed, Tellitek Small Productions (TSP) is a 100% subsidiary of the Tellitek Group. It owns a studio complex with 12 fully equipped video studios, located on the outskirts of Capital City. These are currently used to shoot corporate videos in broadcast quality.



It would be easy to convert each of those studios for your purposes. Each is already configured so that a trainer could be broadcasting live while standing or sitting in front of a suitable backdrop. A video technician in each studio would operate the cameras to track the trainer's movements and control the live feed using TSP's high-speed internet connection. The delegates could log in securely from anywhere that has an internet connection. We would recommend that you install video monitors behind the cameras so that trainers can watch the feeds from the participants' webcams and so can respond to questions more easily. TSP's facilities would make your courses look as professional as a television news programme.

Tellitek intends to sell 100% of TSP as part of a corporate restructuring. We would be prepared to sell the subsidiary, complete with all video equipment. The restructure will make the technical staff who currently work for TSP surplus to our requirements and so they would be available to work for you if you so wished.

Yours sincerely

Luke Stacey

Luke Stacey
Chief Executive

 Reference Material Pre-seen



Write a response to Dzodzi's requests in the box below.

From: Financial Manager

To: Dzodzi Tsikata, Senior Financial Manager

Subject: Re: Acquisition target



 Reference Material Pre-seen

Two months later, Dzodzi Tsikata gives you an accounting statement.

"As you probably know, Trayyner has just acquired 100% of TSP, a video production company that was previously a subsidiary of a telecommunications company. I have printed a copy of TSP's most recent statement of financial position and some details of the purchase.

I need your advice on the following matters:

- Firstly, identify the uncertainties associated with determining the goodwill on the acquisition of TSP and recommend appropriate responses.

[sub-task (a) = 60%]

- Secondly, identify the accounting issues that will have to be addressed in accounting for TSP's software in the Trayyner Group's consolidated financial statements for the year ended 31 December 2021 and recommend how these issues might be resolved."

[sub-task (b) = 40%]

The accounting statement referred to by Dzodzi can be found by clicking on the Reference Material button above.

Tellitek Small Productions (TSP)
Statement of financial position
For the year ended 31 December 2020

N\$ thousand

Non-current assets

Property, plant and equipment

Property 4,933

Audio-visual equipment 2,857

Office equipment 98

Intangible assets

Software licences – audio-visual editing and processing 6,359

Software licences - office software 231

14,478

Current assets

Trade receivables 870

Bank 93

963

Total assets

15,441

Equity

Share capital and share premium 10,000

Retained earnings 4,716

14,716

Current liabilities

Trade payables 714

Tax 11

725

15,441















Notes:











- The purchase consideration comprised a cash payment of N\$14 million to the Tellitek Group, plus newly issued shares in Trayyner that gives the Tellitek Group a 3% holding in Trayyner. The Tellitek Group is not permitted to sell those shares or to make a further investment without first obtaining the permission of Trayyner's Board.
- Trayyner is unquoted, which means that there is no observable market price.
- The acquisition does not affect TSP's rights to use its licensed software.

Reference Material

Pre-seen

Provide the response requested by Dzodzi 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) 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.

 Reference Material Pre-seen

Dzodzi Tsikata, Trayyner's Senior Financial Manager, stops by your workspace.

"I have brought you an extract from some meeting notes. I have been asked to prepare a briefing for the Board and I need your help with the following:

- Firstly, recommend, stating your reasons, whether course managers should be made responsible for the performance of the trainers who deliver the courses that they supervise.

[sub-task (a) = 60%]

- Secondly, identify and evaluate the challenges associated with establishing the five topic areas as separate profit centres."

[sub-task (b) = 40%]


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

Meeting notes from recent discussion between Miriam Nasir, Chief Executive, Janusz Reclaw, Marketing Director, and Jenny Tsu, a course manager.










Miriam reminded the participants that the meeting had been called to deal with concerns about the responsibilities of course managers and topic managers. Trayyner has a total of 30 course managers, six in each of the five topic areas of Management, Accounting and Finance, Specialised Courses, Oil and Gas Engineering and Health and Safety. Jenny is one of Trayyner's longest-serving course managers and she has discussed the concerns with most of her colleagues.









One major concern is that course managers are held responsible for delegate feedback at the end of each course that they supervise. Jenny reminded the meeting that course managers often have to supervise as many as three courses at once. They may also be asked to supervise courses that are not in their usual topic areas and for which they did not negotiate the course arrangements or appoint the trainers.

There has also been growing debate between the five topic managers about the relative performance of their five individual topic areas. At present, we treat the operations at Head Office as a single profit centre, which is creating conflict. The topic managers in charge of Management and Accounting and Finance are both claiming to be in charge of the topic that earns the greatest profit, which leads to arguments between them and also causes insecurity and resentment for all five topic managers.

 Reference Material Pre-seen

Provide your response to Dzodzi's request in the box below.

       **B** *I* U  x_2 x^2 

Paragraph        

Reference Material

Pre-seen

Two weeks later, you receive the following email:

From: Dzodzi Tsikata, Senior Financial Manager
To: Financial Manager
Subject: Trainer evaluations

Hi

I have attached a copy of a Board minute. I need two things from you:

- Recommend, with reasons, how the key phases (need, solution, implementation and completion) of a project to develop a new system for the improvement of the delegate feedback process should be managed.
[sub-task (a) = 60%]
- Recommend, with reasons, how Trayyner could better communicate to trainers the importance we place on the evaluations submitted by delegates.
[sub-task (b) = 40%]

Thanks

Dzodzi

The Board minute referred to in the email can be found by clicking the Reference Material button above.

Extract from Board Minutes

Trainer evaluations


Asif Nasir, Executive Chair, reminded the Board of Trayyner's process for gathering feedback from course delegates. At the end of each course, the course manager asks each delegate to complete a short questionnaire on a range of matters, including the quality of the tuition and the extent to which the course met their needs. The course manager collates the responses and discusses the results with the trainer. The questionnaires and the course manager's summary are submitted to the topic manager when the course manager returns to Head Office.

Miriam Nasir, Chief Executive, reported that she was becoming increasingly concerned that delegates were giving trainers poor evaluations at the end of courses. Poor evaluations generally indicate that delegates were unhappy throughout their course. Most of Trayyner's courses run for 5 consecutive working days. Course managers complain that the feedback process is not always helpful or effective. Trainers often claim that poor delegate feedback is due to factors that are beyond the trainers' control. For example, delegates are often enrolled for courses that do not meet their needs because they are pitched at either far too low or high a level.

Course managers try to avoid using trainers who have had poor feedback, but that can be difficult because some courses require specialist trainers who would be difficult to replace.

Trayyner has approximately 300 trainers on its books. Their teaching commitments vary according to their availability and their areas of expertise. Some teach only once a year for Trayyner, while others teach much more frequently.

The Board agreed that Trayyner should develop an effective system for managing delegate satisfaction. Miriam Nasir proposed that a project team should be appointed to deal with this.

 Reference Material Pre-seen

Provide your response to Dzodzi's request in the box below.

From: Financial Manager

To: Dzodzi Tsikata, Senior Financial Manager

Subject: Re: Trainer evaluations



A month has passed. A project team has been established to develop an improved delegate appraisal system for trainers.

You receive the following email:

From: Dzodzi Tsikata, Senior Financial Manager

To: Financial Manager

Subject: Trainer evaluations

Hi

I have attached a table that Miriam Nasir, Trayyner's Chief Executive, has circulated to the Board. The Finance Director has asked me to prepare a briefing and I require your help with two matters:

- Firstly, evaluate the potential advantages and disadvantages of using benchmarking to standardise the quality of the delegate experience irrespective of the course that they are taking.

[sub-task (a) = 60%]

- Secondly, evaluate Miriam's belief that it would be helpful to present Trayyner's Board with reports on our integrated reporting capitals, particularly Intellectual, Human, and Social and Relationship.

[sub-task (b) = 40%]

Thanks

Dzodzi

The table referred to by Dzodzi in the email can be found by clicking on the Reference Material button above.

Average feedback scores (by topic) for all courses conducted in the first 3 months of 2021:

	Public	Bespoke
Accounting and Finance	3.8	3.2
Health and Safety	4.6	4.1
Management	3.1	3.7
Oil and Gas Engineering	4.8	4.7
Specialised Courses (e.g. Pension Management)	3.1	3.3



Accounting and Finance: average feedback scores (by course manager) for courses they supervised in the first 3 months of 2021:

	Public	Bespoke
Course Manager A	3.1	3.3
Course Manager B	4.2	3.2
Course Manager C	4.5	3.7
Course Manager D	4.1	3.1
Course Manager E	3.4	3.1
Course Manager F	3.5	3.0

Scores are based on a five-point scale, where 1 = extremely dissatisfied with the course and 5 = extremely satisfied with the course.

Comments from Miriam Nasir, Chief Executive:

- We have significant differences between topics and also between course managers within topics. The differences we see with the average feedback scores within Accounting and Finance also arise within the other topics.
- We need to address these differences and aim for a consistently high standard in everything we deliver irrespective of topic or course. We have six managers within each of our five topic areas.
- On a separate issue, we should consider the use of integrated reporting concepts to inform the Board's decision making on key matters, such as our investment in a new feedback system.

 Reference Material Pre-seen



Provide a response to Dzodzi's email in the box below.

From: Financial Manager

To: Dzodzi Tsikata, Senior Financial Manager

Subject: Re: Trainer evaluations



 Reference Material Pre-seen

Two weeks later, Dzodzi Tsikata hands you a document and says:

"I have just received a very interesting report. I need your help in order to brief the Board on some of its implications.

- Firstly, explain the problems associated with accounting for the purchase and updating of course materials in Traynyer's financial statements and suggest how those problems might be overcome.

[sub-task (a) = 40%]

- Secondly, explain the problems we could face when determining the net present value of the investment in purchasing course materials. Please pay particular attention to the difficulties we would have when trying to quantify future cash flows."

[sub-task (b) = 60%]

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

Report on availability of course materials and delegate satisfaction

Executive summary

- Prepared by Mohd Ishak Amri, Marketing


At present, trainers are responsible for developing their own course materials, which they use to teach their courses. Trayyner does not own those materials, partly because trainers often have full-time jobs lecturing at colleges and universities and so would be reluctant to sell Trayyner copyright to their lecture slides.

Trainers who are asked to teach new courses for the first time must develop suitable course materials. This can be time consuming, even if they are adapting their existing materials, because the needs of delegates are very different from those of college and university students. Trainers are often forced to prepare their materials very quickly, which can be bad for quality.










Data collected from delegate feedback suggests that their satisfaction is often affected by the quality of the course materials. It would be ideal if Trayyner could buy the copyright to materials and issue them to trainers whenever a course is repeated. The materials could then be updated and improved with each successive repeat, regardless of whether the trainer has taught the course before.










This proposal would involve significant additional investment:

- Trayyner would have to purchase the course materials from its more experienced trainers who might insist on charging more than trainers who are less experienced.
- The archives of course materials would have to be managed, especially where there is an overlap. For example, we offer an introductory course called "Oil and Gas Safety", which is intended as an overview for company directors in that industry. We also have an advanced course called "Health and Safety in the Oil and Gas Industry", which is aimed at senior managers who are already experts in that area but require an update. Those two courses are very different, although there is some overlap in the content of both.

 Reference Material Pre-seen

Provide your reply to Dzodzi's requests in the box below.

       **B** *I* U  x_2 x^2 

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) 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.

 Reference Material Pre-seen

You receive the following email:

From: Dzodzi Tsikata, Senior Financial Manager
To: Financial Manager
Subject: Stealing clients

Hi

I have forwarded an email that arrived this morning.

Marja Mikkelson, our Finance Director, has asked me to brief Trayyner's Board and I require your help with the following:

- Firstly, evaluate, with reasons, the risk of trainers stealing clients and then recommend how the risk should be managed.
- Secondly, identify and evaluate the leadership challenges arising from this situation.

[sub-task (a) = 60%]

[sub-task (b) = 40%]

Thanks
Dzodzi

The email referred to by Dzodzi can be found by clicking the Reference Material button above.

From: Janusz Reclaw, Marketing Director
To: Course Managers; Senior Management Team
FWD: Stealing clients



I am writing to inform all course managers and the senior management team about a recent and very worrying development.

One of our course managers was supervising a bespoke course on project management in the electricity industry for the directors of the Electricity Supply Corporation of Lobroto (ESCOL). On the fourth day of the course, ESCOL's Finance Director, who was a delegate on the course, told her that the trainer had offered to conduct any future management courses for ESCOL's Board in a personal capacity and at a lower fee than Trayyner would charge. He even offered to use the same hotel as Trayyner.

The course manager remained in the training room for the remainder of the course, even though two other courses were running at that time in the same hotel. During her feedback session, after the delegates had left, she told the trainer that he had behaved unprofessionally by attempting to steal an important client. He denied that he had made the offer and stated that ESCOL's Finance Director was mistaken.

Trayyner will not use that particular trainer again.

Kind regards
Janusz

 Reference Material Pre-seen



Provide your response to Dzodzi's request in the box below.

From: Financial Manager

To: Dzodzi Tsikata, Senior Financial Manager

Subject: RE: Stealing clients



 Reference Material Pre-seen

A week later, Dzodzi Tsikata stops by your workspace and hands you a document:

"The Board is very concerned about the threat of losing clients to dishonest trainers. I need you to help me draft a briefing that Marja Mikkelsen will present to the Board.

- Firstly, evaluate Asif Nasir's concern that trainers who wish to steal clients can undercut Trayyner on price and evaluate the implication that Trayyner should charge less for courses in response to this.
- Secondly, recommend, with reasons, the approach that the Board should take to ensure that the proposed working party carries out a satisfactory investigation."

[sub-task (a) = 60%]

[sub-task (b) = 40%]

The document handed to you by Dzodzi can be found by clicking on Reference Material button above.

Extract from Board minutes**Loss of clients**


Asif Nasir, Trayyner's Executive Chair, reported that the initial investigation requested by the Board had identified some issues that required further investigation.

I am concerned that trainers who wish to steal our clients can always undercut Trayyner on price. To illustrate this, I am tabling the cost schedule for the bespoke Electricity Supply Corporation of Lobroto (ESCOL) course that triggered this discussion:










	N\$
Course fee (11 delegates for 5 days)	40,000
Cost of training room	(4,000)
Trainer's fee	(4,250)
Air fares for trainer and course manager	(1,700)
Accommodation for trainer and course manager	(3,400)
Entertaining delegates	(2,640)
Head Office costs	(2,500)
Commission to Trayyner's Eastland sales office	(3,000)
	<u>18,510</u>










It is difficult to identify lost clients because a major client might book only one bespoke course a year or three or four delegates onto public courses. Clients rarely inform Trayyner that they intend to use a competing training company in the future and so they may remain on course managers' contact lists even though they do not make any bookings.

The Board wishes to create a working party to fully investigate these concerns.

 Reference Material Pre-seen

Provide your response to Dzodzi's request in the box below.

       **B** *I* U  x_2 x^2 

Paragraph         

Reference Material

Pre-seen

Two months later, Dzodzi Tsikata hands you a document and says:

"I have printed out the homepage from a new rival training company's website. Janusz Reclaw, our Marketing Director, was browsing the internet to check out the competition when he found this. Their Chief Executive is Simon Willitoe, the trainer whom we dismissed nearly 3 months ago because he attempted to steal one of our clients.

Browsing through the site, we can see that Trivvector Training has based its courses on those that are taught by Trayyner. Its trainers are all people who have taught for Trayyner in the past, although none have informed us that they are working for a competing training company and some are booked to train on our courses for Trayyner clients that will run over the next few weeks.

Simon Willitoe signed our standard trainer contract that states that he will not compete with Trayyner or work for any rival training company at any time. The same is true of the other trainers whom he claims are working for Trivvector Training.

The Board has taken legal advice from a leading lawyer, who advises that we would have a case if we decided to take Simon Willitoe to court to make him and his company stop competing with Trayyner. The lawyer's advice is to attempt to negotiate a settlement with Simon because it will cost at least N\$800,000 over a two-year period to take effective legal action, with the possibility that we could lose the case and so recover nothing.

I need the following from you so that I can brief the Board:

- Firstly, identify the challenges associated with negotiating a settlement with Simon and recommend how those challenges might be overcome.

[sub-task (a) = 60%]

- Secondly, assuming that we decide to proceed with legal action against Simon, identify and explain the characteristics of debt and equity that would be relevant to the decision as to how Trayyner should finance the N\$800,000 that this will cost."

[sub-task (b) = 40%]

Trivvector Training homepage can be found by clicking on the Reference Material button above.



Trivector Training

[\[trainer biographies\]](#)[\[course calendar\]](#)[\[contact us\]](#)

Trivector is a leading management training company.

It offers courses in a host of areas, including:

Project Management

Leadership

Managing Effective Teamsivivvector Training

Managing Risk

Supply Chain Management

Cyber Security















Finance for Non-Accountants











Trivector has an established team of experienced trainers, led by Chief Executive Simon Willitoe.

Reference Material

Pre-seen

Draft the response to Dzodzi's requests in the box below.



Paragraph 

Reference Material

Pre-seen

A week later, you receive the following email:

From: Dzodzi Tsikata, Senior Financial Manager
To: Financial Manager
Subject: Trivector Training

Hi

I attach a recent statement of financial position for Trivector Training, which was established 6 months ago by Simon Willitoe. The company is registered overseas in Southland and so it would not be realistic for us to pursue effective legal action against it in response to our complaints about its business practices and those of Simon Willitoe.

Trivector Training is effectively a base for marketing and administration. Its staff have signed up many clients and trainers and have already organised several successful courses that have been delivered mainly in Northland, which is convenient for trainers and is an attractive destination for delegates.

Trayner's intention would be to acquire 100% of Trivector Training and to leave it to continue as a going concern, organising courses that will be delivered in Northland. The remainder of the Trayner Group will continue as before.

Our biggest concern is that Trivector Training has incurred significant losses over the past few months because the staff who work there have been spending heavily on marketing and course management.

I need two things from you:

- Firstly, identify the uncertainties associated with determining the goodwill on the acquisition of Trivector Training and recommend how those uncertainties might be resolved.
[sub-task (a) = 40%]
- Secondly, explain the challenges that Trayner would face when trying to reduce and manage costs at Trivector Training and suggest how any resulting risks could be mitigated.
[sub-task (b) = 60%]

Thanks

Dzodzi

The statement of financial position referred to by Dzodzi can be found by clicking on the Reference Material button above.

Trivvector Training
Statement of financial position
As at 31 July 2021

	S\$ thousand
Non-current assets	
Property, plant and equipment	2,000
Intangible assets	800
	<hr/> 2,800
Current assets	
Trade receivables	71
Bank	13
	<hr/> 84
Total assets	<hr/> <hr/> 2,884
Equity	
Share capital and share premium	1,200
Retained earnings	(224)
	<hr/> 976
Non-current liabilities	
Borrowings	1,800
Current liabilities	
Trade payables	108
	<hr/> 2,884















Notes:

- Trivvector Training is based in the country of Southland, where the currency is the S\$.
- It owns a small office building in Southland's largest city. It also owns IT equipment and office furniture.
- Intangible assets comprise software licences and an extensive client list comprising business contacts of Simon Willitoe who have booked courses.

Reference Material










Pre-seen

Provide your reply to Dzodzi's email in the box below.



Paragraph ▾

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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) 60% (b) 40%
3	45	1	2	(a) 60% (b) 40%
4	45	1	3	(a) 34% (b) 33% (c) 33%

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: Dzodzi Tsikata, Senior Financial Manager

To: Financial Manager

Subject: Teaching facility

Hi

I have attached the introduction to a report that was submitted to the Board.

Marja Mikkelsen, Trayyner's Finance Director, has asked me to brief the Board. I need your help with two matters:

- Firstly, identify and explain the challenges we would face when trying to determine the net present value (NPV) of acquiring and using the teaching facility in Lead City.

[sub-task (a) = 60%]

- Secondly, evaluate the relevance of Trayyner's weighted average cost of capital (WACC) as the cost of capital for the NPV calculation.

[sub-task (b) = 40%]

Thanks

Dzodzi

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

Notes on a visit to a potential teaching facility

Prepared by Mohd Ishak Amri, Marketing

This visit was conducted as part of the implementation of a strategic decision by Traynyer's Board to acquire a teaching facility in Lead City, the capital of Hopeland. Lead City is an eight-hour flight from Capital City in Northland, where Traynyer is based.



Traynyer teaches an average of 15 courses a week in Lead City. We rent meeting rooms in up to six hotels in Lead City's Business District at any one time because none of the hotels has sufficient capacity to accommodate all of our courses at once.

The Board has decided to create a permanent base in Lead City that will be run as a Teaching Facility. This will enable us to create a stronger brand image for Traynyer that should impress delegates. We will also have guaranteed use of this facility, even at busy times of year when hotel meeting rooms can be difficult to book.

I visited a small office building in the Business District. I believe that the building could be converted to create eight training rooms, each of which would be equipped with the latest audio-visual equipment. There would be room to create two open areas that could be used to serve delegates with hot drinks and snacks at break times and buffet lunches at the end of each teaching day. These areas would also provide access to utilities such as toilets and elevators. There is also room for a small office space that could accommodate the course managers who will be based there.

The office building is presently for sale. A local architect has confirmed that it would be possible to convert the building in the manner that I have described above.



 Reference Material Pre-seen

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

From: Financial Manager



To: Dzodzi Tsikata, Senior Financial Manager

Subject: RE: Teaching facility



Paragraph ▼



 Reference Material Pre-seen

Three months have passed. Dzodzi Tsikata stops by your workspace and hands you a document:

"I brought you an extract from the Board minutes.

I have to prepare a briefing that the Finance Director can take to the next Board meeting.

- Firstly, explain how the project constraints of time, cost and quality will impact on the completion of the Teaching Facility and recommend approaches to the management of the constraints.

[sub-task (a) = 60%]

- Secondly, recommend, with reasons, the approach that the Board should take to negotiating the relocation of three course managers to Lead City."

[sub-task (b) = 40%]

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



Extract from Board minutes**Teaching Facility in Lead City**

Miriam Nasir, Chief Executive, reported on developments relating to the Teaching Facility in Lead City.

Trayner has now purchased the building. The structure was surveyed and found to be suitable before the purchase was completed. Work can start soon on the internal modifications. We will have to employ a local architect to prepare conversion plans and a local builder to carry out the conversion work on the building's interior. This is going to be a major project.















The Board has decided that three course managers will be relocated to Lead City to run the new teaching facility. They will oversee the conversion work and, once the facility is ready to run courses, they will supervise the teaching that is carried out there.











The relocation of the course managers has proved difficult because everyone who has been approached has expressed reluctance to move to Lead City.

Reference Material

Pre-seen

Provide your response to Dzodzi's request in the box below.



Paragraph 

Reference Material

Pre-seen

Eight months have passed. The new Teaching Facility in Lead City has been operational for 3 months. It is managed by three course managers, who have relocated from Northland. Their salaries and other costs are charged to the Facility.

Dzodzi Tsikata hands you a report and says:

"As you can see, the new Teaching Facility is being underused.

The problem is that the course managers who are based at Head Office can choose between booking a training room at the Teaching Facility or using a hotel meeting room when they are organising a course to be held in Lead City. They require that flexibility because they need to allow for differing delegate numbers and also any preferences expressed by delegates for a particular location.

We have attempted to simplify internal charging for the use of the rooms at the Teaching Facility by using the actual monthly cost divided by the number of courses running during that month. That has made course managers reluctant to use the new Teaching Facility because the room charge is N\$5,458 when the Teaching Facility is operating at full capacity and even more when there are fewer courses. Hiring a hotel meeting room costs only N\$4,000, including lunches and refreshments.

I am preparing a briefing for the Board and need you to help with the following:

- Firstly, evaluate the potential usefulness of cost transformation for the management of the Teaching Facility's costs.
[sub-task (a) = 60%]
- Secondly, recommend, with reasons, a suitable transfer price to charge Head Office course managers for their use of the Teaching Facility.
[sub-task (b) = 40%]

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

Monthly performance statement for Lead City Teaching Facility

	Actual N\$	Budget N\$
Courses organised by the Teaching Facility		
• Course fees	540,000	540,000
• Direct costs (e.g. trainers' fees and expenses)	(152,088)	(152,088)
Operating profit on Teaching Facility own courses	387,912	387,912
Teaching Facility costs		
• Course managers' salaries and other costs	(20,500)	(20,500)
• IT technicians' salaries	(8,000)	(8,000)
• Kitchen staff salaries	(20,000)	(20,000)
• Electricity and other building costs	(40,000)	(40,000)
• Food and beverages	(42,000)	(108,000)
	(130,500)	(196,500)
Credit for courses organised by Head Office	18,642	130,992
Total operating profit	276,054	322,404
Number of courses:		
• Teaching Facility	12	12
• Head Office	2	24
Average Teaching Facility (ATF) cost per course	N\$9,321	N\$5,458















Notes:

- The Teaching Facility is a profit centre. Course fees and direct costs relate to courses organised by the course managers based there. The Teaching Facility is also credited with the Average Teaching Facility (ATF) cost per course for each Head Office course that is provided there.
- Local costs were incurred in the local currency and converted to N\$.
- The budgeted figures were based on the expectation that the Teaching Facility would operate at its maximum capacity of 36 courses in the month, of which 24 would be organised by course managers from Head Office. In fact, only two such courses were run. Course managers from Head Office ran a further 20 courses in Lead City that month, using meeting rooms booked in local hotels.


Reference Material





Pre-seen



Provide your response to Dzodzi's request in the box below.





Paragraph ▾

 ▾







Reference Material

Pre-seen

Two months have passed. You receive the following email:

From: Dzodzi Tsikata, Senior Financial Manager

To: Financial Manager

Subject: Lead City Teaching Facility

Hi

I have forwarded an extract from the Board minutes.

The Board has agreed to meet to discuss these matters further and so I need you to draft a paper for me that covers the following:

- Firstly, explain how the currency loss on the Hopeland subsidiary should be calculated and how it should be accounted for in the Traynyer Group's consolidated financial statements.

[sub-task (a) = 34%]

- Secondly, assuming that the currency loss is material, explain how the loss will affect the interpretation of the Traynyer Group's consolidated financial statements.

[sub-task (b) = 33%]

- Thirdly, recommend with reasons a leadership style that should be encouraged at the Teaching Facility to deal with the Marketing Director's concerns.

[sub-task (c) = 33%]

Thanks
Dzodzi

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

Extract from Board minutes

The Board discussed its continuing concerns over the operation of the Teaching Facility in Hopeland, where the currency is the H\$.



Marja Mikkelson, the Finance Director, reminded the Board that Trayyner had incorporated a subsidiary in Hopeland, which is funded using H\$30 million to buy 100% of the subsidiary's equity. The subsidiary borrowed H\$15 million from a Hopeland bank, most of which was used to purchase and convert the building.

The H\$ has been weakening against the N\$ and so a currency loss was anticipated.

Janusz Reclaw, the Marketing Director, reported that the Teaching Facility was now being used at close to its full capacity, with three course managers stationed there permanently and others flying out to assist with course supervision as required.

Feedback from course managers who had flown out to the Teaching Facility was worrying because the three permanent staff were constantly arguing between themselves about operational matters, and all three regarded visiting course managers as subordinates.



 Reference Material Pre-seen

Provide the responses requested by Dzodzi in the box below.

From: Financial Manager

To: Dzodzi Tsikata, Senior Financial Manager

Subject: RE: Lead City Teaching Facility





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) 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.

Reference Material

Pre-seen

You receive the following email:

From: Dzodzi Tsikata, Senior Financial Manager**To:** Financial Manager**Subject:** Trainer cancellation

Hi

I have attached an email that was circulated by Janusz Reclaw, our Marketing Director. His concern was more about the frequency with which these issues occur than about the specific issues raised this time. Trainers enjoy working for us because they have the opportunity to travel and we pay them well. Unfortunately, we are not their most important commitment.

I have been asked to convene a meeting of experienced course managers to discuss this matter and it would help if you could prepare a paper that includes the following:

- Firstly, recommend, with reasons, how Traynyer should manage conflicts with its trainers. I do not wish you to focus on the specific incident described in Yolanda's email, but you can use it as an example if you wish.

[sub-task (a) = 40%]

- Secondly, evaluate the risks associated with our existing policy of staffing our courses with part-time trainers and recommend how those risks might be mitigated.

[sub-task (b) = 60%]

Thanks
Dzodzi

The email referred to by Dzodzi can be found by clicking on the Reference Material button above.

From: Yolanda Shanks, Course Manager
To: Janusz Reclaw, Marketing Director
FWD: Trainer cancellation

Hi Janusz

The trainer who was due to fly out to Hopeland tomorrow to teach on the Pension Fund Board Responsibilities course that I am organising for the trustees of Electricity Supply Corporation of Lobroto's (ESCOL) pension fund has just said that he will now not be available to teach the course nor the others he has been scheduled for. He is presently scheduled for three courses in addition to the one that starts in 2 days. The date for one of those three courses was changed to meet the delegates' availability and he was unhappy because the new date clashed with his child's birthday.



He was extremely unpleasant and told me that he would not be prepared to teach for Trayyner ever again.

This will create problems for us because we do not have many trainers who are qualified to teach on pension fund courses. He was one of our more experienced trainers and he taught at least six courses a year. He was popular with delegates.

Kind regards
Yolanda

Course Manager, Specialised Courses



 Reference Material Pre-seen

Provide your response to Dzodzi in the box below.



From: Financial Manager

To: Dzodzi Tsikata, Senior Financial Manager

Subject: RE: Trainer cancellation



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 Reference Material Pre-seen

A week has passed. Dzodzi Tsikata stops by your workspace and hands you a document:

"I have brought you an extract from the minutes of a Board meeting that was held this morning. Marja Mikkelson, our Finance Director, has asked me to draft a briefing for her and I need you to write a paper that covers two matters:

- Firstly, explain whether the employment of full-time trainers would be consistent with Trayyner's business model.
[sub-task (a) = 60%]
- Secondly, discuss the impact that the employment of full-time trainers would have on the management of quality by Trayyner's course managers."
[sub-task (b) = 40%]

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

Extract from Board Minutes

The Board discussed the problems associated with staffing courses with suitable trainers. It was noted that there were two separate issues:










- Sometimes course managers struggle to find suitably qualified trainers with the required backgrounds, especially when a client requests a bespoke course on a very specific subject.
- Course managers cannot guarantee that courses will run when the initial arrangements are being made. Experienced trainers are used to course managers cancelling and so they are not always willing to make a firm commitment themselves. For example, they may agree to attend a business meeting that clashes with a course booking.









Federica Mogherini, HR Director, proposed that Trayner should consider employing full-time trainers to teach on popular courses.



 Reference Material Pre-seen

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

       **B** *I* U  x_2 x^2 

Paragraph        

A further 2 months have passed. You receive the following email:

From: Dzodzi Tsikata, Senior Financial Manager

To: Financial Manager

Subject: Recruitment

Hi

I have attached the executive summary from a report that the Board has circulated to senior management. The Board has decided to employ full-time trainers, although we will still need to use some part-time trainers to teach on specialised courses or to assist us at busy times.

This is going to be an expensive process. Paying to employ a recruitment agency, staff relocation costs and additional office space will cost us approximately N\$4 million.

I need you to draft a paper that covers the following:

- Firstly, recommend, with reasons, how the key phases (need, solution, implementation and completion) of the project to recruit and resource the new full-time trainers should be managed.

[sub-task (a) = 40%]

- Secondly, discuss the characteristics of debt and equity as potential sources of finance for the N\$4 million that Trayyner will require as a result of the Board's decision.

[sub-task (b) = 60%]

Thanks
Dzodzi

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

Proposal for recruitment of full-time trainers

Prepared by Yang Wang, Senior HR Manager



Executive summary

Trayyner presently has 300 trainers who deliver courses in their specific subject areas. Feedback from course managers suggests that only a few of those trainers would be willing to consider full-time employment with Trayyner. Many have family commitments and so would be reluctant to commit to a job that required them to spend most of their time overseas.

The HR Department recommends that we employ an external recruitment agency to find suitable applicants for the jobs and to carry out an initial screening of applicants. Those deemed suitable after that stage could then be interviewed and asked to give a presentation to a panel of course managers.

The Board will have to think ahead to the resourcing implications of increasing staff numbers. The new trainers will need somewhere to work when they are not involved in training.



 Reference Material Pre-seen

Draft the responses requested by Dzodzi in the box below.

From: Financial Manager

To: Dzodzi Tsikata, Senior Financial Manager

Subject: RE: Recruitment



 Reference Material Pre-seen

Six months have passed. You receive the following email:

From: Dzodzi Tsikata, Senior Financial Manager

To: Financial Manager

Subject: Queries from the Board

Hi

I have attached an extract from the Board minutes.

I need to draft a briefing paper for the Finance Director. I need two things from you:

- Firstly, recommend, with reasons, an appropriate approach to the evaluation of course managers that reduces the risk of dysfunctional behaviour by them.

[sub-task (a) = 60%]

- Secondly, prepare a response to Asif Nasir's query as to clients' treatment of executive training in their integrated reports.

[sub-task (b) = 40%]

Thanks

Dzodzi

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

Extract from Board Minutes**Evaluation of course managers**

Janusz Reclaw reminded the Board that it is now 4 months since Trayyner recruited 40 full-time trainers, with roughly equal numbers in each of the five topic areas of Management, Accounting and Finance, Specialised Courses, Oil and Gas Engineering and Health and Safety. He said that Trayyner retains its list of 300 part-time trainers, who remain on standby because some are required for specialised courses for which Trayyner does not have a suitable full-time trainer and others will be required at busy periods.

Part-time trainers are paid a fee of N\$4,250 per course. Full-time trainers receive a fixed salary, with a charge of N\$3,750 made against any course for the use of a full-time trainer.



Miriam Nasir, Chief Executive, remarked that many of the full-time trainers had been under-utilised since they joined Trayyner, while an excessive number of part-time trainers were being used unnecessarily. She believed that part of the problem is that topic managers evaluate their course managers based on delegate satisfaction and course profitability for individual courses. Course managers often prefer to use part-time trainers who have a reputation for receiving good delegate feedback.

On a related note, Miriam pointed out that the course managers have little structure to their roles. They are expected to: liaise with clients and sell courses, work with trainers to develop ideas for new courses, organise forthcoming courses and supervise courses that are underway.

Integrated reports

Asif Nasir, Executive Chair, raised a question relating to delegate satisfaction. He had recently spoken to the Chief Executive of a major client who had asked whether the client could justify reflecting its investment in executive training in its integrated report. The client had identified Intellectual, Human, and Social and Relationship capitals as possible headings under which this training could be reported.

Marja Mikkelson, Finance Director, assured the Board that she would present responses to the points raised by Miriam and Asif at the next Board meeting.

 Reference Material Pre-seen

Draft your responses requested by Dzodzi in the box below.

From: Financial Manager

To: Dzodzi Tsikata, Senior Financial Manager

Subject: RE: Queries from the Board



A large, empty rectangular box for drafting the response.



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.

 Reference Material Pre-seen

You receive the following email:

From: Dzodzi Tsikata, Senior Financial Manager

To: Financial Manager

Subject: Business Intelligence Systems

Hi

I have attached an extract from a report that was commissioned by the Board.

I need to draft a paper that Marja Mikkelsen, our Finance Director, will present to the Board. Please draft the following:

- Firstly, identify and evaluate the potential advantages that a business intelligence (BI) system would bring to managing performance across the Trayyner Group.

[sub-task (a) = 60%]

- Secondly, explain how the introduction of a BI system is likely to affect the approach to leadership of the Trayyner Group.

[sub-task (b) = 40%]

Thanks

Dzodzi

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

Proposal for the development of a business intelligence system

Executive summary

Prepared by Mohd Ishak Amri, Marketing

Recent discussions have highlighted the problems that have emerged because Trayyner's costing system was very simple and failed to provide senior management with adequate information. It has been proposed that Trayyner should introduce a business intelligence (BI) system. This would fulfill the purpose of a financial reporting system, but would be significantly more versatile.

At present, we have bookkeeping systems that track financial transactions. Our course managers and the staff at our overseas sales offices maintain records of contacts that have been made with clients for the purpose of selling them courses. Our course managers also compile details of individual courses, including costings and also delegate feedback.

A BI system would view our data as a "lake" that could be navigated and investigated without it having had to be structured in advance.



Reference Material

Pre-seen



Draft the responses requested by Dzodzi in the box below.

From: Financial Manager

To: Dzodzi Tsikata, Senior Financial Manager

Subject: RE: Business Intelligence Systems



 Reference Material Pre-seen

Two months have passed. Dzodzi Tsikata hands you a schedule and says:

"The Board has decided to go ahead with the acquisition of a business intelligence (BI) system. I have prepared this analysis of costs to support that decision.

I need two things from you:

- Firstly, identify the characteristics of debt that make it a suitable basis for funding Trayyner's acquisition of this new BI system.
[sub-task (a) = 40%]
- Secondly, recommend with reasons an appropriate accounting treatment for the costs that I have identified in Trayyner's financial statements."
[sub-task (b) = 60%]

The schedule referred to by Dzodzi can be found by clicking on the Reference Material button above.

Schedule of costs associated with the implementation of a business intelligence (BI) system.










	N\$ 000
Consultancy fees for the initial analysis of Trayyner's records	120
New hardware for data storage and networking	290
Licence for latest version of software required for data storage and analysis	780
Consultancy fees for the implementation of system and adaptation of existing data files	460
Salaries for Trayyner staff to assist with the implementation process	25
Salaries paid to Trayyner staff for data entry in the previous 2 years	60
	<u>1,735</u>










Notes:



- The licence has an unlimited lifespan, although Trayyner will have to pay a fee to upgrade in the event that an improved version is launched. The next upgrade is expected in 3 years and is expected to cost N\$20,000 to existing users.
- Salaries paid to Trayyner staff for implementation are based on detailed time records maintained by the staff involved in this work.
- Trayyner estimates that it will pay N\$30,000 a year for the updating and maintenance of data files that will be of ongoing relevance to BI data analysis.

 Reference Material Pre-seen

Provide the responses requested by Dzodzi in the box below.

       **B** *I* U  x_2 x^2 

Paragraph         

 Reference Material Pre-seen

Two months later, Dzodzi Tsikata stops by your workspace and hands you a document:

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

I am working on a briefing for the Finance Director on performance management and need two things from you:

- Firstly, recommend, with reasons, the composition of an effective working party to investigate the establishment of each of the five topic areas as a profit centre. Your recommendation should be for a maximum of four members.
[sub-task (a) = 60%]
- Secondly, evaluate Marja Mikkelsen's proposal that Trayyner should introduce a scorecard approach to measuring the performance of the topic managers."
[sub-task (b) = 40%]

Thanks
Dzodzi

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

Board meeting extract**Responsibility centres**



The Board discussed the possibility of improving internal reporting and to create more efficient and effective responsibility centres within Head Office.

Asif Nasir, Executive Chair, reminded the Board that Trayyner is a relatively small privately owned company that has a relatively straightforward business model. Furthermore, the need to be responsive to clients means that topic managers and course managers must be granted significant discretion in the management of costs and revenues.










After discussion, the Board agreed that a working party would be convened to investigate the possibility of establishing each of the five topic areas as separate profit centres. There was considerable discussion as to the composition of the working party. Miriam Nasir, Chief Executive, argued that the working party should have a maximum of four members.










Marja Mikkelson, Finance Director, recommended the creation of a scorecard to manage the course managers at Head Office and the overseas sales offices.




 Reference Material Pre-seen

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

       **B** *I* U  x_2 x^2 

Paragraph         

 Reference Material Pre-seen

Three months have passed. Trayner has established five profit centres within its Head Office, one for each of the topics of Management, Accounting and Finance, Specialised Courses, Oil and Gas Engineering, and Health and Safety.

You receive the following email:

From: Dzodzi Tsikata, Senior Financial Manager
To: Financial Manager
Subject: Dysfunctional behaviour

Hi

I have attached an email that Marja Mikkelsen forwarded to me.

I need you to write a paper that I can discuss with Marja that covers the following:

- Firstly, discuss the issues we should consider when setting a transfer price for the use of course managers by different topic managers.
[sub-task (a) = 60%]
- Secondly, identify and explain the factors other than transfer prices that might cause conflict between the topic managers.
[sub-task (b) = 40%]

Thanks
Dzodzi

The email referred to by Dzodzi can be found by clicking on the Reference Material button above.

From: Philip Chitsulo, Trayyner Topic Manager, Health and Safety
To: Marja Mikkelsen, Finance Director
Subject: Dysfunctional behaviour and conflict between profit centres

Hi Marja

I am becoming increasingly concerned that organising the five topic areas as individual profit centres is causing seriously dysfunctional behaviour between the topic managers and course managers. This is most obvious when it comes to the need for course managers to supervise the delivery of courses from different topics.



As you know, if we have two or three courses running simultaneously in the same hotel, we send just one course manager to supervise them, even when the courses are from different topic areas. That is becoming increasingly difficult to arrange because arguments are breaking out between managers from different topics.

For example, I have a Health and Safety course running in Lead City's Brandon Hotel next month, but all of my course managers are committed to other courses. The Topic Manager for Management also has a course running in that hotel at the same time, although it finishes a day earlier. Previously, Management's Course Manager would have supervised both courses, but the Topic Manager for Management has refused to permit this because she wishes her Course Manager to fly home as soon as the Management course finishes in order to avoid incurring the cost of an additional night's hotel accommodation in Lead City. I will be forced to rearrange my course managers' schedules and pay for a flight and a week's hotel accommodation because of this.

It is becoming increasingly clear to me that we need to establish a system of transfer prices for the use of course managers on different topics because there have been several such cases. For example, I have recently had to send one of my course managers to Hopetown to supervise three courses, only one of which was Health and Safety. The other courses were from two different topics and the topic managers both felt that they should not send one of their course managers if two-thirds of the benefit would go to other topics.

This case was only a single example of the conflict that has been growing between all five Topic Managers since the introduction of individual profit centres.

Kind regards
Philip

 Reference Material Pre-seen

Provide your response to Dzodzi in the box below.

From: Financial Manager

To: Dzodzi Tsikata, Senior Financial Manager

Subject: RE: Dysfunctional behaviour





Thank you for completing the Management Case Study Exam.

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

MANAGEMENT/CIMA GATEWAY CASE STUDY
MAY & AUGUST 2021
EXAM ANSWERS

Variant 1

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Section 1

Business model

In this case, the delegates from well-received courses are helping us to define and create value, which is excellent because they are the decision-makers who will buy these new courses. These conversations confirm that our delegates perceive value in attending the courses themselves and so face-to-face deliveries will hopefully continue. They have effectively identified an alternative market for us in delivering those same courses to middle- and senior-ranking managers.

The fact that new audiences for existing courses are widening is a clear indication that Traynyer is creating value through this opportunity. Courses can be repeated to audiences who will be signed up by their directors, so Traynyer will be generating fresh streams of revenue without having to conduct marketing activities or incur any significant costs.

There will be no direct impact on the delivery of value because it is to be hoped that the same trainers will provide the additional training to senior managers. The same learning experiences will simply have to be recreated using a different medium of delivery.

Capturing residual value will be enhanced by the fact that the trainers need not be offered an increase in their daily rate because they will simply be teaching a normal course. There will be a reduction in their travel and subsistence because they will not have to fly to a foreign location or be accommodated in a hotel. It may be unnecessary for Traynyer to incur any costs beyond the trainer's fee because the trainer could make the presentation from home using a laptop.

Business risks

Business risks arise from the nature of the operations and products.

Offering online versions of training courses could create risks for the existing products that Traynyner sells. Clients' directors may feel that they cannot justify attending training courses at luxury hotels in attractive cities when they could easily participate in the online version of the courses. Directors might then have less incentive to participate in future courses because they will have lost the incentive of foreign travel and so there will be less impetus to book further courses. Even if they do participate in online courses, Traynyner may not be able to charge as much for an online course aimed at a broad market compared to an exclusive course for Board members.

There could be operational risks associated with the availability of sufficient bandwidth, especially at the client's end of the link. If clients struggle to participate effectively because of IT issues then they will reflect that in their feedback. Training managers will not necessarily allow for the fact that the problems were due to poor internet connections or out-of-date hardware or software in the training room. Trainers may not have ready access to suitable work spaces from which to facilitate a full-time training course and so Traynyner might have to incur some costs in providing them with suitable facilities. Any problems in creating and maintaining links could lead to frustration and dissatisfaction, which would reflect badly on Traynyner's reputation.

There is a product reputation risk that the directors who seek these additional courses could unwittingly mis-sell the repeats, leading to dissatisfied delegates who will then criticise Traynyner. Many of Traynyner's courses are pitched at company directors who need to be aware of the wider business significance of their decisions. They may not be specialists in the course topics. Directors may benefit from updates and insights without realising that the managers who report to them are already fully aware of all of that information. Repeating a course for senior managers, such as the HR course that prompted this idea, could have the undesirable effect of patronising those senior managers by implying that they do not know their subjects.

These new courses could highlight the limitations of the relationships between the company and its trainers. It may not be possible to persuade trainers to make themselves available for repeats of courses, given that they have other commitments. The clients' directors may be unhappy if an alternative trainer is asked to take the original presenter's place. It may also be difficult for the alternative to work with materials prepared by a colleague and written to suit that colleague's style. Making materials more widely available could lead to plagiarism and breach of copyright.

Section 2

Commitment from trainers

There is a clear need to understand and appreciate the trainers' needs and interests. Trayyner has very clear needs to be able to call upon specific trainers whenever it needs them to facilitate courses, but the willingness of trainers to make themselves available could vary, so Trayyner needs to fully understand why the trainers are reluctant to make that commitment. Course managers should discuss those concerns in each case and should ensure that they are recorded so that they are fully understood. For example, some trainers could be unsure about their ability to make online presentations and so might benefit from training to boost their confidence in this approach.

Trayyner could offer trainers a bonus, on top of the daily fee, for teaching on any online repeats. That would then give the trainers an incentive to push the courses and also to agree to facilitate any follow-up that they manage to sell. The bonus would be an additional expense, but the follow-up courses will be relatively cheap to offer and to supervise and so the additional costs need not be significant. It is reasonable to assume that most trainers are motivated by the opportunity to earn additional income in their spare time and so any incentive will help.

It would be possible to sanction trainers who refuse to teach online courses, such as offering them fewer courses in the future. Trainers might be prepared to put greater effort into making themselves available if they are faced with the loss of work in the future. Trayyner would also be rewarding other trainers with additional fee-earning opportunities, which would send a very clear message to the trainers as a whole. It would be ideal to identify trainers whose needs for work are greater and to make them more dependent on Trayyner, so that they will be more readily available.

Trayyner could seek additional new trainers, specifying that any who are asked to repeat a course must make all reasonable attempts to do so. Making such an agreement would give Trayyner a wider range of people to call on to ensure that its online courses were staffed. It would also motivate existing trainers to be more flexible because they would be aware that they faced replacement with the new appointments. The act of seeking new trainers would be sufficient to make the existing trainers more cooperative because the threat of replacement would be made very clear.

Evaluation

Evaluating performance on the basis of profit will give course managers some discretion as to the pricing of online courses in order to make sales. A course manager who has an enthusiastic group of delegates for the initial face-to-face course, will possibly be able to charge a relatively high fee for an online follow-up, resulting in a higher profit. That same discretion will encourage course managers to accept smaller fees from less enthusiastic buyers, provided they are still making a profit.

Alternative approaches to evaluation could result in dysfunctional behaviour. For example, evaluating on the basis of the number of online courses sold, could

lead to course managers annoying delegates by pressuring them to buy an online follow-up. Alternatively, course managers might be willing to sell online courses without attempting to negotiate a higher fee and so Trayyner might generate a reduced profit overall. Maximising profits allows an incentive to focus efforts on the potential clients who are more likely to be interested and to charge on the basis of what the market will accept.

There could be a risk that course managers will be motivated to make excessive demands on the trainers who have been working for them during this pilot period. The trainers who have been teaching during this period might not necessarily be the best ones to use in the trial and so it could fail because the wrong trainers are being used, both in terms of their suitability for teaching online and their willingness to participate. Perhaps the course managers should be given a target for a specific number of online courses and should not be encouraged to maximise the number of courses.

Care should be taken in case the delegates from different courses have the opportunity to meet and compare. If, for example, there are three different bespoke courses running for different companies in the same hotel then the delegates might meet at coffee and lunch breaks. The delegates may be annoyed and could even cancel, if they discover that the course managers have been charging them different fees for online courses.

Section 3

Net present value

The first concern is that the demand for online courses has yet to be determined and so it is unclear whether there would be a market for the output from this studio. Trayyner is still at a pilot phase of marketing these courses and so it may be difficult to estimate the likely extent to which the 12 studios will be used.

The demand for online courses might be best estimated by holding a meeting for all course managers and the Marketing Director, with a view to discussing the likely market and the interest so far. It would be ideal if any online courses had taken place and if feedback was available as to the likely future success.

The contribution that buying TSP would make to future revenues from online courses is difficult to predict because trainers could be capable of generating the same revenue by presenting from home. The online course will be sold largely on the basis of content and the trainer's credentials.

The impact of a professional studio might be evaluated on the basis of a pilot, with some courses run from trainers' homes and others from professional studios. Comparing the delegates' feedback, focusing on the questions relating to presentation and quality, would give an insight into the likely impact that the use of a studio could have on repeat bookings.

The costs of operating online courses from TSP will be complicated by the fact that Trayyner employs part-time trainers who do not necessarily live locally. Presenting a five-day course from TSP could require trainers to be offered hotel accommodation in Capital City for the duration of the course and there may also be significant travel costs.

Estimating these costs will require Trayyner's course managers to review the addresses of the trainers and to make an estimate of the number who would be able to commute to TSP in order to make presentations. Trayyner could also consider the possibility that it might be possible to recruit more trainers who live within easy travelling distance of the studio.

An appropriate cost of capital will have to be determined, taking account of the risks associated with this project. The cost of capital will differ from Trayyner's cost of finance because this is a new venture in a slightly different market.

Ideally, Trayyner should be able to find a quoted company that offers online training. It would then be possible to use publicly available data to estimate that company's cost of capital, which would be a surrogate for TSP. If that is not available then the next step would be to find a reasonable proxy for training companies, such as providers of online services.

Negotiating purchase price

The starting point is to recognise that the negotiation may be a zero sum game and that the two parties simply wish to negotiate the price that best meets their conflicting interests. If Trayyner is looking for more than just the lowest possible purchase price then it may have to take that into account when negotiating with

TSP. For example, TSP has already offered some recommendations for the conversion of the studios and for the employment of some of its former staff. It may benefit Trayyner to make the negotiations as amicable as possible and to pay a little more for further concessions from TSP.

Trayyner should study TSP's industry and should look for evidence of growth or decline. If Tellitek is selling because of declining demand for video production then there is unlikely to be significant competition for the acquisition of this company. If that is the case then there is little need to pay a great deal to acquire this company.

The fact that Tellitek has already decided to dispose of TSP and make its technical staff redundant, strengthens Trayyner's bargaining position. Acquiring TSP will reduce the bad publicity associated with making staff unemployed, which may make it easier to press for a smaller selling price.

It may be that TSP's facilities are too sophisticated for Trayyner's needs, which would further support the argument for a lower price. The fact that TSP can broadcast video at high speed might not necessarily be of great help to Trayyner's clients, unless they have sufficient bandwidth to receive that video in the same resolution.

Section 4

Goodwill

The fair value of the purchase consideration has to be valued for the sake of the goodwill calculation and also to show the cost of the subsidiary in the parent company's statement of financial position. Trayyner is unquoted and so the value of the company will have to be estimated in order to determine the value of the 3% holding that is being issued to Tellitek.

It may be possible to find comparable training companies to Trayyner that are quoted and so their share prices could be used as a guide to the value of Trayyner. If that is not possible then professional advice may have to be taken in order to apply some of the models that can be used to estimate the value of unquoted company shares.

The fair value of TSP's property has to be determined, which will be complicated by the fact that the values of individual properties tend to be unique. There are trends in property values, but the fair value of any given property cannot be determined with any certainty.

The fair value might be estimated by looking for comparable properties that have been sold recently, both studios located anywhere in the country and commercial properties in that area of Northland. Even though the properties will not be identical, there will be figures that can be determined, such as the price per square metre, that can be adjusted to apply to TSP's equivalents.

The fair value of the audio-visual equipment that is being acquired will be complicated because there is unlikely to be an observable market that takes account of the age and condition of the equipment. The machinery has a useful life that can be determined both in terms of physical age and the possibility of technical obsolescence.

It would be reassuring to start with the list price of the same equipment if it can still be purchased new. That figure could then be adjusted to take the age of the equipment into account, bearing in mind that it is unlikely to suffer much from physical wear and tear.

The audio-visual software is a specialised product that might not have a ready market because its vendors will sell the items to a narrow range of customers. There may not be a ready market for software because licences are generally not transferrable. In this case, it appears that the licence is unaffected because Trayyner is acquiring TSP as a going concern.

It might be possible to estimate the value of the software by approaching the vendor and asking for a selling price. That price could then be adjusted pro rata to take the life of the licence into account.

Software

IAS 38 Intangible assets and *IFRS 3 Business combinations* require the software to be recognised initially at its fair value, as determined in the goodwill calculation. The only condition is that there has to be an expectation that the future economic benefits from the software will flow to the Trayyner Group.

The question of future economic benefits can be resolved relatively easily by deciding whether Trayyner plans to use that software in creating and transmitting video. That matter should have been decided at the initial planning stages of the acquisition and so it should be a relatively straightforward matter.

The initial value will then have to be amortised over the estimated useful life of the software. The estimated useful life is complicated by the fact that the software will not deteriorate physically but could become obsolete with time.

The estimated life will require some consideration of the market for this type of software and the likelihood that Trayyner will cease the use of the software in response to a better alternative of changes to hardware. The only way to check for that would be to meet with Trayyner's technical staff and discuss the possibility of a change.

Finally, the book value will have to be reviewed regularly for impairment. That requires some consideration to be given to the future use and value of the software.

In practice, the question of impairment can usually be considered by estimating whether future cash flows will be worth more than the book value of the asset. If Trayyner plans to use the software in its newly acquired studios and if the online courses will operate at a profit then the likelihood of the software being impaired will be very slim.

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Variant 2

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Section 1

Making course managers responsible

It could be argued that this might lead to dysfunctional behaviour by course managers, who may take their own attendance at courses into account when selecting and booking trainers. Course managers might be tempted to give priority to courses that they will have to supervise when selecting trainers, with better trainers being booked on courses that the course managers will supervise personally. That could lead to better trainers being under-utilised if they are kept “in reserve” to be booked onto courses to suit the personal interests of the course managers. Course managers may also be unwilling to give newly recruited trainers an opportunity to present under their supervision because they are nervous about their potential feedback.

There is no reason why course managers need to be subject specialists in order to supervise courses. Any experienced course manager can observe a training course while it is in progress and can look for signs, such as a lively and engaging presentation and positive responses from the delegates. The course managers can also receive feedback by asking delegates whether they are enjoying their courses while they are breaking for coffee. It is perfectly realistic for course managers to evaluate trainer performance while courses are in operation and to take whatever corrective action they can.

It is important to motivate course managers to pay close attention to the performance of the trainers whom they are supervising because the delegates can request that Traynyer is replaced by a competitor. It is fair to argue that the course managers on site may not be responsible for any problems, such as a colleague having booked a trainer who does not have sufficient expertise in a specialist area. Even so, the course manager can pass any concerns on to the trainer and discuss ways in which the course might be improved. It would be sufficient to enable the course manager to report back on the reasons for any

negative delegate feedback and to offer recommendations, such as removing an under-performing trainer from Trayyner's books or noting that the trainer is not suited to specific courses within a topic area.

It may not be cost-effective to match course managers to the trainers whom they have booked because that could lead to a significant increase in travel and accommodation costs. It could also complicate scheduling if the availability of specific course managers has to be taken into account alongside the diaries of course delegates and the availability of trainers. Realistically, the course managers could have little ability to deal with poor feedback once the course is underway in any case. Courses last for only a few days and so the trainer may be unable to do much to deal with a poor first impression and may be unable to do anything with regard to concerns about, say, technical ability or course content.

The most effective way to deal with this concern would be to make it clear to course managers that they are responsible for the oversight and supervision of courses and not for the quality of the trainers themselves. If delegates give poor feedback scores then it is important that the course managers can demonstrate that they are aware of the issues and can offer feedback to Trayyner's senior management. It could, for example, be necessary to recommend that a particular trainer should not be used again, especially if there are other trainers who specialise in the same subject area. It is possible to ensure that the course managers are held responsible for issues that they can control and that will be of value to Trayyner.

Profit centres

The challenge is that there is synergy between topics that would lead to confusion if each topic is considered in isolation. It may be that there is a greater demand for courses in, say, Accounting and Finance, but clients may be reluctant to use Trayyner unless it also offers courses in, say, Health and Safety. Trayyner can then maintain a close relationship with each client and can ensure that it meets the evolving needs of senior managers and directors without risking the loss of clients to competing training companies who can offer a comprehensive solution.

It is highly probable that the relative profitability of different topics changes over time in response to their changing importance. The development of, say, new extraction techniques could lead to an increase in demand for courses in Oil and Gas Engineering. The fact that a particular area is topical and in demand at the moment is not a reason to expect that it will remain profitable. Basing staffing and resourcing decisions on reported performance could prove misleading if it ignores such cycles.

There is potential overlap between the topic areas because of the need for course managers to be responsible for supervising courses from other topics. That will require some sort of profit share between the topics, otherwise a course manager who has to supervise two courses could be tempted to pay less attention to any course from another topic. Even so, the transfer prices or profit share could complicate the manner in which managers are motivated.

Increasing the emphasis on profits could discourage the promotion of courses that may be unlikely to run because course managers may be more focussed on short-term performance. There is very little cost associated with offering courses that are not in demand because Trayyner does not pay trainers unless they are actually teaching. Promoting such courses creates the impression of a diverse and effective training company because clients do not know that the less popular courses are not running due to lack of delegates.

Course managers have relatively little control over the costs incurred on individual courses, even though they are responsible for making all of the arrangements for travel and accommodation. For example, the cost of flights is determined by airlines, who set their prices in line with seasonal variations in demand. Also, delegates expect to have the courses delivered in good-quality hotels.

Section 2

Project for development of new feedback process

Need

The initial step is to determine the project's goals. The participants in the project team should be selected so that all necessary skills are available and they must be briefed so that they understand the project's goals and priorities. The need for an updated and revised evaluation scheme has to be communicated in a manner that will enable the project team to understand their objectives and so be equipped to compare the various options that are open to them. The Board has to develop a vision for the project, which will enable the project team to agree on whether their proposed recommendation meets Trayyner's needs.

Trayyner's Board should set out the key matters that it wishes the project team to address in the course of the project. This should be done in a clear manner that enables the team to evaluate their output and determine whether they have accomplished everything that was asked of them. The Board should take advice from course managers because it is their feedback that the present evaluation system lacks credibility that has demonstrated the need for this project.

Solution

The next stage is to develop a suitable evaluation system that satisfies the Board's vision for the project. The various alternatives that are discussed must be considered in the light of the key deliverables that have been identified by the Board and all must be fulfilled.

The project team should weigh up conflicts between criteria and offer a reasoned justification for their final recommendations. For example, the more detail that is collected the better, but there is a limit to the amount of time and effort that delegates can be expected to put into end-of-course feedback. The project team might seek clarification of the issues set out in the need stage of the project in order to assist them in making a recommendation.

Implementation

Implementation requires the creation of a specific set of milestones or the identification of specific deliverables that are required before the new system becomes operational. For example, if feedback is to be captured electronically then the team will have to brief those who will be responsible for creating the app or web page that will be used by delegates.

Given the importance of this project, there should be opportunities for pilot studies and reviews to be conducted while the implementation progresses. For example, if delegates are unhappy about the prospect of installing an app on their phones or tablets then it may be better to create paper forms and collate those as a separate exercise. The questions themselves will also have to be piloted to ensure that they are clear and unambiguous.

Completion

Once the system has been developed, the project team will have to return to the goals and ensure that all have been met. The key stakeholders are the course

managers and Trayyner's Board and they should be satisfied that the criteria for the success of the evaluation system have been met. This process could be combined with training for the course managers so that the system is subject to detailed scrutiny.

Trayyner is a relatively small organisation and so it should not be a major problem to adjust the evaluation system over time if any issues emerge at this stage. The project team could note any suggestions for improvement that would not be practical at this time, but that could be put into effect in the future.

Communication

There appears to be a miscommunication leading to a misunderstanding amongst trainers. The fact that there is a valid reason for delegate dissatisfaction does not necessarily address the fact that the trainers are responsible for ensuring positive feedback. The trainers should be informed clearly and unequivocally that it does not matter whether the course has been mis-sold or that the delegates have no real interest. They should use their skills and experience to deliver an interesting course regardless.

This aspect of communication may require course managers to become more assertive in communicating with trainers. The informal nature of the relationship between trainers and the company may have created a misunderstanding as to the trainers' seniority and so it needs to be made clearer that the trainers cannot dismiss a poor evaluation.

There may also be a need for more aggressive feedback to make it clear to trainers that poor feedback cannot be tolerated. The company could work on the basis that the trainers are expected to respond to poor feedback, perhaps by putting them on probation if their scores are low. Trainers who have negative feedback may be subject to closer scrutiny, with the course managers spending more time in the training room at the trainer's next course.

One possible communication strategy would be to dismiss some trainers in response to weak delegate feedback. Making that dismissal public knowledge would help ensure that the remaining trainers were clear about the consequences for poor evaluations.

Section 3

Benchmarking

Individual course managers may have developed their own techniques for managing delegate satisfaction. Benchmarking could be an effective method of making those insights available to colleagues. It is possible that course managers are unaware that their techniques for dealing with delegates are not known by their colleagues and so benchmarking might identify knowledge that would benefit the company as a whole. The course managers might then be more consistent in their approach to managing courses, which could enhance the satisfaction of delegates who take courses on a regular basis. The benchmarking process would create a dialogue between course managers about quality, which would be a favourable departure.

The benchmarking process would clarify, even further, the importance attached to delegate satisfaction by Trayyner's Board. The very fact that time and effort is being invested in ensuring consistency between course managers suggests that the Board takes this feedback seriously. The fact that the benchmarking involves learning what works for colleagues in practice suggests that the outputs of the benchmarking process should be realistic and practical. The process would also allow for questioning and challenging of ideas that might seem unduly time consuming or intrusive.

The question of benchmarking between topics is an interesting idea because course managers may believe that it is easier to obtain good feedback from topics that delegates recognise as interesting or important. Ideally, it will be possible to identify transferrable skills that are used by course managers in those topics that are equally applicable to all courses. Having said that, there is a possibility that delegates are more interested in, say, Oil and Gas Engineering because of factors that are uncontrollable. It is, for example, possible that a higher proportion of delegates on those courses come from an engineering background.

Benchmarking could prove unhelpful if feedback responses vary because of random factors over which different course managers have very little control. There is, for example, very little consistency between public and bespoke scores on both a topic and an individual manager basis. The effort that is being invested in the benchmarking could lead to course managers becoming frustrated if their scores fail to improve or even deteriorate. Recommendations made by colleagues may be sensible, but they will not necessarily improve feedback.

Delegates may respond to personal characteristics rather than techniques or prompts. For example, a course manager who has a naturally friendly and outgoing personality may obtain better scores, but that is hardly a transferrable skill that can be passed on to colleagues. Similarly, groups of delegates may differ because of cultural differences in their social or technical backgrounds, which might mean that techniques that are effective in some cases will be damaging in others. Some groups might, for example, enjoy humour during presentations, while others would feel that it undermines the course manager's credibility.

External benchmarking would be difficult because of the difficulties of collecting relevant data for comparison, but the course managers could conduct informal comparisons by asking delegates about their experiences with competitors' courses and their preferences for those versus Trayyner's.

Capitals

Integrated reporting is generally associated with external financial reporting for quoted companies. There would be nothing to prevent an unquoted company from preparing a report for its shareholders. It could be helpful for determining the ongoing success and sustainability of Trayyner's approach to doing business.

Intellectual capital will reflect any intangibles that Trayyner creates in the course of doing business. It is clear that Trayyner has a good understanding of the training needs of its clients, in particular through its list of public courses. Trayyner's courses can only be sold if clients can be persuaded of the need to train their directors and senior managers. Knowing the subjects in which potential delegates can be persuaded of a need for training would be enormously helpful.

Human capital will reflect any new competencies or capabilities that will be created by Trayyner's staff. Trayyner has a list of trainers who have proven expertise in the development and delivery of training courses in areas that are relevant to clients. Trayyner chooses not to capture or claim the course materials themselves as assets. Instead, the company has developed the ability to identify suitable trainers and so can facilitate a wide range of courses to meet client needs.

Social or relationship capital arises from relationships and also the ability to create collective wellbeing. Trayyner has invested heavily in maintaining relationships with clients and in developing relationships with potential delegates. The Group has three overseas subsidiaries who essentially exist to stay in touch with local clients. Course managers also have budgets to entertain delegates during courses and so help them to sell future courses.

Section 4

Course materials

The first problem is in applying the requirements of *IAS 38 Intangible assets* to determine the correct accounting treatment. The basic question is whether the purchase of the copyright should be capitalised as an asset or written off as an expense. The IAS defines an intangible asset as an identifiable non-monetary asset without physical substance. To qualify as an asset, it has to be controlled by the entity and be expected to yield future economic benefits.

The problem can be dealt with by determining whether there is a meaningful contractual right to be obtained through the purchase. Trayyner will have to establish whether it actually owns copyright and has not simply paid the trainers for rights that they are not free to sell, such as lecture notes from a university that employs them. The same arguments apply to updates to the materials.

If the cost of the materials is capitalised then that cost will have to be amortised over their useful lives. That could be difficult to determine because some materials will be based on mathematics or management models that are unlikely to go out of date.

It might be helpful to study the rate of change in courses in Trayyner's files over periods of years. It may be possible to see that there have been changes in the style of presentation even if the underlying course content remains the same. It may be helpful simply to assume a realistic maximum, such as five years, and write the materials off over that time.

Determining net present value

In the first instance, the costs of the materials will have to be estimated, which could be complicated because trainers may be unwilling to sell them. Course materials could find their way onto the internet and so prove traceable, which could cause trainers problems if they wish to use those same materials in a different context, such as a full-time university teaching post. Different trainers may differ in their attitude toward such concerns because some may take the sale of copyright very seriously, while others are less concerned and so more willing to sell.

The simplest response to this problem would be to offer each trainer the same rate based on the duration of a course, with an element of pressure to accept. Making it clear that a set of course materials for a five-day course is worth, say, N\$2,000 will leave trainers with little choice in many cases, unless they do not wish to work for Trayyner in the future.

It will be difficult to determine the impact that this purchase will have on cash inflows. Clients buy courses on the basis of relevance of content and their perceptions of quality. They will expect the materials to be good quality when they sign up. Trayyner will only really generate additional cash flows if the improved quality of the course materials generates repeat courses for happy delegates. Trayyner would probably have sold the initial courses whether it owned the teaching materials or not.

The impact on revenue might be considered by comparing course evaluations from a number of specific courses that are known to have excellent course materials with the evaluations from courses that are weaker. If the evaluations are significantly better for the former course then the purchase might generate additional revenue.

There is a risk that delegate satisfaction is driven by the overall quality of the trainers rather than just the course materials, in which case there will be little or no impact on revenues. Better trainers may happen to produce better materials, but it could be their presentation skills and their ability to respond to questions that affect delegate satisfaction. Weak presenters may create even greater dissatisfaction if they are forced to work with materials developed by others.

Trayyner could conduct a pilot course by asking a group of trainers who generally receive relatively weak evaluations to teach a repeat course using materials prepared by highly-rated trainers. If the feedback from the use of better content is improved then there is a chance that the material will improve revenues in the future.

The cost of capital associated with the investment is difficult to determine because this is a separate investment in what is essentially a parallel activity to Trayyner's normal training activities. Even if the investment is viewed as a straightforward expansion of the business, Trayyner does not have an observable cost of capital that can be input into the NPV calculation.

Trayyner's cost of capital can be estimated by looking for quoted companies that provide corporate training. It would be relatively straightforward to use market prices to estimate their WACC. If no directly comparable company can be found then it may be possible to find one that would be subject to similar market risks, such as a training company that has a wider remit or one that publishes business books. All that is really required is a company that is subject to similar business risks as Trayyner.

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Variant 3

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Section 1

This is a high consequence risk because it would be relatively easy for a good trainer to steal a client without Traynyner being aware of that until it was too late. Traynyner pays its trainers N\$4,000 for a typical course, but charges delegates N\$45,000. Trainers could hire the necessary facilities for themselves and still make significantly more than Traynyner pays them. Trainers on bespoke courses spend a significant amount of time alone with their delegates and so it would be relatively easy to raise the possibility of a direct training contract.

Trainers are also experienced in addressing the needs of the parastatal organisations that are the key market for Traynyner's services. The loss of clients would be a serious matter for Traynyner because it focusses on a very specific range of parastatals and so there might not be many ready sources of alternative business to replace those revenues.

The likelihood of clients switching to the trainer for future courses may not be particularly high because Traynyner can offer a credible and reliable service that may be difficult for the individual trainers to match. Even Board members are accountable for the money that they spend on attending training courses and so the fact that they can point out that Traynyner is a long-established company will make it easier to justify attending one of its courses. Spending significant amounts on attending courses offered by individual trainers who operate on their own accounts, may be more difficult to justify. There could be other elements to this risk, though. For example, the trainer might attempt to discredit Traynyner in order to persuade the delegates to switch allegiance. Delegates might also be annoyed at being subjected to a sales pitch by the trainer and could switch to a different training company altogether.

The most effective approach to mitigating this risk would be for the course manager to maintain a good relationship with the delegates. The fact that the client's Finance Director made this report to the course manager implies that she

had a good relationship with the delegates and so was warned of the trainer's unprofessional behaviour. It would be ideal if course managers' schedules could be managed so that important clients who regularly purchase bespoke courses are managed by the same course managers. Course managers can then use those courses as opportunities to reinforce the message that Trayyner offers good value, even if there are cheaper alternatives. Trainers might attempt to undercut Trayyner on price, but they cannot afford to undercut by very much, or there will be little financial incentive to steal the client.

Trayyner can manage its relationship with trainers in order to reduce the risk of dysfunctional behaviour. Paying trainers realistic fees and rewarding good trainers by giving them as many courses as possible will discourage them from acting against Trayyner because of greed. The course managers should spend as much time as possible in the training rooms and should always be present at breaks in order to be aware of what the trainer is saying. Trayyner should constantly recruit new trainers so that it can replace anyone who is even suspected of attempting to steal a client on future courses. Ideally, the same trainer should not be used too often to teach any given group of delegates, otherwise a relationship might develop and the risk of stealing a client might increase.

Leadership

Leadership is essentially about influencing individuals to behave in a manner that is deemed acceptable or desirable. The most obvious challenge in this case is that the parties involved are operating at a distance from Head Office and the senior management team. The course managers must be motivated to be attentive and to deal with multiple courses at the same time, even though they may not have had any direct role in making the arrangements or in dealing with the clients. The course managers are being asked to manage a heavy responsibility when they are on active duty because they have to supervise up to three courses and make arrangements for future courses that have been booked and contact potential clients to make further bookings. Part of the challenge for Trayyner's senior management team is to ensure that course managers are not treated unfairly when problems arise, such as this trainer attempting to steal the client.

The other major challenge is that the trainers are a crucial element of the service and yet they have little or no direct contact with Trayyner. It is unlikely that many of the trainers have ever had the opportunity to visit the company's offices and they may only have email and telephone contact with the course managers who book them, unless those same managers happen to be supervising their courses. The trainers work on a part-time basis and may not be able to count on the company offering them courses, so they may be inclined to act in their own self-interest. The trainers are also professional people who can see that their expertise is, arguably, the most important aspect of Trayyner's credibility. Such feelings could lead to resentment, which could undermine the trust between the trainers and the company.

Section 2

Pricing

In theory, trainers would have zero fixed costs and lower marginal costs if they offered courses in a personal capacity. Trayyner incurs costs of N\$45,000 – 22,375 = N\$22,625 for a bespoke course. Looking at the cost schedule, an independent trainer would not have to make a separate charge for the trainer's fee, commission to overseas sales offices, incur costs for the course manager's travel and accommodation or allow for Heads Office costs. The trainer could eliminate a total of $N\$4,250 + 3,000 + (1,700/2) + (3,400/2) + 2,500 = N\$12,300$. Passing on that saving to the client would represent a significant price reduction and could potentially leave the trainer with the same profit as Trayyner. Hypothetically, the trainer could charge N\$30,000 for a similar course and make a profit that is close to Trayyner's. The trainer could offer an even greater reduction and still earn more from the course than the usual trainer's fee of N\$4,250.

It is debateable whether the trainer could achieve those price savings in practice. It may be unrealistic to base cost projections on Trayyner's figures. There could be a significant issue with the trade receivable of N\$40,000. The client may insist on being invoiced in its home currency, which could create the risk of a currency loss to the trainer. There could also be concerns about collectability because the trainer might struggle to enforce payment once the course has been completed and the client may be unwilling to make payment in advance to an unknown trainer. The hotel that provides the training room and accommodation will probably give Trayyner a significant discount because it is an important repeat customer. The trainer may have to pay significantly more. Similarly, the company may have an arrangement with the entertainment provider and so the trainer may have to pay significantly more to entertain the delegates in the evening.

Trayyner's approach to pricing appears to be based on the concept of charging a premium price for a top quality service. The company's margins are high and yet it can run multiple courses concurrently in the same location, so it is unlikely that it is suffering a loss of business because its prices are too high. Trayyner can maintain a gross profit margin of $61,932/98,465 = 62\%$ and manages to compete directly with other training companies, such as Mesterkles, which has a gross profit margin of $51,538/83,695 = 61\%$. The similarity in margins between the two companies suggests that Trayyner's pricing is sustainable and that the company need not decrease its prices. If the loss of business because of trainers stealing clients was a serious threat then it would have materialised by now.

Individual trainers cannot realistically compete with training companies on the provision of public courses because it would not be cost effective for an individual to attract delegates from a number of different clients. The need to market public courses creates a significant barrier to entry, even if the trainer has made contact with delegates from previous courses and so Trayyner need not consider reducing its prices. The pricing of bespoke courses should allow for the additional convenience of having the course designed to the client's precise requirements and so it is realistic to charge a little more than for a public course. The cost to the client of attending a bespoke course includes the costs of travel and accommodation, the disruption arising from having the management team out of

the office and so a small saving on the cost of the course itself might not help the trainer to undercut on price. Furthermore, individual trainers cannot offer the same breadth of content as a training company and so the client is likely to choose to remain with Trayyner even if a cheaper alternative is available.

Investigation

The scope of the investigation should be set out in some detail so that the lead investigator can be sure that the Board's needs have been addressed. For example, the investigation could look backwards in order to determine whether clients have been lost to trainers in the past or forward looking to establish whether recent clients are being tempted to switch to another training provider. Either approach has its own implications for the relevance and the reliability of the results.

The membership of the working party should be considered carefully. It seems realistic to include several course managers, drawn from different topics because each topic might have different implications for the loss of clients. The team might be chaired by a senior manager from another function in case course managers are biased in compiling the final report because any loss of clients might reflect badly on them.

There are important administrative issues, such as deadlines and budgets for time and expenses. These issues will guide the team members as to the amount of time and effort that they are expected to invest in the investigation and the level of rigour that should be applied to supporting the conclusion.

The Board should request a formal, written report at the conclusion of the investigation. The investigators will take greater care if they will be expected to put their names to a formal report at the end.

Section 3

Negotiation

These circumstances make it difficult to identify a win–win outcome for both parties because a suitable outcome for Trayyner would effectively mean asking that Trivvector should be closed down. Simon could face the loss of a potentially lucrative business venture, which could be his only source of revenue. There is no obvious compromise that could be offered to Simon in order to arrive at a settlement and nothing less than outright closure would be acceptable to Trayyner. It would not, for example, be acceptable to agree that Trivvector would not seek to work for Trayyner's clients because Simon's past behaviour suggests that he cannot be trusted to honour any such agreement.

Simon will be aware that it will be extremely expensive for Trayyner to take legal action because there are significant financial risks associated with doing so. There would be little point in agreeing to settle unless there was a realistic threat that Trayyner would be both willing and able to take Trivvector to court. It is not sufficient for Trayyner's lawyers to write with legal arguments. Apart from the legal fees, Trivvector will realise that court action will consume a great deal of time and effort at Trayyner, which could affect the quality of its courses. A court case could also lead to significant adverse publicity for Trayyner, which Trivvector could use to its advantage if the legal action fails.

It would be almost impossible to seek a binding commitment from Simon that actually means anything to Trayyner. Simon could agree to close Trivvector down, but could encourage a third party to establish another training company that could employ Simon but without his name appearing on its website. That third party could make direct contact with Trivvector's clients to inform them that the company had changed its name and asking them to continue to use it. Such a settlement would be of no help to Trayyner and would discourage action against the replacement company because Simon's contacts could create a succession of new training companies.

It may be worth offering to re-employ Simon and to agree not to dismiss the trainers who had signed up to work for Trivvector. While there are clear risks in making such an arrangement with trainers who are already in breach of their contracts with Trayyner, it may be preferable to having those same trainers steal clients. Trayyner might even go so far as to improve the rates paid to its trainers to make it more attractive to remain with it because that would lead to greater mutual benefit.

If Trayyner cannot reach an agreement with Simon then it may be necessary to spend at least some of the N\$800,000 on taking him to court. Serving Simon with legal papers that indicate that court action is under way will force a decision, either to defend the case in court or to reach a compromise. As an individual, Simon is unlikely to have the resources required to defend legal action, while Trayyner is a large organisation with more to spend and more to lose.

The ease with which rival training companies can be created can only be addressed by ensuring that existing and prospective clients realise that Trayyner can offer a superior service to other training companies. The course managers should ensure that they stay in regular contact with the clients who have been

allocated to them and they should aim to ensure that they sign up future courses at the earliest possible date so that the business cannot be poached by competitors. Trayyner might also take an aggressive approach to dealing with trainers who are found to be working for competitors. Newly established companies such as Trivvector may not be able to offer their trainers many courses and so trainers may choose Trayyner over the alternatives.

Debt and equity

Trayyner must raise N\$800,000 to meet payments that will arise over the next two years. One advantage of debt would be that the company could raise a sequence of loans that were timed to ensure that funds were available when required. For example, if the first N\$250,000 is payable immediately and then another N\$100,000 in six months then two separate loans could be raised for those amounts. That would be preferable to raising the whole N\$800,000 in a single lump sum because Trayyner would then have to pay interest on cash that is not actually being used. There are usually more formalities associated with raising equity and so it would not be cost-effective to issue shares in small tranches.

Debt is also potentially flexible in terms of repayment. It would be possible to negotiate a loan on the basis that it could be repaid by an agreed date, with early repayment possible. Such an arrangement would allow for the possibility that the dispute is settled out of court and so some of the funds that have been borrowed to finance it are found to be surplus to requirements. If Trayyner issues N\$800,000 of shares then the finance will effectively be a permanent investment and it would be difficult to return that to the shareholders.

Debt carries legal obligations requiring cash payments to service interest and repayments of principal. It could be risky to take on significant borrowing prior to getting involved in a major legal case because Trayyner might struggle to make repayments if it loses the case and is faced with even more significant legal costs. Equity would not require any specific payments or repayments and so Trayyner would have much greater flexibility.

Section 4

Goodwill

Trivvector's property will be a significant problem because land and buildings are generally difficult to value accurately because each asset is unique. The fact that the property is located in Southland, which is a recently developed country, may further complicate the valuation.

As a starting point, it should be remembered that Trivvector is a very young company, so the property was purchased only very recently. The fact that the property was purchased recently gives a reasonable indication of the value obtained when the building was purchased on the open market by Simon.

The fair value of customer lists is complicated by the requirements of *IAS 38 Intangible assets*, which require the cost of an intangible asset acquired as part of a business combination to be treated as part of goodwill unless it cannot be recognised as a business asset. This asset will have to be evaluated in terms of the recognition criteria for intangible assets.

In this case, the easiest response would be to check whether the client lists are new to Trayyner. It is very possible that the list comprises Simon's contacts that were developed through teaching on courses run by Trayyner, in which case no economic benefits will flow from the list and so it is not an asset.

The fair value of the software is complicated by the fact that the licences might not be transferrable and so they could have a fair value of zero.

Trayyner should investigate whether the software is industry standard and therefore of some value to the Group. It should also check whether the software can continue to be used under the terms of the licence agreement.

Cost transformation

The CGMA Cost Transformation model might help in this situation.

Cost transformation requires an understanding of cost drivers. In this case, Trivvector appears to have incurred significant initial costs because it has had to sell the idea of offering training courses in Northland, which is a new venture. Trayyner has no experience of running courses in Northland and so may not understand the costs associated with operating there.

This challenge might be overcome by studying the costings for the course that have been planned and conducted so far. Trayyner will have to determine how much it will have to pay to hire a training room in Northland. It will also have to establish the costs of accommodating trainers who do not live within commuting distance of the training venue.

Trayyner will have to create a cost-conscious culture at Trivvector. Trivvector has only been operational for a few months and yet has already created a significant debt balance on retained earnings. Clearly, there would be initial costs associated with working with potential clients to establish the company, but such losses are not sustainable.

Trayyner could obtain a benchmark for its running costs by comparing this new office with its established sales office in Southland. It may be more cost-effective

to combine the two offices and have the staff collaborate on selling courses to that market.

Cost transformation involves connecting products with profitability. The reasons for switching the venues for courses to Northland and away from established countries will have to be considered. It may be that the motive is simply to reduce trainers' travelling time.

Trayyner's course managers should contact clients who have booked for courses in Northland to check that they are keen to travel there. If the motive for the move is the convenience of trainers then the courses should revert to the traditional bases.

The risks associated with managing costs should be evaluated. The work undertaken by Simon during this initial phase should be viewed as useful experimental data. The question is whether the lavish spending and the changes to course locations has been an effective means of creating growth.

Trayyner can consider whether the clients that it lost to Trivvector were as a result of the additional spending by Simon in marketing and other costs. Analysing those costs and their impacts would help determine whether there are any cost-effective ways in which Trayyner might invest more effectively in winning business.

MANAGEMENT/CIMA GATEWAY CASE STUDY
MAY & AUGUST 2021
EXAM ANSWERS

Variant 4

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Section 1

Cash flows

The cash flows associated with the purchase of the building will have to be estimated and determined. The fact that the property is presently for sale helps because the present owner's asking price is known, but there could still be room for negotiation. The acquisition of any property also involves professional fees for lawyers and other advisers and their charges will have to be considered. That will be complicated by the fact that Trayyner has no prior experience of buying property in Hopeland and so there may be complications such as local taxes on property transactions.

The cost of converting the building will have to be considered and taken into account in predicting cash flows. That could be a complicated matter to estimate because it may be necessary to invest heavily in architect's fees and building work if the conversion involves structural changes to the building. There could also be significant issues with local building regulations, such as fire alarms and emergency exits. The conversion to a training centre could increase the number of people in the premises at any one time and that might have an impact on the safety laws that affect the conversion.

Equipping the training rooms with the necessary technology is complicated by the fact that this is an area that is subcontracted to hotels and so it may not be clear what equipment Trayyner should purchase and how often it will have to be upgraded. Individual hotels will use different equipment and will have to allow for the size of their rooms when selecting equipment such as projectors and sound systems. At this early stage, Trayyner will have to make an initial estimate of the costs of equipment based on estimates of the final layout. It may also be necessary to incur the cost of having an assistant onsite to help trainers connect their laptops to the rooms' systems. Trayyner will also have little knowledge of the life expectancy of this equipment and so the cash flows for replacements will be difficult to predict.

The running costs of the training centre could be difficult to predict. Trayyner is used to subcontracting the provision of training spaces to hotels. These new arrangements will lead to the need to budget for costs ranging from utilities such as electricity, to arranging food for the breaks and lunches. These costs may be difficult to predict because the comparable prices charged by hotels could be affected by economies of scale and by experience in providing hospitality. This centre will also require Trayyner to employ local staff to cook and clean and those cash flows may be complicated by the fact that Trayyner has no great understanding of local employment laws.

The impact on revenues will also have to be considered because delegates are used to having courses in luxury hotels. Conducting training in a purpose-built training centre in the business district may be a far less attractive proposition than the current arrangements and so Trayyner might not be able to operate the centre to its full capacity and so the savings in hotel charges might be difficult to predict. The sizes of the individual rooms in the new training centre will also have an impact on those savings because it might not be appropriate to host very small groups there in rooms that are too large and there not be room to accommodate larger groups of delegates. The assumptions concerning group sizes will have an impact on the occupancy rates.

Weighted Average Cost of Capital (WACC)

Trayyner needs to discount the estimated future cash flows at an appropriate cost of capital that reflects the required rate of return on this investment. The rate should reflect the risks associated with that investment, with riskier investments requiring a higher rate of return.

WACC is the cost of the finance that has been raised by Trayyner. It combines the cost of the loans that have been made to the company with the return expected by the shareholders for their equity funding. WACC is, therefore, the cost of finance for the Trayyner Group before the investment in this new training centre. It would clearly be relevant to determining the required rate of return for a simple expansion of the existing business, but it does not allow for a significant change of direction.

Trayyner's WACC is effectively a function of the risks associated with demand for training courses and the costs of facilitating those courses in hotels. The acquisition of the training centre creates different risks, including the risk that there will be periods of the year when there are fewer than eight courses running simultaneously or the risk that the training centre will create operational inefficiencies.

It could be argued that WACC is potentially misleading, but could be regarded as legitimate because many companies use WACC as a cost of capital. Even if the rate is not entirely relevant to the nature of the investment, stakeholders might be reassured that the investment yields more than the current cost of long-term finance. It is generally difficult, if not impossible, to determine the "correct" cost of capital for any given investment project and so WACC is at least a relatively objective measure.

Section 2

Project constraints

Time is the most open-ended of the three constraints because there is no pressing need for Trayyner to put the new centre into operation. It is hoped that the centre will reduce operating costs and so it would be desirable to have the training centre completed as quickly as possible, but there is no specific deadline. Pushing for an earlier completion date could increase costs or impair the quality of the finished building. Early completion might require builders to pay additional wages in overtime and that will be passed on in the form of a higher bill. Time pressure could also lead to shortcuts being taken by the various contractors and consultants.

It may be sufficient to identify a relatively relaxed completion date so that the project management team has a deadline to work to. The deadline will then have to be regarded as relatively fixed because any slippage will require hotels to be booked to cover for any courses that had been scheduled for the training centre and those may prove difficult or expensive to book at the last minute.

Quality is probably the most important element to be decided at this stage because Trayyner's business depends on it being able to meet the expectations of the directors and senior managers who participate in its courses. The architect's plans have still not been prepared and so there is a clear opportunity to ensure that the project is completed to a high standard that will encourage delegates to book further courses with Trayyner. The architect should be encouraged to offer constructive feedback on the initial expectations for this project. For example, fitting in eight training rooms could lead to small spaces and overcrowding in the break areas. It would be helpful to take time to discuss the implications of alternative design decisions before work commences, otherwise any dissatisfaction will increase cost or delay completion.

The project might be improved by employing an interior designer to offer advice concerning the layout and finish of the rooms, working in conjunction with the architect. Having experts specify those matters will be easier than having Trayyner's management team offer their views on something as subjective as quality.

Cost is also a critical element because there is no point in proceeding with the project unless it can be completed for a reasonable cost. Cost interacts with the other constraints and so it might be sensible to identify the most desirable completion date and design and use those when estimating the overall cost. If that cost seems unacceptably high then the initial plans can be reviewed and revised in order to set less ambitious targets. It would be ideal if the senior management team could be presented with a fully-costed set of proposals at the initial stage so that they can make informed choices. For example, the Board needs to know how much would be saved by switching to cheaper furnishings and also how that would impact on the ambience of the building.

In this case, the cost constraint is complicated by the fact that spending too little could discourage delegates from giving Trayyner their repeat business. A cheap finish for the training centre could prove unacceptable to delegates, who might be left with a poor impression of Trayyner as a company.

Negotiation approach

In this case, it is even more important than usual that Trayyner should achieve a win–win outcome because dissatisfied course managers will be demotivated and that could lead to dissatisfied delegates. The course managers might also ask to be permitted to return to Capital City and could resign if their request is refused, leaving them in a place where they are unhappy.

The Board should review the refusals that it has received to date and should consider whether the responses could have been addressed in any way. If the issues are personal then it might be worth considering seeking out potential staff who are not subject to the same constraints. For example, members of staff who are married and have children might be less likely to want to relocate to another country.

The Board will have to exercise extreme care in its approach to any other potential staff for this venture because it may now be known that some course managers have refused the appointments. Anyone who is approached now will be aware that others were favoured candidates and so they may be reluctant to accept they're "second best".

The Board should be aware that there is a lot that might be offered to enhance the opportunity to relocate. For example, a relocation package to assist families to move to Lead City might persuade those who refused initially to reconsider. These staff should also be provided with suitable accommodation and a generous allowance to cover any additional costs. Trayyner can afford to be generous because the staff will be based in Lead City and so they will not require frequent flights from Northland.

Section 3

Cost transformation

One element of the cost transformation would be to connect products with profitability. This is not happening here because Trayynner is apportioning Training Facility costs to individual courses on the basis of the number of courses that are actually run, which means that a significant element of the cost is not being driven by the course itself. If the Training Facility is underused then the charge per course will increase and that will discourage course managers from booking there. Ideally, the course managers should be encouraged to collaborate and work strategically, with a view to making full use of the capacity at the Training Facility. One way to do that could be to charge a flat rate of N\$5,458 per course, regardless of the occupancy rate.

Another element is to understand cost drivers. That could be an issue in this case because course managers are being asked to share N\$20,500 for the resident course managers' salaries. Even at full capacity, that charges the course with a fee of N\$570. The question that arises is whether it will be possible to avoid flying course managers out whenever a course is run at the Training Facility. If that is the case then there could be a net saving because it will be unnecessary to incur the costs of flights and accommodation. If the course managers still have to travel, but are supervising fewer courses during that trip then they may be discouraged by this charge for the resident course managers.

Cost transformation requires the engendering of a cost-conscious culture. There is a problem here because, even at full capacity, the Teaching Facility cost exceeds the cost of a hotel meeting room. The average food and beverage cost for a course is $\text{N\$}108,000/36 = \text{N\$}3,000$, which seems high in comparison with a hotel service that is N\$4,000, including meals and snacks. This is an area where Trayynner should investigate whether this cost is high because of overspending on ingredients, in which case costs can be reduced. It could clearly make a significant difference if it does so.

For example, the CGMA cost transformation model suggests that the maximum value should be generated through new products. Ideally, there should be ways to make the Training Facility seem attractive to delegates so that they request courses to be provided there rather than at a hotel. If the high cost of food is due to the provision of better-quality meals then that could be a means of differentiating the Training Facility. It might be possible to add facilities that might be less readily available at a hotel venue, such as faster internet access or video conferencing facilities to enable delegates to contact their offices.

Trayynner should take care to manage risks associated with driving cost-competitiveness. There could be an argument that the costs associated with using the Training Facility are not significantly higher than those associated with using a hotel meeting room, provided the Training Facility operates at capacity. Reducing costs dramatically in what is a new venture could cause the delegates some dissatisfaction, which could defeat the point of having the Teaching Facility. It might be preferable to find an alternative approach to using the new centre.

Transfer prices

Trayyner should discontinue the use of actual costs and actual course numbers to set the transfer prices because that makes it impossible for course managers at Head Office to plan for the costs that they will incur. Course managers are required to prepare a report at the conclusion of each course, showing the surplus of revenue over cost, so they have an incentive to minimise their costs. The present arrangements create the possibility that a course manager could be charged a very high rate for using the Teaching Facility during a month in which it happens to be underused. The use of actual cost and course numbers also reduce the incentive for the resident course managers to operate the Teaching Facility in an efficient manner because the resulting increased charge to Head Office course managers offsets that inefficiency.

Basing transfer prices on budgeted costs and course numbers would eliminate the uncertainty over the amount to be charged to Head Office course managers. Unfortunately, that would not necessarily create an optimal outcome for Trayyner because the Training Facility would remain uncompetitive with local hotels on price, even on the basis of the budgeted occupancy. It might be possible to overcome that by setting a transfer price that is based on the marginal cost to the Teaching Facility of running additional courses. The marginal cost of accommodating an additional course appears to be the additional cost of food and beverages, which is $(\text{N\$}108,000 - 42,000) / (36 - 14) = \text{N\$}3,000$. Setting transfer prices at that rate, or even slightly more, would give Head Office course managers an incentive to use the Teaching Facility whenever they were organising a course in Lead City.

Basing transfer prices on marginal cost would not necessarily motivate the course managers in charge of the Teaching Facility. Doing so would undoubtedly result in a lower operating profit for the new facility. One response might be to apply a transfer price based on dual prices based on budgeted full costs for the credit applied to the Teaching Facility. That would reduce the risk of potentially dysfunctional behaviour by the managers at the Teaching Facility.

Section 4

Currency loss

The subsidiary's non-current assets and liabilities will be translated at the year-end using the exchange rate that is applicable at that date. The initial cost of the assets and the amount of the loan will have been translated into N\$ at the exchange rate as at the date of acquisition (assuming that a whole year has not passed since then). If the H\$ weakens against the N\$ then the book value of the assets will decline and that will lead to a loss on translation. That loss will be offset by the fact that the loan will decrease in value because of the exchange movement and that gain will partially offset the loss on the assets.

Any goodwill on the acquisition of the subsidiary would have to be retranslated at the closing rate, which would lead to a further loss. The fact that the subsidiary appears to have been created as a new company with equity injected by Trayyner, rather than the company being acquired as a going concern, suggests that there will not be any goodwill.

The loss on translation will be reported in other comprehensive income, so it will not be shown as an expense in the statement of profit or loss. There will be a debt entry to the Group currency reserve in the statement of financial position.

Interpretation

The loss will decrease total equity, which will mean that the return on capital employed will increase. Profit for the year will be unaffected by the loss and so the numerator of operating profit will be unaffected but the denominator of capital employed will decrease. Paradoxically, the currency loss will make the Trayyner Group appear to be more profitable.

The changes will affect the Group gearing ratio. The adjustments will reduce both equity and non-current liabilities. If we assume that the H\$45 million raised through equity and debt were invested in non-current assets then the currency loss taken to equity will probably be greater than the reduction in debt and so the impact on the gearing ratio will be difficult to determine. Given that the Group's gearing ratio is already very low then it is reasonable to expect the ratio to decrease and so the Group will appear less risky.

The reduction in the book value of assets will make the Group appear a little less well established in terms of the absolute value of its assets. Readers may not, however, be particularly concerned by a decrease in the book value of property, plant and equipment because that is a relatively subjective figure in any case.

Leadership style

The challenge here is that the course managers who are on site appear to be of equal rank and the Board has not designated a leader. It is natural that there will be some friction with each of them vying for control over the other two and working to avoid being ranked as a subordinate. The three on-site course managers will also view the colleagues who work there temporarily as coming into their domain and so they will be keen to assert themselves.

The Training Facility has created a situation in which the relationships between the course managers has changed because they tended to work independently

in negotiating and organising their courses. Each sold courses and booked trainers and facilities independently. Now there is a formal venue that has to be organised in a corporate style that has not actually been determined.

This appears to be a situation in which there has to be a more participative style of leadership at the Training Facility. The three course managers who have been stationed there should be encouraged to work together and resolve disagreements. If necessary, the Board should designate one as being in charge, but that should only be a last resort and the designated leader should have very limited seniority. The course managers who visit the Teaching Facility should be encouraged to defer to their colleagues, out of respect for the fact that they are responsible for the venue, its staff and other contacts.

MANAGEMENT/CIMA GATEWAY CASE STUDY
MAY & AUGUST 2021
EXAM ANSWERS

Variant 5

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Section 1

Managing conflict

This type of conflict seems almost inevitable because the interests of the trainers and the company diverge so dramatically. Trainers are generally giving up free time to earn additional income to supplement their primary employment, so it seems unlikely that Trayyner can apply any real pressure to make them comply. Trayyner must allow for the availability of its delegates in scheduling courses and they are unlikely to be willing, or able, to reschedule to meet Trayyner's needs.

The most effective way to manage this type of conflict is to compromise, most probably by relieving trainers of their responsibility to teach a course if the date becomes unsuitable or is rescheduled. Ideally, there should be a wide range of trainers so that there are alternatives who can be called on to cover for a colleague who cannot manage a date. Such an arrangement would avoid putting course managers and trainers in such direct conflict that the staffing of courses is being threatened.

This form of compromise would also encourage trainers to be more accommodating because they would, presumably, prefer to teach in order to earn fees and travel. If Trayyner's response to a clash between a scheduled course and their personal lives is to staff the course to another trainer then they might be less inclined to refuse. Trayyner could also start to offer trainers who are accommodating more courses so that there is a visible reward for their cooperation, one that might motivate the others.

Risks

Trayyner's courses are often very specialised and they are always taught to senior managers and directors who require practical training. Clients can specify their own content focus for bespoke courses and may be seeking answers to

difficult problems that they have been struggling with as an organisation. Trainers might overstate their competence, either because they are keen to teach the course or because they are unaware of the gaps in their knowledge. For example, the client might require a focus on the needs of parastatal entities that are not commonplace in Northland. Inexperienced trainers might not realise that they will have to prepare such content.

This risk might be mitigated by employing trainers who have sufficient practical experience to understand clients' needs. For example, trainers with experience of working in the public sector will be better qualified to understand the needs of clients from parastatal entities and public sector organisations such as those who employ Trayyner. Trainers should be thoroughly briefed before preparing their course materials so that they fully understand the clients' needs.

Trayyner's clients are senior managers and company directors who will challenge trainers and will press for application of ideas to problems that they face in practice. Trainers will have to be adaptable and have sufficient grasp of their material to be able to give competent answers to questions from delegates. On bespoke courses, the delegates will come from the same client and may debate issues that have been proving troublesome in practice. They will often expect the trainer to express an opinion. An illogical or ill-considered response could easily discredit Trayyner and lead to the loss of a client.

Trayyner should restrict its recruiting activities to potential trainers whose backgrounds and experience would indicate that they can handle the pressure. Those who are newly qualified or who do not have significant training experience should be rejected. Trainers who have taught on similar courses in the past should be invited back whenever possible because they have demonstrated that they can offer credibility.

Trainers may not have sufficient time to prepare properly for courses. If they have the necessary background and experience to teach these courses then they are likely to have demanding full-time careers that leave relatively little time for external activities. They may also have family commitments, which will further compromise preparation time. Poor preparation could be frustrating for delegates, whose employers are spending a great deal for their participation and who are travelling considerable distances to take part. It may be difficult for course managers to conduct a meaningful review of the materials before the course because they are not subject specialists.

The ideal solution would be to encourage trainers to repeat courses as often as possible. That will encourage trainers to invest more time and take more care because they may have the opportunity to use the materials again. Trayyner will also be seen to be rewarding success by giving more competent trainers additional teaching.

Section 2

Full-time trainers

The employment of full-time trainers would have a significant impact on Trayyner's business model.

In terms of defining value, the trainers who would be recruited to full-time posts could be selected on the basis of the relevance of their skills to the needs of delegates. For example, if courses on topics such as corporate governance are popular then Trayyner could ensure that it recruits staff from that background.

The fact that these staff will work for Trayyner on a full-time basis means that the company can afford to invest time and money in training them in presentation skills to ensure that their courses are engaging. Downtime between courses could be used to develop and enhance teaching materials and to observe experienced colleagues making presentations. Full-time trainers will have a much greater incentive to develop their competence in training. Trayyner might be able to justify retaining copyright of materials developed by full-time trainers during working hours.

Creating value might be enhanced by trainers taking over at least some of the responsibility for liaising with clients to ensure that all requirements are fully understood. Course managers will not necessarily know what questions to ask in order to determine the needs and expectations arising from a course. The course manager could sell the course and then one of the full-time trainers could get in touch with the client's training manager to ask about delegates' backgrounds and the desired depth for the course.

Subject specialists are far more likely to develop relevant and effective courses if they have the opportunity to get involved in the preparation of the course outline. The fact that this contact is being made would also reinforce the message that Trayyner takes delegate needs seriously.

Delivering value depends on the availability of professional trainers who have the required skills and knowledge. At present, there are 300 part-time trainers available to the company, which creates the possibility of a wide range of interests and experience. The switch to full-time trainers will narrow down the scope for specialisation in terms of expertise because each full-time trainer will be able to handle the equivalent of several part-timers.

Trayyner could recruit full-time trainers who have skills that will be in constant demand for popular courses that would enable the appointees to be kept busy. Trayyner could continue to rely on part-time trainers to facilitate less popular courses in specialised topics.

There could be concerns about capturing residual value because the full-time trainers will be salaried staff. Trayyner will have to bear the cost of employing the trainers, even if there are gaps in their schedules because they are not suited to the courses that are running. Apart from salaries, Trayyner will have to pay for sick leave, holidays and so on, none of which would be required for part-time staff.

Presumably, the daily rate paid to part-time staff would be significantly more than the equivalent salary cost for a full-time member of staff. The potential savings will have to be calculated, taking account of the possibility that there will be additional risks associated with having potentially under-employed full-timers.

Quality management

In order to manage quality effectively, Trayyner must decide on how quality should be defined in the context of the company and its needs. In this case, delegate satisfaction will be a key issue because disappointed delegates will generally be sufficiently senior to have their employers switch to another training company for future courses. Given that public courses can attract up to 25 delegates, each of whom will probably come from a different client, the potential loss associated with a badly written or presented course could be significant.

The employment of full-time trainers will change the manner in which quality is managed. At present, the part-time trainers are evaluated by delegates at the end of each course. Course managers discuss those evaluations and make suggestions for improvement. It is easy for Trayyner to dismiss trainers whose feedback is poor because it is simply a matter of deciding not to ask them back for further courses. Full-time trainers will have contracts of employment and so they will be more difficult to dismiss in the event that their performance is poor. They may also be assigned to a large number of courses in the near future and so it would be very disruptive to lose them.

Trayyner can invest more in full-time trainers in order to prevent poor evaluations. For example, the selection process can be far more rigorous because the company will require a relatively small number of full-time trainers. The first group of trainers can be recruited by offering full-time positions to trainers who have already proven themselves to be reliable when conducting courses on a part-time basis. It would also be cost-effective for Trayyner to invest in training in presentation skills and other factors that might enhance delegate satisfaction. It would be very practical to encourage trainers to share insights into their successes and failures with a view to identifying ways to ensure good quality courses.

Section 3

Project

The decision to employ full-timers has already been taken, so the starting point of the project would be to decide on the number of trainers who are required and the factors that should be taken into account in their selection. The project team will have to seek guidance from the Board as to the proportion of courses that should be taught by full-timers in order to help decide on the capacity of this group.

The solution stage will require the appointment of a team to select trainers and negotiate terms. The project team will have to make important decisions, such as whether it would be more effective to make direct approaches to selected part-time trainers to offer them this opportunity. The project team will also have to be guided on whether Trayyner should aim to fill these posts using existing part-time trainers or whether they should widen the search and encourage external applicants as well.

The implementation phase will have to allow sufficient time for the required degree of care in selecting and assessing potential staff, but the process should not become too protracted, otherwise it will unsettle the part-time staff. The project team should be encouraged to focus on the need to appoint only suitable candidates, otherwise they may be tempted to cut corners by appointing poor quality trainers in order to avoid having unfilled vacancies. In this case, the fact that Trayyner can continue to use part-time staff means that filling all vacant posts is no more than desirable.

At the completion stage, the project team should allow some time to discuss how the process went and how effective different approaches had been in practice. This is important because Trayyner's Board may decide to have a further round of recruitment in the future. It is also important to take stock of the quality of the appointments that have been made.

Debt v equity

N\$4 million is a significant amount for Trayyner to raise because it is equivalent to 25% of outstanding equity or 400% of existing debt. The characteristics will also have to allow for the fact that Trayyner is an unquoted company.

The fact that Trayyner's debt is only $\text{N\$}1,000 / (1,000 + 16,007) = 6\%$ of total long-term finance suggests that it does have room to borrow more. The additional borrowings would, however, increase the gearing ratio, but only to $\text{N\$}5,000 / (5,000 + 16,007) = 24\%$, which is a very substantial increase. If Trayyner's Board has a policy of making minimal use of debt then the additional borrowing would put the company in breach of that policy.

Debt has the advantage of allowing tax relief on interest payments, which significantly reduces the cost of debt. The Trayyner Group has a large operating profit that would more than cover the additional interest charged on this borrowing. The Group's effective tax rate is $\text{N\$}11,856 / 56,458 = 21\%$, so the effective cost of debt would be reduced by 21%. Debt is a relatively cheap source of finance in any case, so the fact that the tax relief reduces the cost still further makes it an even more attractive form of finance. Trayyner has substantial non-

current assets that could be used to secure its borrowing, which would enable a loan to be raised.

Issuing equity is complicated by the fact that Trayyner is unquoted, so the shares cannot simply be sold on the stock exchange. Existing shareholders might also be reluctant to participate in a rights issue because that would involve making a further investment in the company, without being in a position to liquidate that investment. The shares would have to be valued in order to split the proceeds between shares which carry voting rights, and share premium, which does not.

The most likely scenario is that the new shares will be purchased by a small group of existing shareholders, who are keen to acquire greater control. Such a sale could be complicated by the fact that the shareholders who do not participate might be unhappy with the transaction. For example, Asif and Miriam Nasir each own a 10% stake. If they buy the new shares then they may have control, which could be regarded as undesirable by the other shareholders. Conversely, the Nasirs might be unhappy if the new shares are bought by other shareholders who might then be able to counter their influence. The fact that this was once a family company and that the remaining Nasirs were responsible for its success makes any such change to the distribution of shares quite contentious.

Equity is generally regarded as an expensive source of finance because the shareholders bear quite a high risk and must be rewarded to make it an attractive investment. The N\$4 million is to be invested in a relatively risky project, namely the appointment of full-time trainers. If that project fails then Trayyner will have nothing to show for this investment and the loss will be borne by the shareholders. This might not, therefore, be a good time to be investing in the company.

Section 4

Course managers

Part of the problem is that the course managers are constantly engaged in a combination of activities that affect profit in the short term, the medium term and the long term. In the short term, they are responsible for making the arrangements for forthcoming courses. That includes ensuring that clients pay in advance, arranging for trainers and booking flights, accommodation and training facilities. In the medium term, they must maintain the calendar for future public courses and negotiate the content of bespoke courses. Much of that work will be speculative because there can never be any guarantee that this effort will result in delegate bookings and revenue. Finally, the course managers are expected to supervise courses that are under way, ensuring that delegates are happy and that any problems are being dealt with. That is very much a long-term concern because it may take up to a year before delegates return for further training.

At present, the biggest concern is that course managers are effectively being encouraged to focus on delegate satisfaction, with relatively little emphasis on cost management. That could be understandable because course managers might argue that they have relatively little control over the costs of individual courses because most of the expenditure is not discretionary and will be affected by market forces. For example, there will be seasonal variations in the costs of flights and accommodation and there will be very little scope for managing those costs once the course dates and location have been decided.

It appears that course managers are being evaluated on the costs and revenues for their individual courses, which means that they are not being held directly accountable for Trayyner's overall operating profit. The question of making efficient use of full-time trainers is a good example of this because the impact of using a part-timer is only N\$500 for the course itself, but the cost to Trayyner is the N\$4,250 that has to be paid unnecessarily. Overspending on individual courses may be overlooked in the topic manager's review because that cost has already been incurred and also because the course manager can probably claim that the overspend was unavoidable. For example, the course managers might be tempted to spend as much as they can on entertaining delegates in order to boost feedback scores.

The key to motivating and evaluating the course managers would be to make better use of the topic managers to monitor the organisation and delivery of courses. It would, for example, be possible to make each topic a separate profit centre, with the topic manager responsible for the overall profitability of that topic. Where possible, costs and revenues should be allocated to topics. For example, full-time trainers' salaries can be allocated on the basis of their subject backgrounds. That will give the topic managers an incentive to question the use of part-timers when course managers could use full-time trainers instead. The topic managers will also have the ability to oversee the overall effectiveness of the individual course managers who report to them, even if the individual managers all have different approaches to their short-, medium- and long-term responsibilities. The fact that the topic managers are responsible for profit centres will ensure that they are interested in financial factors that affect short-

term profits, such as managing costs, as well as non-financial factors that might affect long-term profits, such as delegate satisfaction.

Integrated reports

Arguably, the <IR> capitals should be evaluated on the basis of creation rather than consumption, although it would be possible to argue that participating in a training course could create these capitals.

Intellectual capital is generally associated with the creation of knowledge or knowledge-based outputs, such as patents. Having said that, participation in a training course could help the delegates to create organisational capital, such as new systems or procedures. The point of a course, whether public or bespoke, is to challenge delegates to think about fresh ideas and concepts and to apply them to their employers. Interacting and engaging with trainers and other delegates could prove valuable. For example, a course on corporate governance could lead to a change in the way that the Board conducts its business, making strategic decision-making more efficient.

Human capital is more about deepening and developing competencies. The delegates will benefit from learning new skills that will make them more efficient managers within their organisations. For example, a director who completes a course in accounting for non-accountants will return to the client organisation with a better understanding of financial reporting and the impact of the financial statements for shareholders.

Social and relationship capital will only be enhanced if it impacts on stakeholder relationships. While that suggests that many courses will not be relevant to that capital, some courses could equip directors to engage more effectively. For example, a course on business ethics or corporate social responsibility might make it easier for directors to understand their employer's responsibilities.

MANAGEMENT/CIMA GATEWAY CASE STUDY
MAY & AUGUST 2021
EXAM ANSWERS

Variant 6

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

Business intelligence

Trayyner is a relatively small company, but the nature of its business means that it is constantly gathering both structured and unstructured data that could have significant value if it is analysed properly. For example, the company has collected massive quantities of feedback data from the various courses that it teaches. BI would make it relatively easy to examine the relationship between various factors and the average feedback score for overall satisfaction. For example, the company could evaluate whether scores on repeated courses tend to be better than on courses that are being taught for the first time. If so, Trayyner might then focus more on ways to enhance new courses so that the difference in feedback is reduced.

BI could help to support operational decisions with hard facts rather than unsupported opinions or anecdotal observations. For example, there could be a belief that some trainers are better than others based on feedback, but those scores could be confused because of strategies employed by some trainers. For example, some trainers might turn down the opportunity to teach certain courses because they believe that the content would be difficult to make clear and interesting. It would be worth investigating whether trainers who accept only some of the courses that they are offered, are doing so in order to avoid difficult courses. It may be that better trainers have poorer evaluations because they are agreeing to teach difficult courses.

BI might help Trayyner to make more effective use of external data sources and to identify relationships that help with operations and planning. For example, there could be an impact between economic indicators such as currency in the countries from which Trayyner draws its delegates. It would be useful to know whether, say, demand increases when the currency is strong because Trayyner could then focus marketing efforts during periods when the currency is high. Alternatively, it could help justify attempts to boost sales, perhaps by offering

discounts when the currency is weak. There could be less obvious relationships, such as the impact of the issue of new IFRS on demand for financial reporting update courses.

There is a possible risk that BI could lead to some misleading results if the analysis is distorted by complications that cannot be incorporated into the comparison. For example, there could be a relationship between the cost of the hotel and the average feedback. The difference could be because bespoke courses for company directors tend to be hosted at more expensive hotels and that company directors feel obliged to give strong evaluations in order to justify their attendance. The basic problem is that any analysis based on statistics is potentially accurate, but it may not be robust because statistics do not establish a causal relationship. It could be misleading to rely on an observation that, say, Management courses have been more profitable on average than Health and Safety courses because there could have been some complications that have not been taken into account in the analysis. For example, trainers might live in cities from which flights are more expensive.

Leadership

Trayyner has a relatively relaxed leadership style, with decision makers being permitted a great deal of opportunity to work independently and to make decisions that are in the best interests of the company. The course managers and the staff employed at the overseas sales offices are left to sell and organise courses, maintain records of the work that they have undertaken and the financial and non-financial results of completed courses. These decision makers seem to be left to manage their respective and overlapping responsibilities in a manner that has generated profit in the past. Overall, the Trayyner Group could be said to have a delegative style of leadership, with the founders and other directors keeping track of the results.

The introduction of a BI system will make it much easier for Trayyner's Board to investigate and study the activities of the decision makers. Indeed, there would be little point in having such a system unless it was expected to facilitate closer supervision by senior management of middle management. The course managers themselves will derive less benefit because they are much closer to the clients and the trainers with whom they work and so they will have less need to investigate historical results in detail.

It is to be hoped that the introduction of this system will encourage a more participative style of leadership, in which the Board studies the data that has been collected by the course managers and the overseas sales offices and can feed back ideas and observations. Such an approach would benefit the organisation as a whole, with the senior managers essentially giving the middle management team guidance on approaches that have worked in the past. That approach should motivate the course managers in particular because anecdotal evidence can be discussed with the more extensive studies carried out on the Board's behalf.

Section 2

Debt

Debt is a relatively flexible source of funding, which can be adapted for large and small investments. In this case, the company needs to raise N\$1,735,000 – 25,000 – 60,000 = N\$1,650,000 to finance the initial acquisition of the system, followed by a further N\$20,000 in three years. It would be possible to raise two separate loans for each stage of the acquisition and upgrade, with the cash received as it is needed. The repayment terms of the loan will also be negotiable so that Traynyner can match the cash inflows that the system will generate to enable the loan to be paid off without any problems. The alternative would be to raise the finance using equity, which would not be nearly as flexible and would involve disproportionate issue costs that mean equity would not be cost-effective.

Debt is a relatively inexpensive source of finance because lenders can usually protect themselves from loss and so they do not need to charge a high cost because they are not taking a major risk. The cost is further reduced because the interest on debt can be treated as an expense for tax purposes. Traynyner has a healthy pre-tax profit and so it earns sufficient taxable profit to obtain the benefit of this tax relief.

The one problem with this acquisition is that lenders generally require some collateral against which to secure their loans. Traynyner is buying an IT-based system that would have little or no value as security for a loan of this size. That is less of a concern in this case because Traynyner has a debt to equity ratio of only $\text{N\$1,000}/16,007 = 6\%$. There are significant assets, such as property, plant and equipment that have been funded with equity and so would be available to pledge as security for this loan.

Accounting treatment

The elements of this expenditure will have to be broken down and accounted for separately because they raise a number of separate accounting issues. The simplest being the N\$200,000 for hardware, which will be capitalised on the same basis as any other property, plant and equipment. This is a tangible, non-current asset that will meet the recognition criteria of generating future economic benefits and having a cost that can be measured reliably. The cost of the hardware will be depreciated over its expected useful life, which will be a tricky accounting judgement that will require a great deal of judgement. The book value of the hardware will have to be reviewed annually for impairment and written down in the hopefully unlikely event that it is found to be impaired.

The N\$780,000 for the software licence will be accounted for under the requirements of *IAS 38 Intangible assets*. The standard would apply similar recognition criteria to those relating to tangible assets and the software should meet those. The payment for the software is clearly defined and so its cost can be measured reliably. The cost will be written off over its expected useful life, which will have to be estimated on the basis of the period over which the software will continue to be used. The write-off will be in the form of amortisation, along with any impairment costs that arise.

The additional costs associated with putting the software into operation and its regular updates will be capitalised too and treated in the same manner as the software licence. The consultancy fees of N\$460,000 paid for implementation raise essentially the same accounting issues as the licence. The cost will be capitalised as part of the cost of the software and will be amortised and tested for impairment in the same manner. The software updates will be capitalised when they occur, adding their costs to the remaining book value of the software. The upgrade might require some thought to be given to the estimated useful life of the software because it could be that the upgrades extend the period over which it will generate value for the company.

The remaining costs raise some complicated questions about the application of the recognition criteria. While it is possible that the N\$120,000 of consultancy fees and the salaries of N\$25,000, N\$60,000 and N\$30,000 per year for updating data files will generate future economic benefits, there can be no guarantee that these costs will do so. There is, for example, no certainty that the data filed during the previous two years will have any ongoing relevance to Traynyer's management in future years. The life expectancy of that data set as an asset will also be difficult to determine and so it may be unacceptable to capitalise it as an asset if it is unclear how it should be amortised. The cost of the consultancy work can be determined accurately from the consultant's fee note, but the salary costs will be difficult to distinguish from running costs, even if the employees keep timesheets. IAS 38 suggests that such costs should be treated as overheads and written off.

Section 3

Working party

The working party should include a senior manager, possibly even a director, who could report back to Trayyner's Board and will be able to influence the implementation of the working party's recommendations. Having such a person on the working party will encourage the other members because their arguments and concerns are being heard by this senior member of staff and so it is unlikely that their recommendations will be rejected altogether. The Executive Chair's recommendation that the working party should comprise three directors and one other person should be rejected on the basis that the resulting system might lack credibility in the eyes of the course managers and other decision makers. The reason for having the working party is a need to create "more efficient and effective" responsibility centres, so as to grant course managers discretion. The membership of the working party should be limited to a single Board member, with the remainder of the places reserved for managers and staff who will actually be evaluated on the basis of the system. Reserving three places for more junior members of management will encourage full and frank participation.

It would be logical to include a topic manager in the working party because one obvious way to break down Head Office would be to do so by topic. A topic manager could offer an informed opinion about the logic of doing so, with the selected manager being encouraged to discuss the proposal with the other topic managers. Asking that person to gather opinions and feedback would make it easier to speak freely because that person would not necessarily have to offer personal opinions on every proposal.

It would also be important to involve the course managers because their jobs will almost certainly be affected by any change to Trayyner's internal reporting procedures. The course managers presently have diverse and possibly conflicting objectives relating to profits because they are heavily involved in the whole process of selling courses, organising their delivery and ensuring that delegates are satisfied. There are 30 course managers and they tend to be evaluated on a course-by-course basis at the moment. Any significant changes to performance measurement could lead to dysfunctional behaviour and so it would be helpful to incorporate the course managers' views.

Finally, the working party should include a representative from one of the overseas sales offices, who can participate by video conferencing and email. The overseas sales offices should be represented because they play a significant role in finding and registering delegates and ensuring that contact with their local clients is maintained. There is overlap between the responsibilities of the course managers and the teams at the overseas sales offices, which means that the development of the profit centres within Head Office centres should avoid conflict between the two sets of decision makers.

Scorecard

The most obvious advantage of the scorecard approach to measuring performance is that it avoids too narrow a focus on financial results. Trayyner needs to generate revenues and profits on a day-to-day basis, but it must also ensure that delegates are satisfied with the quality of the courses in which they

participate. The most effective way to maintain steady revenue would be to encourage delegates to recommend Trayyner to their colleagues and to return for further courses themselves when time and budget allows.

Trayyner's topic managers must constantly focus on the need to manage success in both the short term and the long term, with a view to developing a satisfactory balance between the two. For example, topic managers should consider running public courses even if they do not have the desired number of delegates to offer a satisfactory surplus because the alternative would be damaging to customer relationships and would communicate failure. A scorecard evaluation system should allow credit to be given for such initiatives that might be in Trayyner's long-term interests. The topic managers could also be encouraged to introduce new courses to run alongside established and popular courses because they will create the impression of a dynamic and innovating training company.

Care will have to be taken in the selection of measures to be reported under each of the perspectives because a badly-designed scorecard could prove confusing. For example, the customer perspective will have to recognise that there is a need to regard both the delegates themselves and their employers because each has a significant influence over the purchase of further courses. The fact that Trayyner can call on the expertise of its trainers should help to ensure that the concepts underlying scorecards are understood by all managers in the organisation.

Section 4

Transfer pricing

Ideally, the transfer price would be established on the basis of market prices, which would almost certainly lead to market forces determining the optimal use of course managers from different topics. Unfortunately, there is no market-based price that can be referred to because there is no intermediate market for course managers' time.

It could be argued that this is a case where topic managers have surplus capacity, which would normally suggest that the transfer price should be set at the marginal cost to the topic that is providing the course manager. From a financial perspective, that cost could be zero, which might not overcome the topic managers' reluctance to cooperate. Philip refers to a case where the same venue is hosting three courses, all from different topics. In that case, there would be no additional financial cost associated with any of the topics providing a course manager. In the case of the conflict with Management, the additional cost to Management would have been a single night's hotel bill, which would not be a particularly significant amount to offer in return for the course manager. That ignores the potential opportunity costs associated with sacrificing course managers' time. Imposing additional supervisory duties will leave the course manager with less time to oversee and manage the course that belongs to his or her topic. That could lead to a lower delegate satisfaction and so could cost repeat courses for that topic. There might also be concerns that the course manager could otherwise have had more time to email and telephone potential clients and so could have lost the opportunity to sell future courses.

One approach could be for the topic that is benefitting from the course manager's time to reimburse the topic that is providing that support with the savings associated with not having to pay for a flight and accommodation. That would give the topic that is providing the cover a contribution equal to half or even two thirds of the cost of sending the course manager to the venue. The saving could be augmented by a mark-up of, say, 10% so that the incentive to provide support was even greater and also to reduce the incentive to abuse the use of course managers from different topics.

If that is deemed unlikely to resolve matters then the only real response would be to negotiate transfer prices on a case-by-case basis, which would be inefficient, or for Trayyner's Board to set internal transfer prices at a level that motivated topic managers to provide support. Care will have to be taken to avoid penalising topic managers who are forced to seek support because their course managers are engaged in productive work elsewhere.

It should be borne in mind that having course managers supervise multiple courses at once is required for the sake of efficiency for Trayyner overall. It may be possible to create a system whereby topic managers are reimbursed for making their staff available to supervise by having a commitment to receive a similar benefit in return. In Philip's case, that would mean having a course manager from Health and Safety supervise a Management course at a future date.

Conflict

The creation of individual profit centres creates a sense of competition because it is to be expected that the Board will rank the different topics and their managers. The new accounting and internal reporting arrangements will affect the dynamic of the relationships between the topic managers and there could be resentment if there is a perception that one manager is benefitting at the expense of another.

There could be a perception that the five topics are in direct competition for clients' training budgets. If a client's Board cannot justify more than, say, one bespoke course a year, the different topic managers may now feel that they are in competition for that course. That could lead to course managers from different topics repeatedly approaching the managers who commission courses, which could lead to the loss of clients for Trayner as a whole.

Topic managers may also be concerned that course managers are using any contact with delegates to push for future courses to be booked in their topics. That could lead to a lack of trust between colleagues and could even create scope for retaliation in the ongoing dealings with different clients.

There could easily be misunderstandings and disputes that could be fuelled by minor problems. Topic managers may argue that the overseas sales offices are giving their topics a lower priority than the other topics, which could fuel further resentment. It will be difficult to resolve any bad feeling that emerges over time if such feelings emerge.