

May and August 2024
Management Case Study
2019 CGMA Professional Qualification
Full post exam support materials

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

Pre-seen material

May and August Management Case Study [pre-seen](#).

Examiner's report

The May and November 2024 [examiner's report](#).

Exam variants

- [Variant 1](#)
- [Variant 2](#)
- [Variant 3](#)
- [Variant 4](#)
- [Variant 5](#)
- [Variant 6](#)

Suggested solutions

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

Marking Guidance

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

If you need any further information please [contact us](#).

Management Case Study Examination

May - August 2024

Pre-seen material



Context Statement

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

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

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Introduction

Flatthall is a quoted company that owns and operates 174 residential buildings that are located in towns and cities in its home country of Towland. These buildings are subdivided into flats that are rented to full-time students in nearby colleges and universities.

Towland's currency is the T\$. Towlandian company law requires companies to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS).

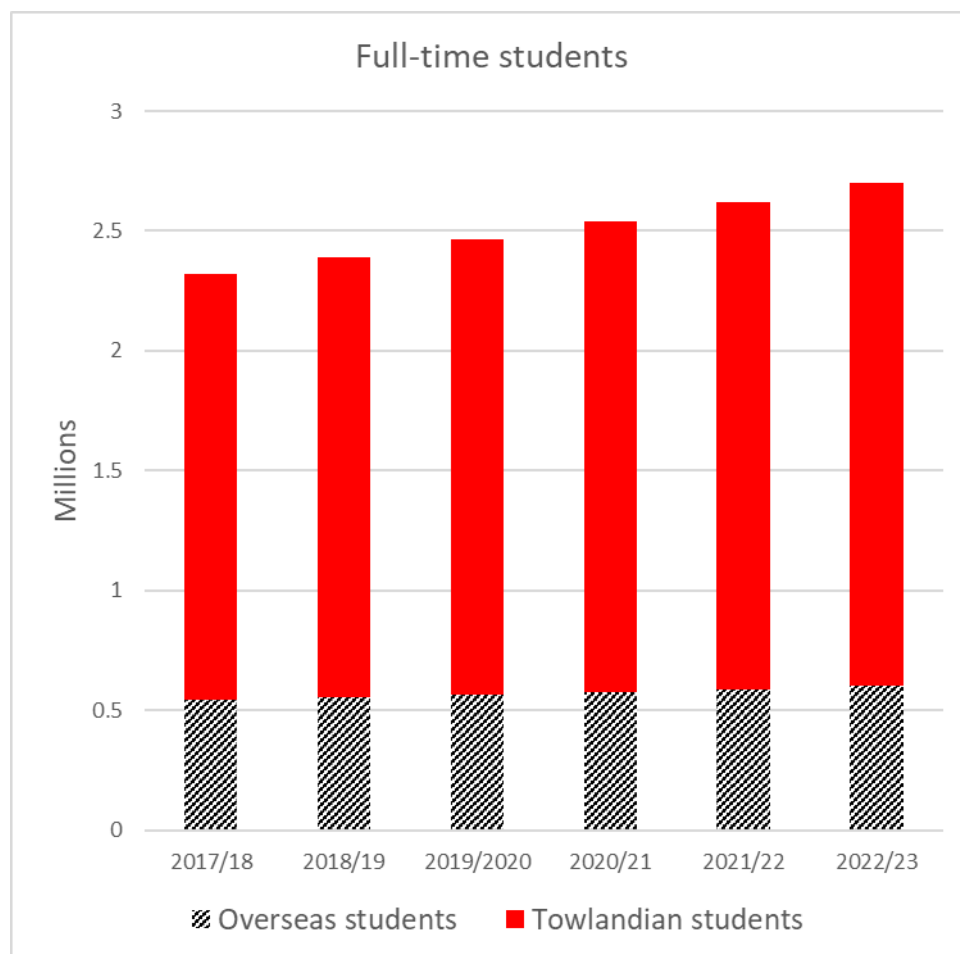
You are a financial manager at Flatthall's Head Office. Your primary responsibilities are associated with management accounting, and you report to Susanna Leong, Senior Financial Manager, who reports directly to the Finance Director.

Post-school education in Towland

Towland has a well-developed higher education system, with 215 colleges and universities (“institutions”) that provide three-year courses leading to undergraduate degrees.

There is a healthy demand for places at these institutions:

- A large proportion of Towlandians complete a college or university qualification after leaving school. The Towlandian Government subsidises course fees and full-time students can apply for financial support in the form of student loans that need not be repaid until after graduation.
- Towland has a strong international reputation for further and higher education. The country attracts large numbers of overseas students, who believe that they will benefit from studying at a Towlandian university.



In the academic year 2022/23, Towland had 2.1 million home students and a further 0.6 million overseas students.

Institutions are keen to fill all available spaces:

- Towland’s Government subsidises places for home students. Institutions receive student fees and government subsidies, totalling T\$8,000 each year, in respect of each home student. The Government sets the maximum number of subsidised student places for each institution. Institutions face an opportunity cost if any of those places are left unfilled.

- Institutions can accept as many overseas students as they wish. They are free to charge as much as they wish for overseas student fees. Overseas student fees vary from T\$12,000 to T\$30,000 each year, depending on demand for places. Applicant numbers vary according to the reputation of different institutions and also the popularity of different subjects.

Institutions are keen to attract overseas students because of their high fees and because overseas admissions do not count towards the Government allocation of places. Most institutions have sufficient capacity to accept all suitably qualified overseas applicants.



Towland's academic year is structured as follows:

September to December 1 st semester	January to April 2 nd semester	May to August summer vacation
<ul style="list-style-type: none">• Induction for new students• Tuition for 1st semester classes• 1st semester examinations	<ul style="list-style-type: none">• Tuition for 2nd semester classes• 2nd semester examinations	<ul style="list-style-type: none">• Graduation for final year students• Resit examinations (if applicable)• Processing applications for new students

Towland's academic year starts in September and ends in May. Students who successfully complete all assessments, including exams and coursework, are free to take a break from their studies during the summer vacation.

Institutions promote themselves to potential students throughout the academic year. Applications for admission during the following academic year are processed during the second semester and the summer vacation. Successful applicants who accept a place must pay their first year's tuition fee before joining their course.

Student accommodation

Institutions are usually located in towns or cities, some close to a town or city centre and others on the outskirts. Students must attend classes and so require accommodation that is within easy commuting distance.

Approximately 40% of home students continue to live in their parental homes for the duration of their studies. The remainder seek alternative accommodation, at least during the 1st and 2nd semesters of each academic year of their courses, when they are required to attend classes and sit examinations. Some home students accept places at institutions that are too far from home for them to travel on a daily basis. Others choose not to live in their family home because they wish to live independently.

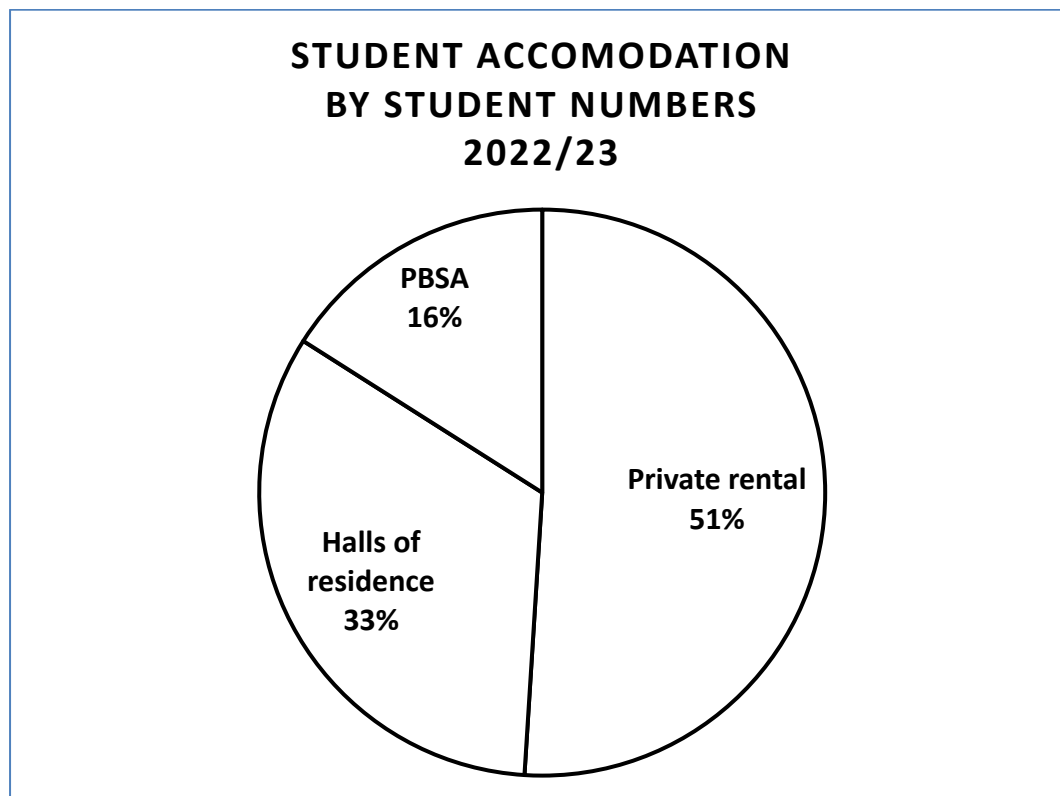
Overseas students must arrange suitable accommodation for the duration of the 1st and 2nd semesters of each academic year of their course.

Most students who require accommodation do so by renting suitable accommodation for the academic year, taking residence in September before classes start and leaving after their examinations in April. Many home students return to their family homes for the summer vacation, or they take the opportunity to travel. Most overseas students return to their home countries to spend the summer vacation with their families.

Student rental agreements usually terminate at the end of the 2nd semester. Students who wish to remain close to their institutions during the summer vacation will often have to move to alternative accommodation for that period.

Student accommodation can take a number of forms:

- Halls of residence
- Private rentals
- PBSA (purpose-built student accommodation)



Halls of residence

Most institutions have their own student accommodation that is available for rent. This is often situated on campus, or it may be on a separate site that is within convenient travelling distance.



Students staying in halls are usually provided with a single, furnished room, with a bed, a desk and storage space. Students share bathrooms and kitchens.

The accommodation is basic, but students are reassured by the fact that they are renting from their college or university. Demand for places in halls usually exceeds the number of available places. Many

institutions give first-year students priority in booking places in halls.

Private rentals



Most large towns and cities have several colleges and universities and so there is a constant demand for student accommodation. Some landlords specialise in the student rental market, preferring to rent flats to students rather than to more permanent tenants. Many cities have “student areas” that comprise residential areas that have a substantial student population during the academic year.

Private rentals usually consist of flats with up to three furnished bedrooms. Those flats are typically occupied by several students at once, with each contributing a share of the rent. These students may be friends who set out to rent a flat together, or they may simply have agreed to rent a flat as a group. Students will have their own rooms and will share the flat’s kitchen, bathroom and living room.

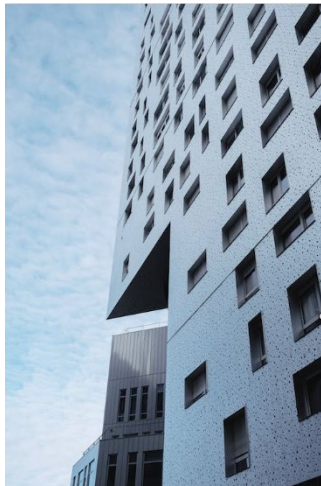
Most institutions offer a student accommodation service that can assist students to find private accommodation. Landlords can publicise the availability of their private rental properties and students can advertise for flatmates who wish to share the rent of a flat. Accommodation services also advise students on practical matters, such as checking the terms in a rental agreement and assist with legal matters such as managing disputes with landlords.

Towland has very strict health and safety laws in place in relation to private rentals, particularly when properties are rented by more than two tenants. Gas and water supplies must be checked regularly and fire alarms and other safety devices must be present and operational. Safety checks are also required for any portable electrical equipment, such as fridges.

Private rentals are often more expensive than places in halls of residence, but they usually offer larger rooms than are available in halls. They are also more likely to be located in areas where students socialise.

PBSA (purpose-built student accommodation)

PBSA is a relatively recent development in the market for student accommodation.



Commercial organisations construct buildings that are specifically designed for the student market. Typically, most of the floors in each building are subdivided into a large number of flats. Each flat consists of a communal living space and 6-8 single bedrooms. The communal spaces are equipped for students to cook and eat their meals and to socialise. The bedrooms provide private spaces where students can sleep and study.

PBSA operators are independent of the institutions whose students they wish to attract. They do, however, have complementary activities. PBSA operators seek to attract students from institutions close to their buildings. Institutions use the availability of nearby accommodation to attract students to their courses. Overseas students are particularly interested in the availability of suitable accommodation because they will be

moving to a foreign city that they might not visit until the start of their courses.

Institutions' websites often refer to the availability of good quality accommodation close to campus and may provide links to the websites of PBSAs in the vicinity. PBSAs' websites may list the institutions that are within, say, a 20-minute walk from each of their buildings.

PBSA buildings are generally as secure as halls of residence and are likely to be more secure than private rentals. Entrances are staffed by concierges working in shifts on a 24/7 basis. The concierges check the credentials of everyone who enters their buildings. They also monitor feeds from security cameras and safety systems, such as fire alarms.

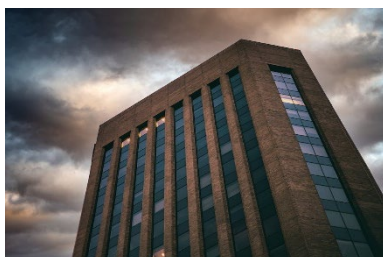
PBSAs employ cleaning staff to keep the public areas of their buildings clean and tidy. They also employ local contractors to maintain their buildings, both public spaces and the flats.



PBSA buildings offer facilities that make them attractive to students. All offer high-speed internet access, with strong Wi-Fi signals throughout their buildings. That is vital because students must be able to access social media, course materials and emails. Buildings can also offer amenities such as media rooms in which groups of residents can watch movies or sports events on a large screen with high-quality sound.

Government planning regulations restrict rentals of rooms in PBSA buildings to students. Operators are not permitted to rent rooms in PBSA buildings to non-students.

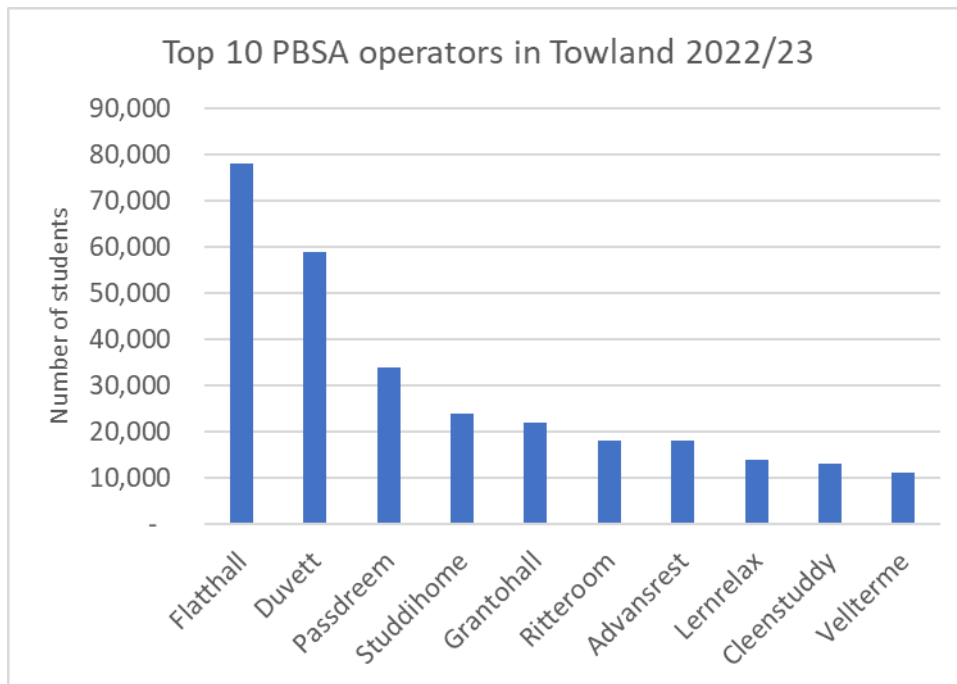
PBSA buildings are generally built within easy walking distance of at least one institution and possibly several. Some cities have a number of institutions located in and around their centres and so there may be several PBSA buildings within a relatively small area of any given town or city, with operators competing for tenants.



Some institutions are on the outskirts of towns and cities and may be served by PBSA buildings that are effectively dedicated to those institutions.

PBSA buildings in town and city centres are generally high-rise. These are attractive to operators because they can accommodate a large number of tenants within a given footprint.

Flatthall built Towland's first PBSA building in 1995. There are now ten major PBSA operators in Towland:



These companies collectively provide accommodation for 16% of those students who do not live with their parents during the 1st and 2nd semesters of the academic year.

It can be difficult to compare halls of residence, private rentals and PBSAs since:

- Rents charged for halls of residence and PBSAs usually include utilities such as electricity and internet connections. Private rentals usually require students to pay separately for these utilities.
- Halls of residence are cheaper than private rentals and PBSA. Places in halls are generally filled long before the start of the academic year. Students are attracted by the convenience of living on or close to campus. Halls of residence are also generally safe and secure, with security wardens on site.
- PBSA is more expensive than halls of residence or private rentals, even after taking the cost of utilities into account. The buildings are usually more modern and better equipped than halls of residence. They are usually located close to campus. PBSA buildings are also safe and secure spaces. PBSA operators usually work to maintain good relationships with institutions' student accommodation services and that can prove reassuring in the event of a dispute with an operator because students can threaten to involve their institutions.
- Private rentals vary significantly in quality. Properties may be old and may have been converted from family homes into living spaces for occupation by small groups of students. Some landlords are greedy and unwilling to invest in maintaining their properties. Towlandian law requires landlords to meet basic safety regulations, but private rental properties are unlikely ever to be as safe and secure as halls of residence or PBSA buildings.
- Students generally arrange accommodation for the forthcoming academic year during the summer vacation. Places in halls of residence and PBSA are usually taken first. Many students are forced to take places in private rentals because all alternatives are

taken, although some students prefer private rentals because they wish to share with friends, or they may have jobs to fund their studies and wish to live close to work.

Flatthall

Flatthall was founded in 1994 by a property developer who commissioned the design and construction of Towland's first PBSA block on a site close to Central City Metropolitan University. The building was ready for occupation in time for the start of the 1995/96 academic year and every room was taken within days of the commencement of trading.

Flatthall built five further properties in Central City over the next year and demand for places increased even further. Feedback indicated that students enjoyed the quality of the accommodation that was being offered. Flatthall's buildings were newly built and freshly decorated, making them more attractive than typical institutional halls of residence or private rental properties.

The company grew steadily, adding more buildings across Towland. It now owns 174 buildings that can accommodate a total of 78,000 students.

Flatthall was listed on the Towland stock exchange in 2002. The property developer who founded the company no longer owns any shares in the company.

Flatthall competes with other PBSA providers on the basis of quality of service and promotion. There is very little difference between the rents charged by different PBSA providers. There is no need to compete by reducing rents because all places are filled well before the start of the academic year. Providers could possibly charge more, but that would lead to accusations of overcharging and could damage relationships with the student accommodation services at local institutions. Rents do vary between cities, in line with local demand. For example, renting a room in a PBSA block in Capital City is 20% more expensive than a similar room in Central City.

Building operations

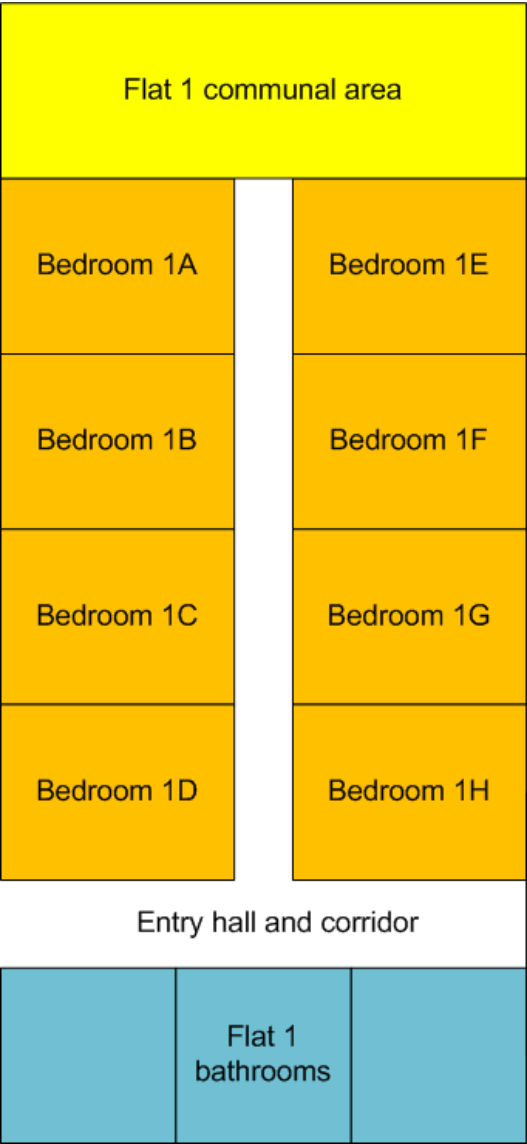
All of Flatthall's buildings are within 20 minutes travel from at least one institution's campus, based on walking distance or public transport. Flatthall pays close attention to the availability of potential sites for new buildings in towns and cities that have large student populations and will act quickly to purchase suitable sites before they can be acquired by competitors.



Flatthall's buildings are also located in districts that are attractive places for students to live. All are in areas that have low crime rates and have good access to areas where students can relax and enjoy themselves when they are not studying.

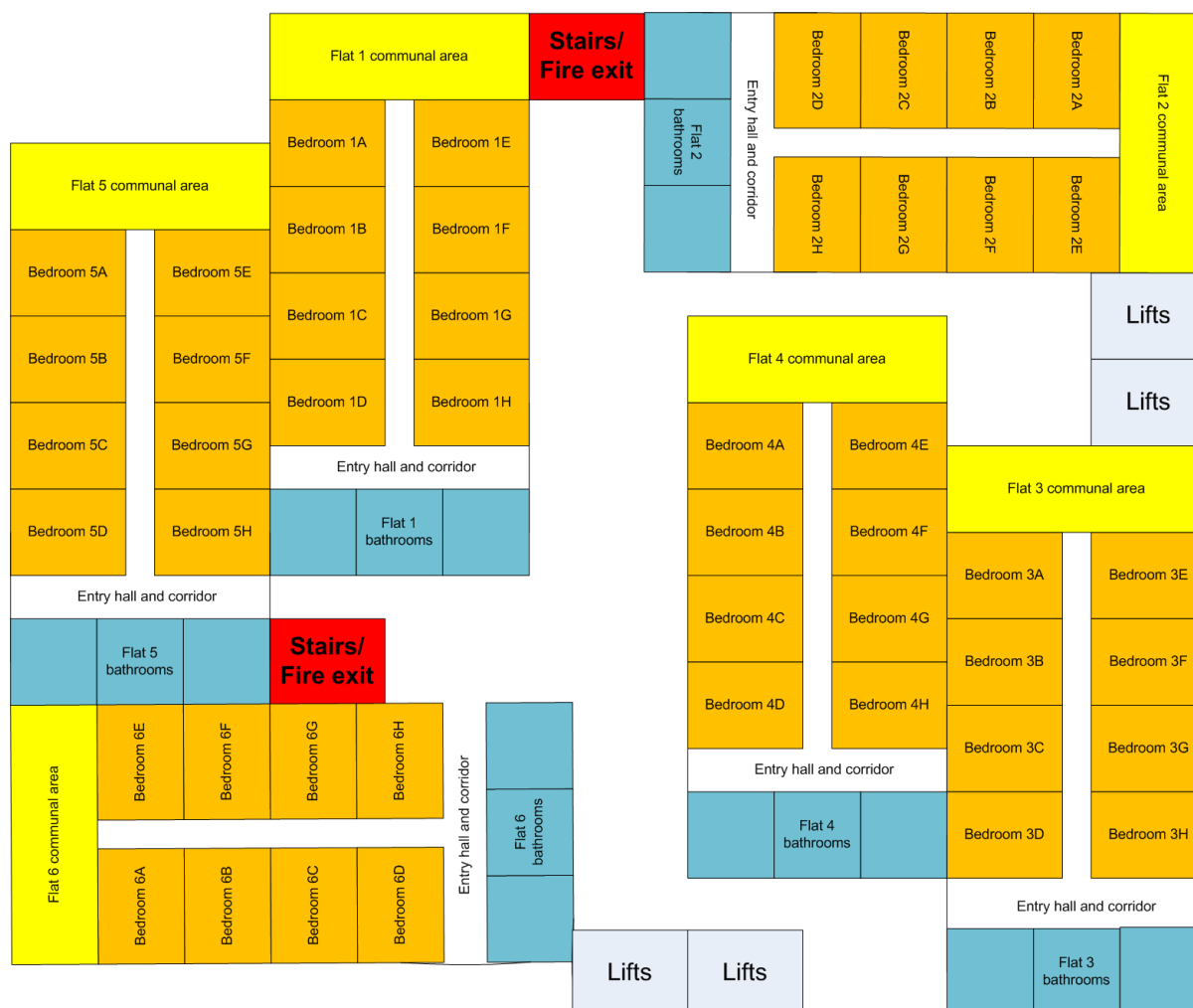
The buildings themselves are designed to be safe and attractive places to live and study. Each floor is divided into several flats, each of which usually has eight bedrooms. Each bedroom accommodates a single student and has sufficient space for a bed and a desk. Each flat has a communal area that has facilities for storing and cooking food and a lounge area. Each flat also has three shared bathrooms.

A typical flat is laid out as follows:

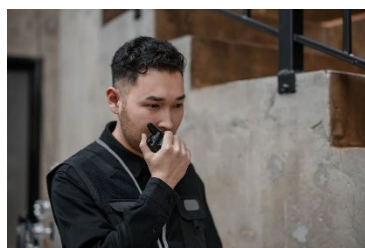


Each of the accommodation floors in Flatthall's buildings is subdivided into several flats, which allows for an efficient use of space. The following example shows the layout of an accommodation floor in one of Flatthall's buildings. This building has six flats on each accommodation floor and eight bedrooms in each flat, which means that each floor can accommodate 48 students.

This building has 10 floors for accommodation, which means that it can accommodate 480 students. In this building, the ground floor has a reception desk and a large laundry room. There is one further floor at the top of the building that has a large public space that can be used for social events, including parties and cultural events, such as buffet meals cooked by students from different countries.



Buildings have fully equipped laundry rooms with automatic washing machines and dryers. These are for the exclusive use of students staying in the buildings. The machines are equipped with card readers that enable students to pay for the use of these facilities using their credit or debit cards.



Flatthall's buildings are kept secure to protect residents and their property. Access is restricted by key cards. Each building has a single main entrance that can only be opened by a key card belonging to a resident or a member of staff. Students' cards can also open the doors of their flats and their own bedrooms.

Each building has a team of concierges that works in shifts to ensure that at least one is on duty at any given time. Their primary role is safety and security. Concierges staff the reception desk at the building's main door, enabling them to monitor all arrivals. Apart from security, the concierges act as a point of contact for students. For example, students can report maintenance problems to a concierge, who will then organise a repair.

The concierges are responsible for enforcing rules relating to residents' behaviour. Concierges will deal with unsociable behaviour, such as playing loud music.

Flatthall employs cleaners at each of its buildings. They clean all public areas, such as the reception area and corridors. They also clean the communal areas in flats, including shower rooms and cooking areas. Students are required to keep their own rooms clean and tidy during their stay.



Flatthall employs independent contractors to deal with repairs and maintenance in its buildings. The company has approved contractors covering all major trades, such as plumbing, electrical work and decorating.

Rental agreements terminate at the end of the 2nd semester, at which time students move out. Flatthall's buildings are vacant during the summer vacation each year. Each building is given a thorough clean during that time. The interiors of the buildings are also redecorated so that they are fresh and inviting for students. This attention to detail is one of the factors that enables Flatthall to compete with rival PBSA providers.

Promoting Flatthall

Flatthall's website enables students to search for vacant rooms on the basis of location and institution. A student who is considering taking a place at, say, Grandtoun University will be able to check whether there are any rooms available in the city.



The website provides further information about the buildings, including photographs of the public areas, the communal areas in the flats and the bedrooms. These photographs are supplemented by video tours that enable students to experience the illusion of walking through the building.

Students can reserve rooms online, with an initial payment to secure their rooms. Reservations require evidence of an offer of a place in a nearby institution, such as a letter from a college or university. Flatthall will refund any initial payments for students whose places are withdrawn or cannot be taken up for some unavoidable reason. Students who fail resit exams and so cannot continue their studies, or overseas students who are unable to obtain visas to study in Towland, will usually be eligible for a refund.

Most institutions organise "freshers' fairs" for first-year students immediately before the start of the academic year. These are used to publicise a wide range of student clubs and societies and also commercial products, such as student bank accounts. Flatthall always has a stand at each institution's fair, staffed by students who have previously rented a room from the company.

Each of Flatthall's buildings has a number of "open days" at the end of the summer vacation, after the completion of the cleaning and redecoration. Small groups of potential student residents are given guided tours under the supervision of returning students who have previously stayed in a Flatthall property. This is an opportunity to see the buildings and to ask questions.

Flatthall pays a generous hourly rate to students who assist with freshers' fairs and guided tours. It also pays a commission to students who recommend Flatthall to friends who subsequently complete a rental agreement. The company aims to maintain an excellent relationship with students in order to encourage repeat bookings and maintain a positive reputation.

Flatthall's Head Office

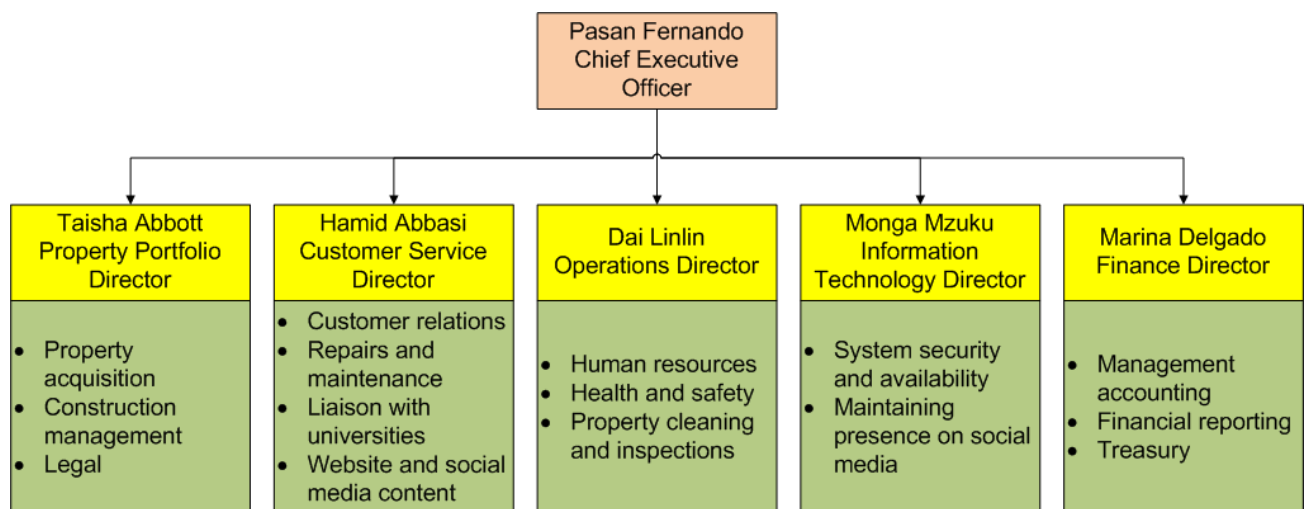
The company's Board of Directors, senior management and supervisory and administrative support staff are based in Flatthall's Head Office.

Property Portfolio Management	<p>Flatthall is constantly searching for land and buildings that can be repurposed as student accommodation. Many of its buildings were constructed on city-centre sites that had previously been used for offices or shops. In most cases, the original buildings were demolished and their sites were used for Flatthall's PBSA buildings. A minority of buildings were converted from offices into PBSA.</p> <p>Flatthall's Property Portfolio Management team has considerable specialist expertise:</p> <ul style="list-style-type: none"> • There are strict statutory safety requirements governing rental properties that have multiple occupants. These include strict fire safety requirements such as the installation of fire alarm systems, which must be tested regularly, and the provision of fire exits and sprinkler systems. • Planning permission can be difficult to obtain, especially when buildings will change the way in which a space in a town or city centre will be used. Flatthall has strong relationships with architects who specialise in designing buildings for sensitive sites and with lawyers who are experienced in applying for planning permission. • Flatthall must ensure that it meets all of the building regulations that are set by both Towland's national government and local town and city councils. <ul style="list-style-type: none"> ○ The national government is responsible for setting regulations that are primarily focussed on safety. For example, PBSA buildings such as Flatthall's must meet extensive fire safety regulations, including fire alarms and emergency exits. Different categories of buildings have different regulations, but the rules for each category are the same across the country. ○ Town and city councils are elected by their local populations. Some of those elected councillors serve on a planning committee that reviews requests to construct or modify buildings within the town or city and has the power to approve or refuse those requests. Planning committees take local priorities into account when deciding whether to approve a new building. For example, a new office building might attract additional traffic to an already congested part of the city or its design might be out of character with the existing buildings in its proposed location.
Customer Service	<p>Flatthall aims to provide students with excellent customer service. Unhappy students often post negative comments on social media and</p>

	<p>those comments can discourage potential tenants who search online for information concerning Flatthall.</p> <p>Students are encouraged to report any problems to their buildings' concierge teams or to email the Customer Service team at Head Office. The company aims to rectify any legitimate concerns as quickly as possible and to keep students informed in the process. For example, if the oven in a flat is not working properly, then Flatthall will arrange to have it repaired or replaced within 24 hours.</p> <p>Concierges have lists of local contractors and are authorised to contact them directly for minor repairs. Larger problems must be reported to Customer Service, who can authorise major repairs. The Customer Service staff have an extensive database of contractors that includes specialists in a wide variety of trades.</p> <p>Customer Service staff also maintain good working relationships with college and university student accommodation services. Customer Service makes regular contact with the head of student accommodation at each institution in order to check whether there are any issues that need to be addressed. If any problems are reported, then those are addressed and feedback is provided to the institution.</p> <p>If students report any complaints to their student accommodation services, then Customer Service takes particular care to ensure that the complaints are investigated and resolved as quickly as possible.</p> <p>Customer Service is responsible for providing content for Flatthall's web pages and social media posts.</p>
Operations	<p>The only full-time staff in Flatthall's residential buildings are the concierges and the cleaners. Those staff are supervised and supported remotely by Operations:</p> <ul style="list-style-type: none"> • Operations deals with all human resources (HR) matters, including staff appraisals, staff discipline and appointments. Most meetings, including job interviews, are carried out remotely by means of video calls. When necessary, Operations staff will travel to buildings to carry out checks and inspections and to meet with local staff. • Operations has an emergency contact centre that is staffed on a 24/7 basis. Any member of concierge or cleaning staff can report emergencies by telephone or email. The contact centre also receives automatic reports of any fire alarms. The contact centre can ensure that the appropriate emergency services are notified of any problems, leaving the concierges free to advise and assist students. <p>Operations staff from Head Office conduct regular visits to Flatthall's PBSA buildings. These involve inspections to check that buildings are being properly cleaned and maintained. Visiting staff also talk to students in order to establish whether they are satisfied with their accommodation and the quality of service that they are receiving.</p> <p>Operations is also responsible for recruiting students to attend open days and freshers' fairs.</p>
Information Technology (IT)	<p>Flatthall depends on IT in order to do business. Students use the photographs, videos and virtual tours on Flatthall's website to evaluate the different buildings that are located within travelling distance of the institution where they plan to study. The IT staff must ensure that the</p>

	<p>company's website is up to date and available at all times, otherwise Flatthall could lose business.</p> <p>Once students have chosen a building, then all business is conducted online, including the provision of a contract and payment of rent. Flatthall's IT staff work hard to ensure that the company's systems are available at all times and are secure.</p> <p>IT also monitors social media, looking for posts relating to Flatthall. It is important for the company to be aware of any negative comments that are posted online because they could discourage future rentals, even if the criticisms are unfounded.</p>
Finance	<p>Finance manages Flatthall's bookkeeping, accounting and treasury activities.</p> <p>One important role is the collection of student rents. Students pay monthly in advance for their rooms. Finance collects all payments by automated direct debits from students' bank accounts. That involves some credit control activities when collections fail due to students having insufficient funds in their accounts.</p> <p>Finance is also responsible for managing student deposits. The company takes a security deposit equal to a month's rent from each student when they sign their rental agreements. That deposit is returned on departure, with deductions for any loss or damage to rooms and their furnishings that occur during students' stays. Concierges conduct room inspections when students are leaving and they inform Finance of any problems that they encounter.</p>

Flatthall's Board structure



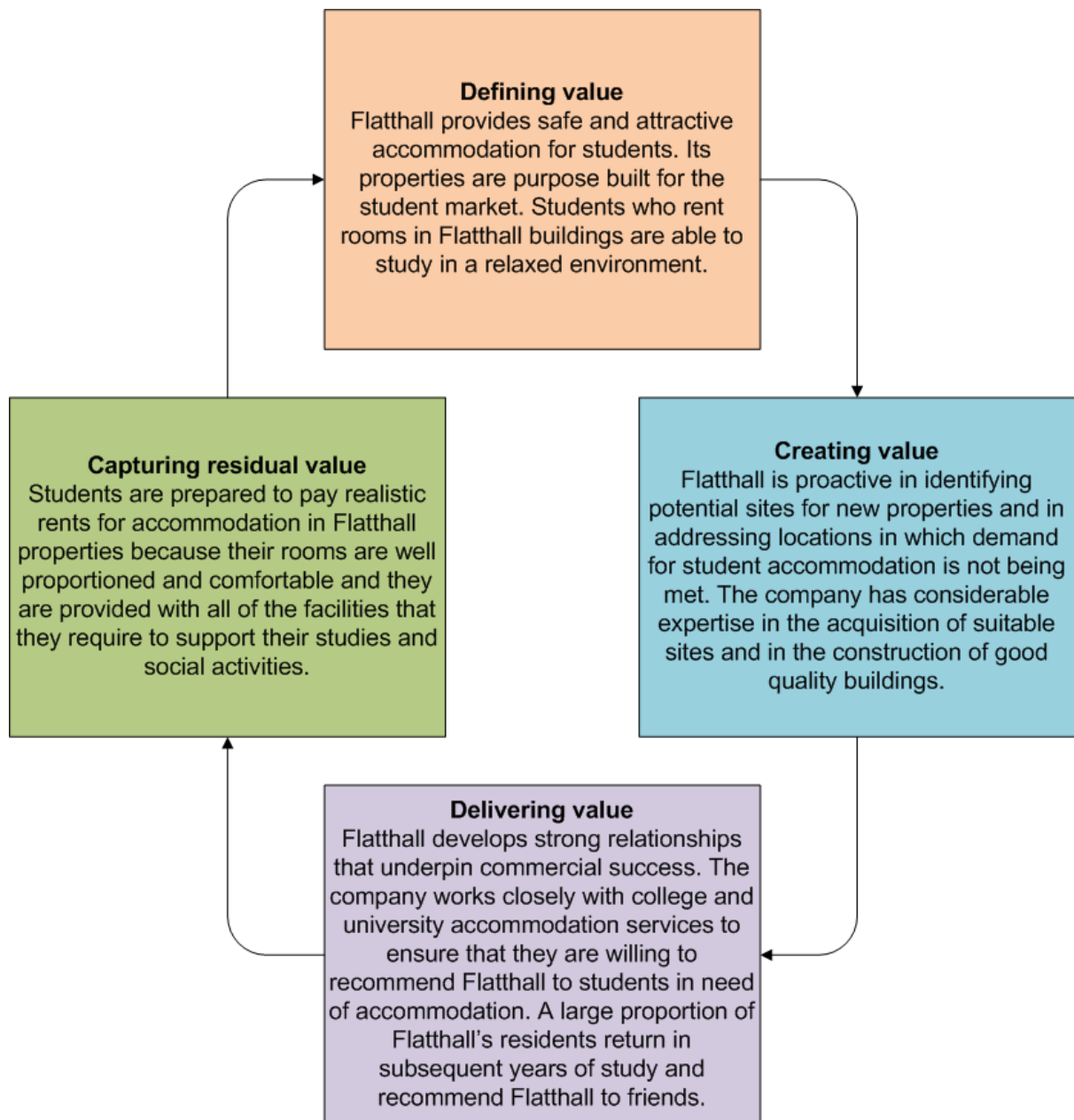
Flatthall's Board also includes the following non-executive directors:

- Per Thomas Andersen – non-executive chair
- Sahar Ismail Mohamed
- Andrew Menzies

- Sema Yildirim
- Noam Shoked

Flatthall's business model

Flatthall aims to grow steadily through the acquisition of new buildings that will enable it to remain the market leader in PBSA in Towland. A commitment to quality enables Flatthall to maintain a strong brand that attracts students and enables the company to develop relationships with academic institutions.



Extracts from Flatthall's annual report

Flatthall Group

Consolidated statement of profit or loss

For the year ended 31 August

	2023	2022
	T\$ million	T\$ million
Revenue	735.1	635.9
Cost of revenues	(119.5)	(89.0)
Gross profit	615.6	546.9
Operating expenses	(54.8)	(89.0)
Operating profit	560.8	457.9
Finance costs	(224.0)	(176.0)
Profit before tax	336.8	281.9
Tax	(40.4)	(33.8)
Profit for year	296.4	248.1

Flatthall Group

Consolidated statement of changes in equity for the year ended 31 August 2023

	Share capital and premium	Retained earnings	Total
	T\$ million	T\$ million	T\$ million
Balance at 31 August 2022	250.0	6,900.2	7,150.2
Profit for the year		296.4	296.4
Dividends		(108.9)	(108.9)
Balance at 31 August 2023	250.0	7,087.7	7,337.7

Flatthall Group
Consolidated statement of financial position
As at 31 August

	2023	2022
	T\$ million	T\$ million
Non-current assets		
Intangible assets	270.3	270.3
Property, plant and equipment	9,960.1	9,140.2
	<u>10,230.4</u>	<u>9,410.5</u>
Current assets		
Inventory	2.1	1.9
Trade and other receivables	41.2	53.4
Bank	27.3	24.6
	<u>70.6</u>	<u>79.9</u>
Total assets	<u><u>10,301.0</u></u>	<u><u>9,490.4</u></u>
Equity		
Share capital and share premium	250.0	250.0
Retained earnings	7,087.7	6,900.2
	<u>7,337.7</u>	<u>7,150.2</u>
Non-current liabilities		
Loans	2,800.0	2,200.0
Current liabilities		
Trade and other payables	125.6	108.5
Tax	37.7	31.7
	<u>163.3</u>	<u>140.2</u>
Total equity and liabilities	<u><u>10,301.0</u></u>	<u><u>9,490.4</u></u>

Trade and other payables include students' deposits and advance rentals.

Extract from Duvett's annual report

Duvett is a direct competitor of Flatthall, with PBSA blocks in most of the towns and cities in which Flatthall operates.

Duvett Group

Consolidated statement of profit or loss

For the year ended 31 August

	2023	2022
	T\$ million	T\$ million
Revenue	546.6	459.1
Cost of revenues	(98.4)	(73.5)
Gross profit	448.2	385.6
Operating expenses	(46.5)	(37.6)
Operating profit	401.7	348.0
Finance costs	(234.0)	(171.0)
Profit before tax	167.7	177.0
Tax	(20.1)	(21.2)
Profit for year	147.6	155.8

Duvett Group

Consolidated statement of changes in equity

for the year ended 31 August 2023

	Share capital and premium	Retained earnings	Total
	T\$ million	T\$ million	T\$ million
Balance at 31 August 2022	200.0	4,503.0	4,703.0
Profit for the year		147.6	147.6
Dividends		(58.4)	(58.4)
Balance at 31 August 2023	200.0	4,592.2	4,792.2

Duvett Group
Consolidated statement of financial position
As at 31 August

	2023	2022
	T\$ million	T\$ million
Non-current assets		
Intangible assets	120.0	120.0
Property, plant and equipment	7,321.1	6,522.3
	<u>7,441.1</u>	<u>6,642.3</u>
Current assets		
Inventory	1.6	1.2
Trade and other receivables	30.1	23.4
Bank	24.8	19.9
	<u>56.5</u>	<u>44.5</u>
Total assets	<u><u>7,497.6</u></u>	<u><u>6,686.8</u></u>
Equity		
Share capital and share premium	200.0	200.0
Retained earnings	4,592.2	4,503.0
	<u>4,792.2</u>	<u>4,703.0</u>
Non-current liabilities		
Loans	2,600.0	1,900.0
Current liabilities		
Trade and other payables	87.5	64.3
Tax	17.9	19.5
	<u>105.4</u>	<u>83.8</u>
Total equity and liabilities	<u><u>7,497.6</u></u>	<u><u>6,686.8</u></u>

News reports

Towland Daily Informer

Failing universities urged to improve completion rates



Towland's Minister for Education has expressed concern at the poor completion rates for degree courses at many of the country's colleges and universities. Completion rates reflect the percentage of students who enrol on a degree course and subsequently graduate.

The average completion rate across all of Towland's degree awarding institutions is 78%. There is, however, a significant variation between institutions. The top 10 achieve a completion rate of 97% or more, while completion rate at the bottom 10 ranges from 68% to 72%.

There are many reasons for failure to complete. Students may withdraw because of financial difficulties or because of poor academic performance. The Minister expressed concern that the disparity in completion rates suggests that some institutions were less capable than others of providing the support and encouragement required to enable a student to graduate.

Towland Daily News

Motoring column – Graydcarr Hatcho, perfect if you have a student in the family



I had been dreading having to write a review of the Graydcarr Hatcho. I like to tell readers about what makes a car fun to drive. Everything that I had read about the Hatcho led me to expect a very boring week, test driving a car that was slow and ugly.

Then I remembered ...

Almost exactly a year ago, I had to drive 300 kilometres to collect my daughter from college at the start of her long summer vacation and then 300 kilometres home with my daughter sulking because I had been unable to find space for all of her possessions in the boot of my Troncarr 2000, even with the back seats folded down. She had to throw a lot of her things away in order to create enough space for us in the car. Even then, she had to sit with a box of clothes on her lap for the duration of the journey.

This year, I used the Hatcho to drive the same 300 kilometres to my daughter's student flat. I kept thinking "why do students have so many possessions?". I was right to be worried because this year was worse than last year. She had bought herself a television to go along with a large pile of books and a much larger pile of clothes.

To my surprise, her stuff just fitted into the car in the most boring way imaginable. But boring in a good way. The Hatcho's rear seats folded flat to the floor, leaving a truly cavernous load space. After that, everything just fitted without any drama. Even the television, the large monitor for her laptop and her sports equipment.

Driving the Hatcho is one of the least interesting things that I have ever done, but if you have a student in the family, then I promise that you will have great fun loading your offspring's possessions into it.

Towland Daily News

Don't be afraid to knock down a few walls when you remodel your home



Homeowners often feel that their homes feel cramped because the rooms are too small. Fortunately, the layouts of modern homes can be changed simply by removing or relocating interior walls.

One popular conversion is to remove the walls separating the kitchen from the dining room in order to create a single space that feels bright and airy.

There is, of course, a need to obtain expert advice before remodelling a property. Some walls are load bearing, which means that they support structures such as the roof and the upper floors. Removing a load-bearing wall requires substantial and expensive building work to ensure that the property's structure remains safe and secure. Other walls are not load-bearing and simply separate the property into separate rooms. Those can be removed or relocated without risk. An architect, builder or structural engineer can identify load-bearing walls and homeowners should take professional advice before embarking on any work.

There are further considerations beyond the walls themselves. Alterations could require changes to electrical wiring and plumbing. That is particularly true when adding bathrooms, perhaps by adding a private ensuite bathroom to the primary bedroom.

Remember that creating larger rooms requires space to be taken from elsewhere within the property. Moving a wall may make one room larger, but at the cost of making the room on the other side of the wall smaller. Removing walls altogether creates larger rooms, but there may be fewer rooms. Remodelling a four-bedroom house so that it has three larger bedrooms could reduce the house's market value.

Extracts from Jess the student's Blog

Another new year



It's the start of a new academic year. This will be my third and final year before I graduate. I will be staying in one of those shiny tower blocks that have sprung up round the campus. It's expensive, but it's designed for student life. I have my own room, which opens onto a communal area that I share with seven others. We have a kitchen and two bathrooms and a space where we can sit and chat if we wish. The Wi-Fi is nice and fast. And everything seems

new, even though the building is more than 2 years old. They must redecorate it every year, just before the start of the first semester.

Anyway, here's to a successful year!

COMMENTS

Well said Jess. I hope that you enjoy your new accommodation. Good luck with the year ahead.

Undergrad Lad

I stayed in one of those flats last year and loved it so much that I have rebooked for this year.

Marcie

How do you get coffee stains out of a new carpet?



I've only been here for a week and I have managed to spill a mug of coffee on the new carpet in my student accommodation. I tried to mop it up as much as I could, but there is still a definite stain.

I bought a cheap rug to hide the marks, but that is only a temporary solution.

How can I clean the carpet? I paid a month's rent as a security deposit and the company will deduct the cost of any damage when I vacate the room at the end of the academic year.

COMMENTS

You might have left it a bit late. It would have been easier to remove the stain when it was still damp.

It would still be worth trying to get the stain out by dabbing it with a mixture of dishwashing detergent and warm water. Remember to dab only because rubbing could spread the stain and make it even bigger.

Welltho Tipps

A lot of fuss about nothing



My cousin plans to visit me next month, so I asked one of the concierges in my building if she could share my room for a few days. I was told that it just wouldn't be possible because of city planning regulations.

The company that owns my building had to seek planning permission from the City Council to convert the building into student flats. That permission was granted on the understanding that the building would be rented out to students and would not be used for any other purpose. My cousin isn't a student, she works in a bank. If she stays in my room, then the building's owners will be in breach of planning regulations.

I was tempted to smuggle my cousin into the building and have her stay without permission. That wouldn't work, though, because the reception desk is staffed 24/7 and visitors must be signed in and out and must leave the premises by 22:00. She will just have to stay in a hotel.

COMMENTS

Planning regulations are strict. Every city has its own local government of elected councillors. Some councillors serve as members of the city's planning committee, which sets policies for planning and construction matters. Each city also has a planning department, comprising officials who are responsible for reviewing and enforcing planning regulations.

The councillors on the planning committee focus on the impact that new buildings might have on the city. For example, would its design complement existing developments? They also take account of things like the economic benefits, such as the ability of new shops to attract visitors and generate wealth.

The planning department's inspectors check that buildings comply with planning regulations, including any conditions set by the planning committee, but also ensuring that the plans meet health and safety regulations and other legal requirements.

When the planning application for your building was first submitted, the builder would have specified everything from the building's purpose to the colour of its window frames. Any deviation from that submission could lead to severe penalties, unless permission is granted. I am not surprised that the concierge won't risk letting you breach planning regulations.

Legal Eagle



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

Susanna Leong, Flatthall's Senior Financial Manager, stops by your workspace:

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

I need your advice before I discuss this matter with Marina Delgado, our Finance Director.

- Firstly, recommend with reasons whether or not Flatthall should price rents on three-year contracts differently from the one-year contracts that it currently issues.
- Secondly, explain how Flatthall should account for rental income and security deposits in its financial statements throughout the three years of the proposed contracts."

[sub-task (a) = 40%]

[sub-task (b) = 60%]

The extract brought by Susanna can be found by clicking on the Reference Material button above.

Extract from Board minutes

Hamid Abbasi, Customer Service Director, reminded the Board that most students who rent from Flatthall are on three-year degree courses. 65% of students who rent from Flatthall in the first year rent again in the second year. 90% of those renting again in the second year renew their rental contract for a third year.

Mr Abbasi proposed that Flatthall should consider offering first-year students the option of a three-year rental agreement on the following terms:


- Students will sign a binding contract covering the three years of their proposed courses. They will be guaranteed rooms in their selected buildings for the duration of their degrees.
- Students will vacate their rooms during the summer vacation to facilitate redecoration and repairs, but returning students will be given a secure space in which to store their belongings.
- Rents will continue to be paid monthly in advance, with a security deposit of a month's rent paid at the commencement of the contract. Monthly rental payments will be fixed for three years. The security deposit will be returned at the end of the third year, with deductions for any damage to rooms or their furnishings during the student's stay.
- Contracts will be cancelled, with a full refund of rent and deposit, if students intending to enter their first year of study are not accepted for their courses for academic reasons or, for foreign students, if they cannot obtain the visas required to study in Towland.
- Contracts will be cancelled if students lose their places because of academic issues, such as a failure to progress to second or third year, and deposits will be repaid to students, subject to any damage penalty. Contracts will otherwise be binding once the first academic year commences, requiring students to pay rent for the remainder of the academic years.


Mr Abbasi pointed out that this proposal could be attractive to students who wished to have guaranteed accommodation for the duration of their degree. It would also reduce Flatthall's administrative costs because the company has to verify that new renters are full-time students with good credit scores before they are given contracts.


Reference Material


Pre-seen


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











































Paragraph ▾

























 Reference Material Pre-seen

A month has passed. You receive the following email:

From: Susanna Leong, Senior Financial Manager
To: Financial Manager
Subject: Three-year contracts

Hi,

I have attached an extract from a document that has been circulated to senior managers and the Board.

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

- Firstly, evaluate the product risk, product reputation risk and contractual inadequacy risk that might arise from the introduction of three-year contracts.

[sub-task (a) = 60%]

- Secondly, explain how a significant uptake of three-year contracts might affect Flatthall's weighted average cost of capital (WACC).

[sub-task (b) = 40%]

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

**Proposal to offer three-year contracts****Executive summary**

Prepared by Bill Richardson, Senior Manager in Customer Service

Members of Customer Service staff have surveyed a sample of current students to seek their opinions on the proposal to offer three-year contracts. The results are:

- 80% of first-year students would have signed a three-year contract if one had been available. Students were attracted by the fact that rents would be fixed for the duration of their degrees. They also appreciated the prospect of returning to familiar accommodation each year.
- 40% of second- and third-year students would not advise first-year students to enter into three-year contracts with Flatthall. Many pointed out that the proposed contracts are binding for three years unless students were prevented from joining their courses or were forced to withdraw by their institutions before the start of the academic year.

Customer Service staff have also contacted several college and university student accommodation services, who expressed some concerns about asking students to commit themselves to three-year contracts at the outset of their studies.

Reference Material

Pre-seen

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



From: Financial Manager

To: Susanna Leong, Senior Financial Manager

Subject: RE: Three-year contracts

Rich text editor toolbar with icons for:

- Undo, Redo, Bold, Italic, Underline, Strikethrough, Subscript, Superscript, Text Color, Background Color, Paragraph, Table, Bulleted List, Numbered List, Decrease Indent, Increase Indent.

 Reference Material Pre-seen

A few days later, you receive the following email:

From: Susanna Leong, Senior Financial Manager
To: Financial Manager
Subject: FWD: Three-year contracts

Hi,

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

- Firstly, evaluate the arguments for and against the appointment of two separate project teams, one to draft the terms of the contract and the other to recommend the approach to promoting the new contract, rather than having a single project team to fulfil both roles.

[sub-task (a) = 60%]

- Secondly, evaluate the challenges associated with using target costing to decide whether Flatthall should offer the benefits listed in the Finance Director's email in order to encourage students to sign three-year contracts.

[sub-task (b) = 40%]

Regards

Susanna

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

From: Marina Delgado, Finance Director
To: Susanna Leong, Senior Financial Manager
Subject: Three-year contracts

Hi Susanna,

The Board has decided to proceed with the creation of three-year contracts that will be offered to students alongside the one-year contracts that we currently use. Students about to enter the first year of their course will be free to choose between a one-year and a three-year contract.

The Board plans to appoint a project team that will be responsible for drafting the terms of the contract that students will have to sign if they wish to rent a room for the three years of their degrees. The project team will also be expected to recommend the approach that Flatthall will take to promoting the new contract.

Rather than fixing monthly rents for three years, as had first been considered, students on three-year contracts will pay the same monthly rent as those on a succession of one-year contracts. We will, however, offer benefits to those on three-year contracts. Those benefits have yet to be decided, but the following are under consideration:

- Secure space to store belongings such as books, clothes, bedding and televisions for the summer vacation. The estimated annual cost is T\$300 to T\$800 per student, depending on the amount of space made available.
- Better equipped flats, offering facilities such as dishwashers, laundry equipment for the exclusive use of the flat's occupants and large fridge-freezers instead of standard refrigerators. The estimated annual cost is T\$100 to T\$300 per student, depending on the additional equipment provided.
- Bedrooms could be furnished with better carpets and more comfortable beds. They could also be decorated to a higher standard. The estimated annual cost is T\$250 to T\$500 per student, depending on the standard of decoration.

During the 2023/24 academic year, each student paid an average of roughly T\$9,400 in rent.

Regards
Marina

Reference Material

Pre-seen

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



From: Financial Manager

To: Susanna Leong, Senior Financial Manager

Subject: FWD: RE: Three-year contracts



Paragraph ▾

 Reference Material Pre-seen

Several months have passed. Flatthall has rented 8,000 rooms to students on three-year contracts. It is two months until the end of the second semester and the start of the four-month summer vacation.

You receive the following email.

From: Susanna Leong, Senior Financial Manager
To: Financial Manager
Subject: FWD: Summer vacation

Hi,

I have forwarded an email that I received from Bill Richardson, a senior manager in Customer Service. He wishes me to advise him on two matters:

- Firstly, recommend with reasons the approach that Flatthall should take when preparing to negotiate with this student. **[sub-task (a) = 60%]**
- Secondly, identify and evaluate the difficulties associated with predicting the cash flows to be used in calculating the net present value (NPV) of permitting students to remain in Flatthall's accommodation through the summer vacation. **[sub-task (b) = 40%]**

Regards

Susanna

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

From: Bill Richardson, Senior Manager Customer Service
To: Susanna Leong, Senior Financial Manager
Subject: Summer vacation

Hi Susanna,

I have received a disturbing email from a student who rents a room in our Central City Heights property on a three-year contract. The student claims to represent a group of 50 residents in that building, all of whom wish to rent their rooms for the whole of the summer vacation. All are overseas students who have decided not to return home for the summer and have been unable to find suitable accommodation in Central City.

I pointed out that we need to have access to the building in order to refurbish and redecorate it, ready for the start of the next academic year. The student rejected that argument on the grounds that individual rooms will take only a few hours to redecorate and that students could be moved between rooms in order to allow for redecoration.

The student insists that she expected that she would be able to stay in this property for the whole of the year, including summer vacations when she signed her contract with Flatthall. She and her fellow residents are, however, willing to pay additional rent for the summer period.

The student claims that she will complain to the Central City University Student Accommodation Service ("CCU") if we do not agree to her requests.

Regards

Bill

Reference Material


Pre-seen

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

From: Financial Manager





To: Susanna Leong, Senior Financial Manager

Subject: FWD: RE: Summer vacation



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) 40% (b) 60%
2	45	1	2	(a) 40% (b) 60%
3	45	1	2	(a) 40% (b) 60%
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

Susanna Leong, Flatthall's Senior Financial Manager, stops by your workspace:

"I have printed a news report that has just gone online.

This is disappointing because our business model states that 'Flatthall is proactive in identifying potential sites for new buildings and in addressing locations in which demand for student accommodation is not being met. The company has considerable expertise in the acquisition of suitable sites and in the construction of good quality buildings.'

I need your advice on two matters before I brief the Finance Director:

- Firstly, evaluate the usefulness of Flatthall's business model in appealing against the Planning Committee's rejection of our application.

[sub-task (a) = 40%]

- Secondly, evaluate the main upside and downside risks associated with appealing against the Planning Committee's rejection of our planning application in Elder City."

[sub-task (b) = 60%]

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

Towland Daily Informer

Controversy over new student accommodation



An application for permission to build new student accommodation in the centre of Elder City has been rejected by Elder City Council, despite support from Elder City University.

Flatthall, the student accommodation provider, wishes to build a nine-story building in the city centre, within a short walk of Elder City University's campus. The building would replace a shopping mall that is due to be demolished.


The proposed new building would provide accommodation for 400 students. The University supports the proposal because there is a shortage of suitable student accommodation in the city.


Councillor Mark Lee, the convener of Elder City Council's Planning Committee, announced the rejection of Flatthall's application, citing concerns that the high-rise block would look out of place amongst the traditional architecture in the city centre.


Reference Material


Pre-seen


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











































Paragraph ▾




























 Reference Material Pre-seen

Two weeks later, you receive the following email:

From: Susanna Leong, Senior Financial Manager
To: Financial Manager
Subject: Planning application in Elder City

Hi,

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

I will be meeting with the Finance Director later today and I need your advice on two matters arising from this extract:

- Firstly, recommend with reasons the membership of the project team. I believe that the team should comprise a maximum of four individuals, including the team leader.
- Secondly, recommend with reasons the types of information that the project team should submit to the Board in its weekly progress reports.

[sub-task (a) = 40%]

[sub-task (b) = 60%]

Regards

Susanna

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

Extract from minutes of Board meeting
Planning application in Elder City

Taisha Abbott, Property Portfolio Director, proposed that a project team should be established to lobby against the decision by the Elder City Council's Planning Committee to refuse permission to build a nine-story building in the city centre, within walking distance of Elder City University's campus.

Ms Abbott recommended that the project team should report directly to the Board on a weekly basis and that it should comprise senior managers employed by Flatthall, supported by third-party consultants as required.

Ms Abbott proposed that the project team should be given a 4-month deadline to persuade the Planning Committee to reverse its decision. The project will be abandoned if the team does not succeed within that deadline.

Reference Material

Pre-seen

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

From: Financial Manager

To: Susanna Leong, Senior Financial Manager

Subject: RE: Planning application in Elder City



Paragraph ▾

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Reference Material

Pre-seen

Two months later, at the end of July 2024, Flatthall has obtained permission to build student accommodation in the centre of Elder City.

You receive an email:

From: Susanna Leong, Senior Financial Manager

To: Financial Manager

Subject: FWD: Building in Elder City

Hi,

I have forwarded an email that I received from Marina Delgado, Finance Director. I need your advice on two matters before I reply to her:

- Firstly, explain the likely impact of this project on Flatthall's gross profit %, return on capital employed and gearing ratios for the financial statements for the year ended 31 August 2025. I am looking for an explanation of whether the ratios will increase or decrease, I do not require the actual calculations.

[sub-task (a) = 40%]

- Secondly, explain how the design and construction of this new building might affect Flatthall's manufactured capital, intellectual capital and social and relationship capital in the Integrated Report <IR>.

[sub-task (a) = 60%]

Regards

Susanna

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

From: Marina Delgado, Finance Director
To: Susanna Leong, Senior Financial Manager
Subject: Building in Elder City

Hi Susanna,

The Board is keen to start construction on our new building in Elder City. This is going to be a difficult project for us because we have promised that our architects will design a building that will not look out of place standing alongside the historic buildings that make up the remainder of the city centre. It will be a prestigious development.

This is going to be our most expensive building. It will cost a total of T\$360 million to purchase the site and construct our building. That cost will have to be written off over 20 years because there is a possibility that the University of Elder City will relocate.

The Board plans to take out a T\$20 million bank loan immediately in order to enable us to get started. The remaining T\$340 million will be borrowed in October 2024. Construction will commence in September 2024 and will be completed by 31 August 2025, ready for occupation by the start of the University of Elder City's academic year.

Marina

Reference Material





Pre-seen

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

From: Financial Manager

To: Susanna Leong, Senior Financial Manager



Subject: FWD: RE: Building in Elder City



Paragraph ▾

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 Reference Material Pre-seen

Two months later, you receive the following email:

From: Susanna Leong, Senior Financial Manager
To: Financial Manager
Subject: Building work in Elder City

Hi,

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

I need your advice on two matters:

- Firstly, identify and evaluate the difficulties that the changes to the construction plan arising from the acquisition of the office building might create and recommend responses.
- Secondly, recommend with reasons the matters that should be considered in deciding whether to retain the additional land in order to create an option to construct a second building.

[sub-task (a) = 40%]

[sub-task (b) = 60%]

Regards

Susanna

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

Extract from Board minutes**Building work in Elder City**

Taisha Abbott, Property Portfolio Director, informed the Board that the start of construction work in Elder City will have to be delayed because it has been discovered that an adjacent office building's foundations are unsafe, creating the possibility that it will collapse during the demolition of the building that presently occupies Flatthall's construction site. Flatthall intends to complete construction in time to rent rooms for the academic year that will start in September 2025.

The quickest way to resolve this problem would be for Flatthall to buy the office building and demolish it. The office building's condition means that it can be purchased and demolished for a total cost of T\$20 million and the Board has decided to do so.

Ms Abbott said that the acquisition of this additional land will require some changes to the design of Flatthall's accommodation block.

Flatthall's new building will have room for 400 students. The acquisition and demolition of the office building will mean that Flatthall owns an additional piece of land that would be large enough for a second building of the same size. Alternatively, Flatthall could resell the additional land to a third party for T\$25 million, who could use it to build shops or offices.

Reference Material

Pre-seen

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

From: Financial Manager

To: Susanna Leong, Senior Financial Manager

Subject: RE: Building work in Elder City



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) 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: Susanna Leong, Senior Financial Manager
To: Financial Manager
Subject: Student feedback

Hi,

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

I need your advice on two matters before I meet with the Finance Director to discuss matters raised during the meeting:

- Firstly, evaluate the argument that we should regard social media, as used by students in relation to accommodation matters, as a disruptive technology.

[sub-task (a) = 40%]

- Secondly, identify the difficulties associated with evaluating the work of Flatthall staff in individual buildings. Recommend with reasons suitable solutions, taking into account student responses to questionnaires and social media posts.

[sub-task (b) = 60%]

Regards

Susanna

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

Extract from Board minutes
Student feedback

Hamid Abbasi, Customer Service Director, raised concerns about student feedback. Flatthall places a great deal of emphasis on ensuring that students receive excellent service. Any problems with their accommodation can be reported to the concierge on duty in their building or they can email the Customer Service team at Head Office. Flatthall has a policy of addressing problems immediately.

Flatthall's Information Technology Department monitors all popular social media sites for posts relating to the company. There has been a growing tendency for students to post negative comments online rather than informing the appropriate member of staff. For example, a student living in the Central City Riverside Building posted yesterday that the sink in her kitchen had been blocked for two days, but neither the concierge nor Customer Service had been informed of the problem. Unfortunately, this means that anyone reading the post will now have a negative impression of Flatthall's customer care.

Flatthall regularly asks its students to complete questionnaires about their satisfaction with the accommodation that they are renting. Responses are generally positive, but response rates are always very poor. Feedback obtained from social media searches for references to Flatthall is generally negative, although some posts praise concierges and cleaners for doing good work.

Reference Material

Pre-seen

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



From: Financial Manager

To: Susanna Leong, Senior Financial Manager

Subject: RE: Student feedback

Rich text editor toolbar with icons for:

- Undo, Redo, Bold, Italic, Underline, Strikethrough, Subscript, Superscript, Text Color, Background Color, Paragraph, Bulleted List, Numbered List, Decrease Indent, Increase Indent, Table, Table of Contents, Link, Unlink, Source Code, Full Screen, Print, Help.

 Reference Material Pre-seen

A month has passed. You receive the following email:

From: Susanna Leong, Senior Financial Manager
To: Financial Manager
Subject: FWD: Business information system

Hi,

I have forwarded an email from one of our senior IT managers. He has approached me because he is proposing a significant investment in software.

I need your advice on two matters before I discuss this with the Finance Director:

- Firstly, identify and evaluate the difficulties associated with predicting the cash flows to be used in calculating the net present value (NPV) of investing in this software.

[sub-task (a) = 60%]

- Secondly, evaluate the characteristics of debt that might affect its suitability for funding the purchase of this software.

[sub-task (b) = 40%]

Regards

Susanna

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

From: Liam Domican, Senior Information Technology Manager
To: Susanna Leong, Senior Financial Manager
Subject: Business information system

Hi Susanna,

The Information Technology (IT) Department is responsible for gathering data from electronic sources and for providing other departments, primarily Customer Service, with information about feedback from students. This is complicated because we have a wide range of different sources, including:

- Responses to questionnaires distributed to students by Customer Service, both during the academic year and at the end of each year when students move out.
- Correspondence, primarily by email, from students to Customer Service.
- Students' posts to social media platforms, some of which identify specific buildings and some that simply name Flatthall.
- Some universities and colleges have their student accommodation services distribute questionnaires and provide Flatthall with copies of the results. Questions vary between institutions.

The IT Department's ability to process this data is complicated by the fact that we cannot make the best use of the unstructured data sources that are available to us. There is data mining software that would enable us to make much greater use of this data in order to evaluate our students' satisfaction with the accommodation that we provide.

The licence to acquire this software will cost T\$200 million.

Regards

Liam

Reference Material

Pre-seen

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



From: Financial Manager

To: Susanna Leong, Senior Financial Manager

Subject: FWD: RE: Business information system

Rich text editor toolbar with icons for:

- Undo, Redo, Bold, Italic, Underline, Strikethrough, Subscript, Superscript, Text Color, Background Color, Paragraph, Bulleted List, Numbered List, Decrease Indent, Increase Indent, Table, Table of Contents, Link, Unlink, Source Code, Full Screen, Print, Help.

 Reference Material Pre-seen

A further two months have passed. Susanna asks you to join her in a meeting room:

"I have brought an extract from a report that is being circulated to senior managers by the Customer Service Department.

I wonder whether it would be realistic for us to aim for a zero-defect approach to maintenance issues in our buildings. In our context, that would imply identifying problems quickly so that they can be addressed.

I need your advice on two matters:

- Firstly, recommend with reasons an approach that we might take to ensuring zero defects in terms of Flatthall's buildings.
[sub-task (a) = 40%]
- Secondly, evaluate the difficulties associated with identifying the extent to which maintenance problems affect students' satisfaction and recommend responses to those difficulties, stating reasons."
[sub-task (b) = 60%]

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

**Executive summary****Report on programme of visits to a sample of Flatthall buildings**

Prepared by Hasim Ibrahim, Senior Manager in Customer Service

A team of managers undertook visits to 20 of Flatthall's buildings in the middle of the second semester. The buildings were selected on the basis that they had been identified in negative social media posts by student residents.


Each visit included a tour of the building, accompanied by a student, and a meeting with a small group of students who had posted negative comments online. The visiting teams also met separately with concierges and cleaners.


One recurring theme was that students often fail to report problems because they expect building staff to be aware of them and to take appropriate action. For example, a torn carpet in a corridor was left unrepaired for 6 weeks. The students who used the corridor took it for granted that the cleaners or concierges would arrange a repair. Cleaning staff took no action because their responsibilities do not include maintenance. The concierges did not notice the tear because there was no need for them to walk to that end of the corridor when conducting their security patrols. The carpet was only replaced after a member of Flatthall's IT Department found 11 social media posts from a total of four students complaining about the lack of action. The carpet was replaced within 24 hours of the IT Department informing Customer Service.


Reference Material


Pre-seen


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











































Paragraph ▾




























 Reference Material Pre-seen

Two weeks later, Susanna Leong stops by your workspace:

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

I need your advice on two matters before I discuss this proposal:

- Firstly, identify the challenges associated with determining the value of goodwill on the prospective acquisition of Briksav and recommend responses, stating reasons.
[sub-task (a) = 60%]
- Secondly, identify and evaluate the operational risk and contractual inadequacy risk that might arise from transferring the employment of Flatthall's concierges and cleaners to Briksav."
[sub-task (b) = 40%]

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

Extract from Board minutes**Potential acquisition**

Hamid Abbasi, Customer Service Director, informed the Board of an opportunity that he had identified. Briksav Property Maintenance ("Briksav") is an unquoted company that specialises in property management. The company manages all aspects of security, cleaning and maintenance in buildings belonging to its clients.

Briksav presently has 600 buildings under management. These are spread across Towland.

Briksav has a high level of satisfaction. It achieves that by means of the following:

- Briksav employs its own concierges, cleaners and maintenance staff. All receive excellent training, including an induction course when they join the company and 5 days of continuing training each year. The company has developed its own training materials, which are regarded as superior to those used by rival companies.
- Supervisory staff conduct regular property inspections and grade the quality of security, cleaning and maintenance. High standards are expected. Supervisory staff are equipped with tablet computers that run an app created by Briksav. The app tailors the programme for each inspection and so enhances effectiveness.

Briksav has 20 supervisors, all of whom work from home. Each has a car provided by the company so that they can travel to client locations.


Briksav's founder plans to retire soon. She would be willing to consider exchanging 100% of her company's equity for a number of shares in Flatthall. The number of shares that she will receive has yet to be agreed. Flatthall's concierges and cleaners would be employed by Briksav, receiving training and supervision. Briksav would take over responsibility for maintenance from Flatthall's Customer Service Department.


Briksav leases a small office building that acts as a base for the staff who are responsible for creating and updating the company's training materials and its app. This building also provides a base for Briksav's Human Resources and Accounting departments.


Reference Material


Pre-seen


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











































Paragraph ▾




























Thank you for completing the Management Case Study Exam.

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

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



Management Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

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

Click **Next** to start the test.

This examination is structured as follows:

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

Susanna Leong, Flatthall's Senior Financial Manager, stops by your workspace:

"I have brought a copy of a proposal that is under consideration by the Board.

I need your advice on two matters before I meet with Marina Delgado, our Finance Director:

- Firstly, evaluate the difficulties associated with understanding the ecosystem for the Build to Rent (BTR) market. **[sub-task (a) = 60%]**
- Secondly, recommend with reasons the appropriate treatment of the professional fees described in the proposal in Flatthall's financial statements." **[sub-task (b) = 40%]**

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

Proposal to enter the Build to Rent (BTR) market

Prepared by Antonis Baldoukas, Senior Property Portfolio Manager

All of Flatthall's existing buildings are used for student accommodation. The Property Portfolio Department believes that there could be potential demand from alternative markets for the type of accommodation that Flatthall provides. For example, many young people have low paid jobs in city-centre shops and offices and would be keen to rent rooms in buildings similar to Flatthall's. That would enable them to afford accommodation in modern and attractive buildings within walking distance of work.

At present, there is very little inexpensive accommodation in city centres for non-students.

If Flatthall wishes to rent rooms to non-students, then it will have to build new properties specifically for that market:



- Towland's fire and health and safety regulations are stricter for buildings intended for long-term occupation by non-students. It would be extremely expensive to convert Flatthall's existing buildings to make them fully compliant with those stricter regulations.
- Planning regulations forbid Flatthall from renting its existing buildings to non-students, but it would be possible to obtain permission to construct new buildings designed for occupation by other categories of tenants.

The Property Portfolio Department recommends that Flatthall should explore this Build to Rent (BTR) market. In the first instance, we will have to:

- develop an understanding of the ecosystem for our vision of the BTR business: markets, competition, society and regulation.
- invest in professional fees to conduct surveys to identify suitable sites for BTR buildings and to create architect's plans and drawings that can be used to seek planning permission from planning departments.

Pre-seen

[illegible]

 Reference Material Pre-seen

A week later, you receive the following email:

To: Financial Manager
From: Susanna Leong, Senior Financial Manager
Subject: FWD: Build to Rent (BTR) proposal

Hi,

I have forwarded an email that I received from Marina Delgado.

I require your advice on two matters before I meet with Marina to discuss her email:

- Firstly, evaluate the difficulties associated with predicting the impact that the three events listed by the Finance Director will have on the net present value (NPV) of the investment in the first 10 BTR buildings and recommend, with reasons, potential responses.

[sub-task (a) = 60%]

- Secondly, evaluate the impact that the T\$550 million loan will have on the interpretation of Flatthall's financial statements for the year ended 31 August 2024.

[sub-task (b) = 40%]

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

To: Susanna Leong, Senior Financial Manager

From: Marina Delgado, Finance Director

Subject: Build to Rent (BTR) proposal

Hi Susanna,

The Board is considering a drastic course of action. We plan to start work in the next 6 months on the construction of our first 10 BTR buildings, to be built in different towns and cities across Towland. We are moving quickly because we have been offered a loan of T\$550 million at a low interest rate that will be fixed for the next 20 years, even though many finance experts believe that interest rates will increase over the next 2 years.

Each of our new Build to Rent (BTR) buildings will have room for 400 tenants. We will focus our marketing activities on attracting young people who are in full-time employment in shops and offices within walking distance of our buildings.



The lender insists that we take the loan immediately, which means that we will have it in our statement of financial position as at 31 August 2024. We will not have to spend any of that money for at least 6 months, but we will be committed to proceeding with the BTR investments.

I am keen to consider the implications for Flatthall's BTR venture if the following events occur over the next 2 years, just as our BTR buildings are becoming ready for occupation:

- There is a significant decrease in the value of property across Towland.
- New safety regulations are introduced that require expensive and time-consuming modifications before the BTR buildings can be occupied by tenants.
- Employment law changes to require employers to grant office workers the right to work from home.

Regards

Marina

 Reference Material Pre-seen

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



To: Susanna Leong, Senior Financial Manager

From: Financial Manager

Subject: FWD: RE: Build to Rent (BTR) proposal



A large, empty rectangular box for writing the response to Susanna's requests.

 Reference Material Pre-seen

A month later, Susanna Leong asks you to join her in a meeting room:

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

I require your advice on two matters before I meet with Marina Delgado:

- Firstly, evaluate the potential usefulness of target costing for deciding on the nature of the rooms and the facilities that Flatthall will offer in its Build to Rent (BTR) properties.

[sub-task (a) = 60%]

- Secondly, explain how a high standard of architectural design for our BTR buildings might be reflected under manufactured capital, human capital and social and relationship capital in Flatthall's Integrated Report."

[sub-task (b) = 40%]

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

Extract from Board minutes



Taisha Abbott, Property Portfolio Director, reported on the progress of the Build to Rent (BTR) venture. The Property Portfolio Department requires the Board to make decisions on some of the design issues associated with these new buildings.

The BTR accommodation will be similar to that of Flatthall's student accommodation. Each BTR resident will have a private bedroom and will share a communal area with five others. Each communal area will have a kitchen, a lounge and three shower rooms.















The Board will have to make some important decisions:

- How big should bedrooms and communal areas be? Residents would always prefer more space, but there is a cost in terms of the impact of this decision on the size of the building or the number of rooms that a building can contain.
- What amenities should be provided in flats? Electricity and Wi-Fi will be included in the price of rent, but more could be provided. Students in existing PBSA buildings often complain that Flatthall does not provide air conditioning in its student buildings, but providing air conditioning in BTR buildings would require additional capital expenditure and would increase the cost of electricity.
- What amenities should be provided in buildings? Existing student buildings include laundry rooms with washing machines and dryers and secure rooms in which bicycles can be stored. Again, these facilities require capital investment and increase operating costs.

The Board must also decide on the quality of the architectural design of the BTR buildings. Ms Abbott's recommendation is that the BTR buildings should be made to look as attractive as possible, with each designed to complement the existing town or city skyline.










 Reference Material Pre-seen



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



Paragraph ▾

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 Reference Material Pre-seen

Two months later, you receive the following email:

To: Financial Manager
From: Susanna Leong, Senior Financial Manager
Subject: FWD: Design team

Hi,

I have forwarded a copy of an email that I received from Marina Delgado.

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

- Firstly, recommend with reasons the leadership style that will be required for the senior manager who will be in charge of the proposed new investment centre.
[sub-task (a) = 40%]
- Secondly, identify and evaluate the difficulties associated with setting transfer prices for the secondment of managers to the proposed investment centre. Prices should encourage the release of staff while being acceptable to both the new investment centre and to the other departments (which are also managed as investment centres) and be optimal for Flatthall overall.
[sub-task (b) = 60%]

Regards

Susanna

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

To: Susanna Leong, Senior Financial Manager

From: Marina Delgado, Finance Director

Subject: Design team

Hi,

The Board is considering whether responsibility for the design and construction of Build to Rent (BTR) buildings should be managed as a separate investment centre, under the leadership of a senior manager from Flatthall's existing staff. The new investment centre will be responsible for:



- Overseeing negotiations with town and city planning committees to obtain permission for the construction of BTR buildings.
- Overseeing the architectural design work on BTR buildings.
- Appointment and oversight of the building companies that will undertake construction of BTR buildings, ensuring that construction costs remain within the limits approved by the Board.

It is anticipated that Flatthall will continue to invest in BTR buildings in the long-term future, in addition to building additional purpose built student accommodation.

The investment centre will have a budget for professional staff, such as lawyers, architects and engineers. That budget should be used as appropriate to pay for external professionals and to compensate departments from within Flatthall for the secondment of their professional staff to the BTR investment centre.

Regards

Marina

 Reference Material Pre-seen

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

To: Susanna Leong, Senior Financial Manager

From: Financial Manager

Subject: FWD: RE: Design team





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) 40% (b) 60%
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: Susanna Leong, Senior Financial Manager

To: Financial Manager

Subject: Proposal

I attach an extract from a proposal that has been circulated to the Board.

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

- Firstly, evaluate the reliability of the response to the student questionnaire as a basis for proceeding with the remodelling exercise.

[sub-task (a) = 60%]

- Secondly, recommend with reasons how this remodelling should be financed.

[sub-task (b) = 40%]

Regards

Susanna

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

Executive summary**Proposal to create “Premium” flats**

Prepared by Martin Grunau, Customer Service Senior Manager



We believe that a large number of the students who rent rooms from Flatthall come from wealthy backgrounds. We believe that many of our students would pay significantly more for larger rooms and other amenities.

The Customer Service Department has emailed all current student residents with a request to complete an online questionnaire about the desirability of enhanced accommodation, with the following changes:

- Flats will be remodelled so that each has only six bedrooms instead of eight as at present.
- The bedrooms will be larger, and each will have its own bathroom, with a toilet, wash hand basin and a shower.
- The communal areas for each flat will be expanded by removing the shared bathrooms, which will no longer be required. Each flat will be shared by fewer students.
- Cleaners will clean bedrooms as well as the communal areas. At present, students are required to keep their own rooms clean and tidy.
- The rental charge for these enhanced flats will be twice as much than charged at present.

There was a 40% response rate to this questionnaire. Most respondents said that the Premium Flats sounded attractive and 50% of respondents said that they would be willing to pay twice as much to rent accommodation of that standard.

Our proposal is that we should remodel ten flats in each of Flatthall's buildings. These will be called “Premium Flats”. The total cost of remodelling ten flats in each building will be T\$200 million.

 Reference Material Pre-seen



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

From: Financial Manager

To: Susanna Leong, Senior Financial Manager

Subject: RE: Proposal



 Reference Material Pre-seen

Two months later, Susanna Leong stops at your workspace:

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

I plan to meet the Finance Director later today to discuss the matters considered during the Board meeting. I require your advice on two matters:

- Firstly, recommend with reasons how the project to remodel the flats should be organised locally and managed.
[sub-task (a) = 60%]
- Secondly, recommend with reasons ways in which the project team should attempt to minimise the costs associated with the conversion work required to create the Premium Flats."
[sub-task (b) = 40%]


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

Extract from Board minutes










Taisha Abbott, Property Portfolio Director, briefed the Board on the proposal to remodel 10 flats in each of 174 Flatthall's buildings to create Premium Flats. Ms Abbott pointed out that this will be a major undertaking. She recommended that the months remaining in the current academic year should be devoted to planning and that the remodelling work should be undertaken during the forthcoming summer vacation.










Each of Flatthall's buildings is unique, with each having been designed to fit the available site and the conditions imposed by the local planning committee. That will complicate the remodelling:

- Walls within existing flats will have to be removed and relocated.
- The shared bathrooms will have to be removed and ensuite bathrooms added to the individual bedrooms, which will involve significant plumbing work.
- Changing the layout of the flats will also require the relocation of lights, switches and electrical sockets.
- The flats will have to be decorated and refurnished to the higher "Premium" standard.
- Each flat will have to be fitted with smoke detectors and fire alarms and these will have to be checked by independent inspectors before the flats can be occupied.

 Reference Material Pre-seen

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

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

Paragraph ▾  ▾        

It is now early in the summer vacation. Work has commenced on the first phase of converting flats to Premium Flat standard.

You receive the following email:

From: Susanna Leong, Senior Financial Manager
To: Financial Manager
Subject: FWD: Conversion costs during first phase

Hi,

I have forwarded an email that I received from Ellis Salsabila, Senior Manager Property Portfolio. Ellis is in overall charge of the conversion work on Premium Flats.

I need your help with the following matters:

- Firstly, recommend with reasons whether the Board should hold Ellis and her staff responsible for the fact that the average cost of the first 100 flats exceeds the budgeted amount.

[sub-task (a) = 40%]

- Secondly, recommend with reasons an appropriate accounting treatment for the rectification work on the 8 buildings in need of urgent repair and the associated claims against the builders and architects.

[sub-task (b) = 60%]

Regards

Susanna

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

From: Ellis Salsabila, Senior Manager Property Portfolio
To: Susanna Leong, Senior Financial Manager
Subject: Conversion costs during first phase

Hi Susanna,

I am the manager in charge of the Premium Flats Department that is responsible for converting 10 flats to Premium in each of Flatthall's 174 buildings before the end of the summer vacation. The Premium Flats Department has a total budget of T\$200 million for this work, or T\$115,000 for each flat.

Each building is unique and requires a different approach. Premium Flats paid independent architects to create specific plans for the conversion work in each of Flatthall's buildings. Premium Flats is now employing local independent contractors to manage the conversion in accordance with those plans.



The contractors use independent tradespeople, including builders, plumbers, electricians and decorators. The contractors are paid on the basis of hourly rates. The tradespeople charge on the basis of parts and materials supplied as well as hourly rates for their labour. Contractors and tradespeople invoice Premium Flats for their work and we review those invoices before passing them to Finance for payment.

So far, 100 flats have been converted in a total of 40 buildings. The total cost of each completed flat conversion has varied from T\$90,000 to T\$145,000, with an average cost of T\$125,000. That is higher than the budgeted average of T\$115,000 per flat.

Work has had to stop before any flats could be converted in eight of our buildings because of errors in the plans prepared by the independent architects. Those errors caused builders to remove load bearing walls, thinking that they were non-load bearing. These buildings are now unsafe and the need to close the buildings for urgent repair work could cost us T\$34 million in lost rent if the work is not completed before the end of the summer vacation, leaving the buildings vacant for the forthcoming academic year, plus substantial costs for the repairs themselves. The builders and the architects are blaming one another. Our lawyers advise us to take legal action against both the builders and the architects and seek damages from their professional indemnity insurers.

Regards

Ellis

 Reference Material Pre-seen



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

From: Financial Manager

To: Susanna Leong, Senior Financial Manager

Subject: FWD: RE: Conversion costs during first phase



 Reference Material Pre-seen

It is now a month before the end of the summer vacation.

Susanna Leong stops by your workspace and hands you a document:

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

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

- Firstly, identify the difficulties associated with determining the optimal price for the rental of Premium Flats and recommend, with reasons, suitable responses to those difficulties.
[sub-task (a) = 40%]
- Secondly, recommend with reasons the approach that Flatthall should take to negotiating contracts with contractors and tradespeople for the proposed conversion of additional flats during the next summer vacation. You should assume that none of those involved in the legal action will be asked."
[sub-task (b) = 60%]

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

Extract from minutes of Board meeting



Taisha Abbott, Property Portfolio Director, informed the Board that conversion work on Premium Flats had been completed at half of Flatthall's buildings. These are available to be marketed immediately through open days and online video tours. The remaining conversion work will be completed in time for students to occupy their flats at the start of the first semester.

Flatthall has not promoted Premium Flats in any way, preferring to wait until the flats were ready for inspection. When the concept was first discussed, the Board had hoped that rooms in these flats would attract rents of twice those charged for Flatthall's standard flats.










None of Flatthall's rivals have an equivalent to Premium Flats. The Board plans to take advantage of that by converting a further 10 flats per building during the next summer vacation. It is proposed that contracts should be signed with architects, contractors and tradespeople in order to ensure their availability.










The Property Portfolio Director reminded the Board that Flatthall is pursuing legal action against architects and builders who were engaged to work on 8 buildings. These buildings were damaged through negligence and will not be available to accommodate students for the whole of the next academic year.

The Board was informed that the cost of the conversion work on the flats that have been converted to date has exceeded the budget by an average of T\$12,000 per flat.

 Reference Material Pre-seen

Provide your response to Susanna'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) 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

Susanna Leong, Senior Financial Manager, asks you to join her in a meeting room:

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

I need your advice on two matters before I meet with Marina Delgado, our Finance Director, to discuss issues arising from the meeting:

- Firstly, evaluate the arguments for and against Flatthall collaborating with colleges and universities rather than taking its own stands.
[sub-task (a) = 60%]
- Secondly, identify and evaluate the operational and contractual inadequacy risks associated with Flatthall staff attending overseas student recruitment fairs ('fairs')."
[sub-task (b) = 40%]

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

Extract from minutes of Board meeting


Hamid Abbasi, Customer Service Director, reminded the Board that his responsibilities include liaison with universities.

Mr Abbasi reported that many of Towland's colleges and universities ("institutions") participate in overseas student recruitment fairs. These are events organised by businesses that rent exhibition halls and charge institutions for the right to set up stands at which they can display posters, distribute promotional literature and have members of staff available to answer questions. These events are heavily promoted and are open to members of the public without charge. They attract potential students, parents and local teachers.















Recruitment fairs are willing to permit exhibitors other than academic institutions. For example, publishers often attend to promote the latest textbooks.

It costs only T\$2,000 to take a stand at a student recruitment fair, but there are other significant costs, such as flights and hotel accommodation for staff attending the fairs. The total cost of exhibiting must also be multiplied by the number of fairs attended. There are several major fairs around the world, each in a different city. Most fairs are organised during the second semester of the academic year, timed to attract potential applicants for college and university places who are busy deciding which institutions to apply for.

Mr Abbasi proposed that Flatthall should start attending overseas student recruitment fairs in order to promote its accommodation to potential students who plan to study in Towland. Flatthall could either take its own stand at some of these events, or it could collaborate with several colleges and universities with which it has a good working relationship and could have a member of Flatthall staff on each of their stands in order to answer questions about accommodation. Feedback from academic staff who have attended fairs indicates that students often ask about practical matters, such as accommodation, travel and visa requirements.











 Reference Material Pre-seen



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



Paragraph ▾

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 Reference Material Pre-seen

A month later, you receive the following email:

To: Financial Manager
From: Susanna Leong, Senior Financial Manager
Subject: FWD: Exhibiting at overseas student recruitment fairs ('fairs')

Hi,

I have forwarded an email that I received from the manager who will be responsible for organising Flatthall's attendance at recruitment fairs.

I am preparing a briefing for this manager, and I require your help with two specific matters:

- Firstly, recommend with reasons whether staff at fairs should offer students discounts in return for agreeing to sign a rental contract while at the fair, subject to them obtaining a place on a course of study and satisfying visa conditions.

[sub-task (a) = 40%]

- Secondly, recommend how we might incorporate our attendance at fairs into the intellectual, human, and social and relationship capitals in Flatthall's Integrated Report.

[sub-task (b) = 60%]

Regards

Susanna

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

To: Susanna Leong, Senior Financial Manager
From: Hanna Kara, Senior Customer Service Manager
Subject: Exhibiting at overseas student recruitment fairs ("fairs")

Hi Susanna,

I have been given responsibility for organising Flatthall's attendance at 12 fairs that will take place over the next few months. We will take our own stand at each fair.



It is unclear whether we will be the only accommodation provider at these fairs. My contacts tell me that Duvett (one of our direct competitors) attended some fairs last year.

We intend to send a team of four staff to each fair, so that there will always be someone available to welcome students and answer their questions. During quiet periods, one or two staff members will be able to visit college and university stands to make contact with recruitment officers from different institutions.

I am hoping that you can offer me some advice. I will talk to you soon.

Regards

Hanna

 Reference Material Pre-seen

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



To: Susanna Leong, Senior Financial Manager

From: Financial Manager

Subject: FWD: RE: Exhibiting at overseas student recruitment fairs ("fairs")



A large, empty rectangular box for writing the response to Susanna's requests.

 Reference Material Pre-seen

A week later, you receive the following email:

To: Financial Manager
From: Susanna Leong, Senior Financial Manager
Subject: FWD: Some further advice please

Hi,

I have forwarded a further email that I received from Hanna Kara.

I would appreciate your thoughts on two matters before I meet with Hanna:

- Firstly, recommend with reasons the criteria that should be used for selecting the members of each team.
[sub-task (a) = 60%]
- Secondly, identify and evaluate the difficulties associated with benchmarking the performances of the 4 teams against one another and recommend responses, stating reasons.
[sub-task (b) = 40%]

Regards

Susanna

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

To: Susanna Leong, Senior Financial Manager
From: Hanna Kara, Senior Customer Service Manager
Subject: Some further advice please

Hi Susanna,



It was helpful to talk to you last week.

We have made some decisions in relation to our attendance at overseas student recruitment fairs ("fairs"):

- We will create 4 teams, each with 4 members of staff from various departments within Flatthall.
- Each team will attend 3 fairs over a period of 14 to 21 days, which means that we will be represented at 12 fairs in total. Each team's fairs are located in the same geographical region and there is a gap of a few days between each. Teams will, therefore, be able to relocate and rest between fairs.
- Students and their parents are not charged for attending fairs and are not required to book in advance. The fairs that we intend to exhibit at are expected to be busy, based on previous attendance and feedback from Towlandian institutions.

Regards

Hanna

 Reference Material Pre-seen



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

To: Susanna Leong, Senior Financial Manager

From: Financial Manager

Subject: FWD: RE: Some further advice please



 Reference Material Pre-seen

Two months later, half of the overseas student recruitment fairs that Flatthall plans to attend have taken place. The company's teams are still abroad, in their designated regions, with a view to completing their visits.

Susanna Leong asks you to join her in a meeting room:

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

I need your advice on the following two matters before I discuss them with the Finance Director:

- Firstly, identify and evaluate the difficulties associated with accounting for the rental contracts and associated exposure to currency movements described in the Board minutes and recommend accounting treatments, stating reasons.

[sub-task (a) = 60%]

- Secondly, evaluate the extent to which it is realistic to hold the team leaders responsible for the costs associated with their teams' attendance at fairs."

[sub-task (b) = 40%]

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

Extract from minutes of Board meeting


Marina Delgado, Finance Director, informed the Board about some developments relating to the fairs.

The teams at the fairs have been signing students up to contracts for accommodation during the forthcoming academic year. These contracts have been agreed on the following terms:










- All rental payments will be in the students' home currencies. Their rents will be based on the normal T\$ charge, converted to students' currencies at the prevailing rate at the time of the fair.
- Students will make an immediate payment of one month's rent and a security deposit equal to a further month's rent. Students will subsequently pay rent on a monthly basis in advance from the start of the second month onwards. Security deposits will be returned at the conclusion of their tenancies, provided there is no damage to their rooms. All payments and repayments will be fixed in terms of the students' home currencies, based on exchange rates in force as at the time of the fair.
- Students can cancel their rental contracts and will receive a full refund if they are unable to obtain a place at their chosen institution. That is conditional on demonstrating that they have applied for a place and that their application is still under consideration at the time of the fair.










None of the conditions associated with these contracts will be resolved before the financial statements for the current financial year have been finalised.

Ms Delgado raised a separate matter. The costs incurred so far by each of the 4 teams vary significantly. Each team is led by a senior manager, who is responsible for booking flights and hotels. The costs of the exhibition stand at each fair attended appeared to be very similar when the fairs were booked, but currency movements have affected those charges when converted to T\$. One of the teams was also required to book a flight and a hotel room for Hamid Abbasi, Customer Service Director, who wished to observe the activities at one of the fairs.

 Reference Material Pre-seen

Provide your response to Susanna'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.



AICPA® & CIMA®

Together as the Association of International
Certified Professional Accountants

Management Case Study

May & August 2024

Exam Answers

Variant 1

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

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

SECTION 1

Pricing 3-year contracts

There is little need to offer a discount for signing a 3-year contract. It would be logical for Flatthall to set the rent at three times the annual rate.

Students who sign a 3-year contract will benefit from knowing that they have guaranteed accommodation for the duration of their degrees. Colleges and universities are keen to expand numbers, which could make it difficult to find an acceptable space in the second or third year. Signing up for a 3-year degree will avoid the potential stress associated with finding a place. The terms of the contract being offered avoid putting students at risk by committing them to renting rooms that they will not need. Flatthall will cancel contracts if students are unable to make use of their rooms because of academic problems or issues with their visas.

The 3-year contract will give students guaranteed rates for their second and third years, which could be a good reason for accepting the proposed terms. PBSA companies may increase their prices in later years in response to increased demand or because of inflation, so signing up for 3 years will provide financial certainty. Students' families may prefer to fix the cost of accommodation now and not require a discount to persuade them to sign a 3-year contract. The only significant downside is that students might discover a superior place to stay in future years, which they would have used if they were not committed to their place at Flatthall.

Flatthall is offering secure storage space for students' possessions during the summer vacation. That will offer a major financial saving by avoiding the need to ship possessions home or to pay for a storage unit each year. Students would also benefit from the convenience of having a secure space in their building, which would make it easy to put items into storage and to retrieve them again when they return for the new financial year. The storage facility should be sufficient on its own to justify charging three times the annual rent for a room in a Flatthall residence because this is an additional service that is being offered exclusively to students with 3-year contracts.

Accounting for rents and security deposits

These contracts should be accounted for according to IFRS 15 *Revenue from contracts with customers*. This standard applies to all contracts with customers that meet specific criteria, including the fact that the parties to the contract have approved and are committed to fulfilling the contract and that the contract has commercial substance. It could be argued that those criteria are not met until the contracts becomes binding, which effectively occur after the students have moved into their rooms. Doing so will mean that overseas students have obtained their visas and that all students have places at their chosen institution. Contracts can be terminated in the event that students fail their exams and cannot progress to the next financial year, but they are binding on a year-to-year basis for the 9 months of each academic year once each year gets under way.

Flatthall will have to identify its performance obligations under these contracts. Those amount to providing accommodation during term time for each of three academic years and the provision of secure storage for property during the summer vacation. It could be argued that students are committed to paying for the whole academic year once they have signed their contracts and have started their studies, but it is debateable whether Flatthall could collect payment from a student who leaves during term. It would be more realistic for Flatthall to view each month as a separate performance obligation, with revenue being earned at the end of each month. Students pay monthly in advance, so there can be no doubt that rents are collectable on this basis. The provision of secure storage creates a further performance obligation. A full year's contract will require Flatthall to provide both accommodation and storage, unless the student is in his or her final year, in which case they will have no reason to put their possessions in temporary storage.

Flatthall's financial year is roughly aligned with the academic year, which means that revenue from most contracts can be recognised in their entirety on an annual basis. Any advance payments paid by students before the end of the financial year are likely to be paid in September in respect of October's rent. Any such payments will be shown as current liabilities in the statement of financial position.

Security deposits are not accounted for under the terms of IFRS 15. They are cash balances submitted by students at the commencement of their contract, with full or partial reimbursement at the end. There is no expectation that Flatthall will be permitted to retain this cash. It could be argued that these deposits fall within the definition of a liability as set out in the IASB's *Conceptual Framework for Financial Reporting*. Liabilities are defined in terms of an obligation to make a transfer of resources, which is consistent with the terms of the contract. Security deposits should be credited to a liability account when they are first received and should be accounted for as liabilities in the statement of financial position. Strictly, those repayable after more than 1 year should be treated as non-current liabilities. If the cost of any damage is taken from a deposit, then the liability account should be debited and the corresponding credit taken to the relevant expense account. The net expense should appear in the statement of profit or loss. Any remaining balance should be carried forward as a liability until the conclusion of the contract. At that time, all outstanding balances should be return to students.

SECTION 2

Business risks

Product risk comprises the risk that students will choose not to sign up for 3-year contracts. Flatthall can mitigate that risk easily and so the company need not be unduly concerned. There could be a reputational problem if the company promotes these new 3-year contracts and the take-up is disappointing, but there is no reason for Flatthall to disclose the number of 3-year bookings that it takes. Flatthall could lose revenue if it reserves rooms for 3-year contracts and is unable to rent them on those terms. Once the academic year is under way, there is unlikely to be any demand for vacant rooms. Flatthall could, however, mitigate that risk easily by promoting both single-year and 3-year bookings. If first year students wish to sign single-year contracts, then they should be permitted to do so. In the worst possible case, Flatthall will continue to rent out its rooms on a single-year basis and will simply lose the benefits associated with renting in the longer term.

Product reputation risk is the risk that 3-year contracts will somehow damage Flatthall's reputation in the market for student accommodation. There is potentially a risk that students will sign 3-year contracts and will decide that they would prefer to seek alternative accommodation in their second or third year. If Flatthall refuses to grant a request to terminate a contract early, then students might complain on social media or seek the support of their institution's student accommodation service. Forcing students to honour their contracts could create the impression that Flatthall is inflexible and unsympathetic if potential renters discover social media posts or receive negative advice from their accommodation services. If Flatthall permits students to terminate their contracts without penalty, then there is a risk that students will make posts to that effect and so the company will develop a reputation for being weak and compliant in any negotiations with students.

The contractual inadequacy risk arises when problems arise in terms of the interpretation or enforcement of the contract. It may be difficult to enforce contracts because many students who rent from the company live overseas and so may return home and simply ignore correspondence. Taking legal action against students could damage the company's relationship with the institutions, particularly their student accommodation services. Institutions could promote private rentals or competing PBSA providers. The contracts permit students to cancel if they are unable to join their courses or are forced to withdraw. It would be relatively easy for students to falsify claims that those circumstances apply. Students could also abuse these exemptions by, for example, transferring to different courses or different institutions, which could leave Flatthall with a number of vacant rooms that had not been foreseen.

WACC

There may be an immediate impact on WACC, but only if Flatthall releases information about its success in signing students for 3 years. Otherwise there will be no impact unless the providers of finance are able to observe the effects that these contracts have had on the company's performance. If the information is disclosed, then lenders will be reassured that the company will enjoy stability in its cash flows over the next 3 years and shareholders will be reassured that the company will enjoy stability in its

profits. The greater stability will reduce risks to both lenders and shareholders and so the costs of both debt and equity will decrease, which will reduce WACC. If the company chooses not to release information immediately after the contracts have been signed, then it may take at least 2 years before the lenders and shareholders realise that the company's performance has improved. In that case, WACC will be unaffected by the sale of contracts on those terms because there will be no immediate impact on the financial statements and so the costs of debt and equity will be unaffected.

It may be that the cost of equity will increase if the shareholders believe that the decision to offer 3-year contracts increases risks. Flatthall is committing itself to fixed rents in the second and third years of those contracts. If the shareholders are concerned that Towland will suffer inflation, or that the PBSA industry will increase its rents in 1 or 2 years, then the long-term contracts will impose an opportunity cost on Flatthall. It will be unable to increase rents in response to those events. The cost of debt is unlikely to be affected because there should be sufficient cash flow from a restricted rent to meet the company's commitments to its lenders. The shareholders could be concerned that they will suffer in the medium term and so they may require a higher return on their equity. That risk will be mitigated by the fact that the commitment imposed by these contracts extends for only the next 2 years. It will, hopefully, take longer than that for any significant change in Towland's economy or the performance of the PBSA industry.

SECTION 3

Teams

Two separate teams will make it easier for Flatthall to ensure that there is sufficient expertise to carry out the drafting and the promotion effectively. Drafting the contract will require legal expertise and an understanding of the manner in which contractual terms will be understood and interpreted by institution student accommodation services. Promoting these contracts will require some understanding of the market and the factors that affect students' choice of PBSA providers. Having separate teams will ensure that sufficient attention is paid to both of those aspects of the project. The leader of a single team could, albeit unwittingly, favour one task over another. For example, a legal expert leading the team could focus on drafting the contract and might pay less attention to the development of a marketing plan. Having separate teams may also enable the project to be completed more quickly, ideally in plenty of time for everything to be in place in order to promote the 3-year contracts before the start of the next academic year. Each team will have its own separate priorities. The two teams will then be able to work in parallel. Each team will be able to respond to any problems or delays as and when they arise. The team members will be directly responsible for their own aspect of the project and so will be motivated to address issues. The two teams could organise regular joint meetings to ensure that there is adequate liaison.

Having two separate teams could create the risk that the contracts will be out of alignment with the marketing of the 3-year contracts. Creating contracts and marketing materials in isolation could create the possibility that the descriptions in the marketing materials are inaccurate. That could lead to Flatthall being accused of misleading students when they sign these contracts. Flatthall may be forced to relax the enforcement of its contract terms in the event that any such discrepancy is identified at a later date. That will probably be to the company's disadvantage. The alternative would be to force students to adhere to the terms of the contract on the basis that they should have read and understood what is undoubtedly a long and complicated document. Doing so could cause long-term damage to the company's reputation. It may be possible to avoid any such difficulty by having each team study the other's output in some detail to ensure that all documents are consistent with one another. While that should reduce the risk of misleading contradictions, it could delay the completion of the work. The checks would have to be carried out at regular intervals so that each team is confident that it understands the other's intentions with regard to contracts and marketing. It would also have to be repeated at the very conclusion of the project, just in case any last-minute changes to either marketing materials or contracts pose problems. That is likely to be the time when both teams are under the greatest time pressure and so could be the most inconvenient time for such a review.

Target costing

The benefits under consideration will have to be evaluated carefully because they will be expensive to introduce. The total cost could be as high as $T\$800 + 300 + 500 = T\$1,600$. $1,600/9,400 = 17\%$ of annual rent. The benefit of 3-year contracts to Flatthall is limited to reducing the need to find replacements for students who are moving into their second and third years, so the marketing spend can be reduced slightly. Finding students to rent rooms on an annual basis will be cheaper than the

cost of significantly enhancing the quality of rooms that will be offered to students on these extended contracts. There is the further complication that many of these costs will be incurred when the contract is signed, but there is no guarantee that the student will take possession of that room. Flatthall permits students to cancel contracts if they are unable to take their places because they fail to meet the entry requirements or if they cannot obtain a visa to study in Towland.

Many of the enhancements will be difficult for students to evaluate when they are deciding whether to commit to a 3-year contract. Flatthall already has a reputation for providing good quality accommodation and it markets itself on that basis. Students might not attract a great deal of additional value to the promise of better-quality décor or the availability of a larger refrigerator. There could be a danger that promoting those benefits too aggressively could discourage some tenants because they could imply that the standard accommodation is lacking and so they may consider renting from private sector or competing PBSA providers. The only significant improvement that can be valued objectively is the availability of storage space during the summer vacations. Even that may have little perceived value for prospective first-year students who have not faced the challenge of packing up for the summer.

The inducements that are under consideration would be easy for rivals to emulate and so could lead to increased costs with no real benefit to the company. If other PBSA providers believe that, for example, the provision of secure storage space is attracting students to Flatthall, then they may provide their own storage solutions. They may not necessarily tie that benefit to a 3-year contract. Flatthall could unwittingly signal the results of its target costing exercise and could enable rivals to compete directly. That could result in pushing up its operating costs with very little to show for doing so.

SECTION 4

Student negotiation

Flatthall should start by reviewing correspondence from the student in order to establish the basis of the students' complaint. It is unclear whether the student claims to have been misled by Flatthall or whether the student is simply unhappy because of the prospect of having nowhere to stay over the summer vacation. If the student claims that she had good reason to believe that she could continue to stay on over the summer, then Flatthall should review all documentation, including web pages, provided to the student prior to her signing a rental agreement. If there are no ambiguities with respect to the terms of her contract, then Flatthall's position will be much stronger. The fact that the student has offered to pay an additional rent in return for accommodation during the vacation suggests that she is, in fact, aware that Flatthall is under no obligation to accommodate her. It would be sensible for the company to approach the relevant student accommodation service (CCU) in order to establish whether it would support the student in the event that she presses this matter. Being open and transparent with CCU would enable Flatthall to establish whether it would suffer any significant reputational damage in the event that it refuses to assist the student.

Flatthall should seek evidence concerning the student's claim to represent a group of 50 residents. It is important to be clear as to whether she is in a position to influence a significant number of students. If she does speak for 50 students, then she could leave the Central City Heights property with a number of vacant places that could have been rented to her group. If she does not, then her influence is significantly reduced. Her position will be stronger if she can demonstrate that she has been elected to lead a group of students and to speak on their behalf. The group will then be in a position to leave 50 vacant rooms in need of rental in the event that the group is dissatisfied with Flatthall's response or can persuade an alternative renter to meet their needs. It will also be more difficult to negotiate concessions from the student if she is obliged to refer any offers made by Flatthall to the membership of her group. Group members may be able to persuade the majority to stand firm in the face of attempts by Flatthall to seek a compromise that does not meet all of their demands. It may be easier for Flatthall to rent a lecture room from CCU and hold a meeting with the entire group in order to discuss what is possible and to provide an opportunity for the group's members to discuss proposals with a view to reaching a conclusion.

It is important for Flatthall to decide on its preferred outcome from this negotiation. It will be much easier to negotiate with the student if there is clarity about the company's best interests. It may be desirable for the company to accommodate a limited number of students during the summer vacation. That would enable the company to earn rent at a time of year when it would otherwise incur costs and suffer negative cash flows. It should be determined whether permitting some students to remain throughout the academic year would generate net revenues for the business. The company should take account of whether there could be a flood of students who wish to remain in residence during the summer vacation and that it will be accused of being inconsistent if it makes arrangements for 50 students in one location and refuses the same concession to students who live in other buildings. It would be necessary for the company to determine the maximum number of students who could remain in place at

each its locations and so set out criteria for accepting students so that any such maximum is not breached.

Cash flows

It could be difficult to predict the number of students who will wish to remain in place during the summer vacation. Students will not always have firm plans in place for the summer vacation. For example, they may intend to travel or return home, but be unable to do so because they have to retake an exam and so will wish to stay on over the summer. Worse, students might apply to stay on throughout the summer, only to call off at the last minute because an unexpected opportunity has arisen, such as a summer job in a different city. It will be difficult to estimate the rental income from this scheme if student numbers cannot be predicted with any certainty. Flatthall will find it difficult to know whether this is a worthwhile idea if numbers fluctuate. It may be possible to address this to some extent by setting a deadline for applications for summer accommodation that is well in advance of the start of the vacation. Students could also be required to pay a non-returnable deposit when they book a place. The overall effect would be to reduce numbers, but it would also provide greater certainty about the numbers of bookings received.

Operating costs associated with keeping buildings open throughout the year could prove difficult to predict. For example, it may be necessary to keep reception desks fully staffed with concierges throughout the year and having cleaners working in the public spaces despite ongoing renovation work. Building staff may normally take advantage of the summer vacation to take annual leave and so Flatthall may be forced to employ temporary staff to cover the summer vacation. The use of temporary staff in those roles could create unexpected costs, such as additional insurance premiums or breakages and damage arising because of reliance on inexperienced workers in frontline roles.

Having students in residence during the summer could increase the cost of the remedial work being undertaken. Some work might create health and safety problems because, for example, access to fire exits could be restricted during renovations. It may be necessary to organise work around the safety and comfort of residents, which could significantly increase the costs incurred in getting the properties ready for the next financial year. It may be possible to deal with that problem by limiting summer vacation rentals to cities in which Flatthall has more than one building. Students could then be moved from one building to another to ensure that work can be undertaken at the convenience of the maintenance and decorating staff.



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Management Case Study

May 2024 & August 2024

Exam Answers

Variant 2

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SECTION 1

Business model

Susanna's quote from the business model could provide the basis for a response to the rejection. The fact that the university supports Flatthall's bid indicates that the city has a shortage of suitable accommodation, which could have an impact on the numbers who can study in Elder City. Universities and colleges make a significant contribution to local economies as employers, and in attracting large numbers of students who support local businesses by shopping and spending on leisure activities. Flatthall can also claim to have experience in constructing accommodation in city-centre sites and that experience should translate into an ability to design and build a suitable property that would not cause undue harm to Elder City's skyline. It should be possible to offer the Planning Committee an economic case for the benefits to the city of having additional student accommodation within walking distance of its university. It should also be possible to offer a portfolio of plans and photographs of existing city centre sites that Flatthall has developed in a manner that is sympathetic to existing architecture.

The Planning Committee need not regard the business model as relevant to this application. The business model is a basis for developing plans and implementing strategies that make good business sense for Flatthall and may not be applied to every major decision made by the company. Even if the Planning Committee accepts that Flatthall's Board would be guided by the company's business model, there is no guarantee that the company will submit a plan for this development that is acceptable in terms of architectural merit. The business model is not binding on the company itself and may be regarded as being little more than a broad statement of intent when it is used to communicate with stakeholders. It could be argued that the business model offers subjective criteria that are left open to interpretation. For example, Flatthall's new building may be meeting previously unmet demand for student accommodation that is within convenient walking distance of a university, but students may be living in accommodation that is accessible by public transport. Similarly, the definition of "good

quality buildings” is clearly a matter of opinion. Flatthall’s design may be deemed suitable by its Board and the architects whom it employs, but that opinion may not be shared by the city’s population or by the experts in its Planning Department.

Risks

The main upside risk is that an appeal might be successful and that an opportunity to earn additional revenue might be created. If Flatthall does not appeal, then it will have no chance of moving forward with this project. The company has incurred many of the costs associated with evaluating Elder City as a location and in designing a building that might be fitted in place of the shopping mall. It could be relatively inexpensive to develop a revised plan that would be more sympathetic to the local environment and which might be accepted, so the appeal may be likely to be a positive net present value investment.

If Flatthall chooses not to appeal, then a rival PBSA provider might be alerted to the availability of the site because of the closure of the shopping mall and might use Flatthall’s experience to develop a bid that is more in keeping with the Planning Committee’s wishes. That could enable the rival to win market share at Flatthall’s expense. Making an appeal might discourage rivals from pursuing applications of their own, whether in Elder City or in respect of future sites in which Flatthall takes an interest.

Flatthall’s shareholders will be unhappy to read about the company’s failure to obtain planning permission for this building. The ability to work with local planning committees is a crucial skill for PBSA providers to develop and so a failed application that is not appealed will seem like a significant failure on the company’s part. That is particularly important because of the growing maturity of the PBSA industry. Many of the “easy” sites close to institutions have already been purchased and developed, and so more challenging sites such as the former mall in Elder City may rapidly become the norm.

Mounting a successful appeal against this decision will, therefore, enhance Flatthall’s reputation with respect to working with local planning authorities and making acceptable bids. A successful appeal might also reduce the risk of future plans being rejected because the relevant planning committees will be discouraged from rejecting applications that raise relatively minor objections because they will be aware that there could be a time-consuming appeal.

The main downside risk of an appeal is that the appeal could fail, leaving Flatthall exposed to additional legal and other professional fees, with nothing to show for it. From a reputational point of view, Flatthall may appear to be negligent because it will have failed to offer a satisfactory response to the reasons for the rejection of the initial application.

A successful appeal could have an impact on the company’s relationship with Elder City’s Planning Committee, who may take a negative view of any further applications submitted in respect of different sites within the city’s boundaries. Unless the appeal addresses all of the earlier objections in a sensitive and respectful manner, the Committee may object to the tone of the appeal and may be more inclined to reject any further applications that are lodged.

If Flatthall succeeds in winning its appeal, then the company might appear to have circumvented the planning process and the rules and regulations in place to prevent certain types of construction. That could lead to adverse reactions to any applications lodged by the company in other towns and cities, even if the associated plans are less controversial than those first submitted to Elder City. The company could find itself at a disadvantage to rivals in its bids to expand into cities that have a sound architectural heritage. Local politicians may consider objecting to Flatthall's proposals in response to events at Elder City.

SECTION 2

Team composition

The team should include Taisha Abbott, Flatthall's Property Portfolio Director. Her background will enable her to make valuable input into meetings of the team. She will be able to identify the strategic issues that will have to be addressed by the team. The inclusion of a director will also send a clear message to the Planning Committee that Flatthall takes a serious view of the objections that led to the rejection of the initial proposal. Ms. Abbott should not lead the team because that might discourage other team members from speaking freely. It could also prove inconvenient if she cannot be available for every team meeting.

The team should include a senior manager from Customer Service. It is important to include that function because that background will ensure that the team is kept informed of the impact that any changes will have on the desirability of the property to students. For example, changing the layout of the building might mean that some facilities will either be smaller or might have to be removed altogether. Perhaps it will no longer be possible to offer a secure storage space for bicycles. It would make sense for a senior manager to lead the team and convene team meetings. That person should have both the seniority and experience required to manage this effectively.

The team should include an architect, either an employee of Flatthall or an external consultant. An architect will be able to offer suggestions in response to comments from the Planning Committee and will be able to translate those suggestions into revised plans. It will save time and enable the team to maintain momentum if the team is equipped to offer a rapid response to objections voiced by the Planning Committee, such as a revision to the plans for the façade of the new building.

It may be helpful for the team to include a representative from Finance, ideally a senior manager. It is likely that any changes to the plans will have financial implications. Costs are more likely to increase than decrease and so they must be kept under control. An accountant who has expertise in monitoring the costs of building projects will be able to brief the team on the feasibility of proposed changes. There is no point in agreeing to revised plans that would be uneconomic to implement.

Weekly progress reports

The weekly reports should be designed to enable the Board to check that steady progress is being made towards a successful appeal. A detailed report could create a false impression that progress is being made when, in fact, very little is actually happening. It would be useful to offer brief summaries of meetings with key stakeholders, such as members of the Planning Committee and the senior management team and Elder City University. The summaries should indicate the outcomes of each meeting and the implications of those outcomes for the progress of the appeal. Having a director on the team will ensure that the Board can be confident that the summaries are accurate. The Board should also be provided with summaries of team meetings, indicating the matters that were discussed and the agreements reached during the meeting. These summaries should be brief and should focus on relevant findings rather than minuting all discussion. It may be preferable to submit "nil" reports from time to time, reporting that no reportable progress has been made

since the previous week. That would reduce the risk of dysfunctional behaviour by the team in terms of wasting time on meetings that are unlikely to achieve anything worthwhile.

The report should indicate plans for forthcoming meetings with stakeholders, setting out the objectives of each meeting, identifying the managers who will represent Flatthall and so on. This type of report will enable the Board to see that meetings are being arranged and that the team is planning to make the best possible use of those meetings. Reporting on plans will enable the Board to take a proactive approach, offering recommendations on the approach that might be taken. That could be more effective than simply reporting on the results of meetings after they have occurred because there will be no real opportunity to change things at that stage. Care will have to be taken to discourage the Board from making excessive use of any such advance notice because it might encourage micromanagement of the team's activities and that could demotivate team members. Any feedback from the Board might be best communicated through Taisha Abbott so that she is the designated point of contact between the team and the Board, and also so that she can respond to any guidance that might prove ineffective.

It might be useful to provide the Board with a document that sets out a timeline for the submission of a successful appeal to the Planning Committee and indicates the resources that will be required at each stage and the availability of those resources. This document should be updated on a weekly basis to alert the Board to any slippage in the timeline and to encourage the team to ensure that deadlines are being met. The Board will also be able to intervene in the event that there is a shortage of resources, taking steps to ensure that the team has everything that it needs. For example, the Finance representative might be relieved of routine budgetary or financial reporting duties to enable a stronger focus on the work required for the project team. This document should ensure that the Board is kept informed of progress without distracting either the team members or the Board itself from their ongoing commitments.

SECTION 3

Ratios

The construction work should not affect the gross profit % to a significant extent because the property will not be open for business during the year ended 30 September 2025. Any payments in relation to accommodation in the building will be in respect of the year ended 30 September 2026. It is possible that some costs will be incurred in relation to the operation of the new building during the year ended 30 September 2025. For example, it will be necessary to clean the building thoroughly once building work has been completed. It would be difficult to justify capitalising or carrying such costs forward as prepayments and so they will be accounted for as part of the cost of sales. The increased costs will have no offsetting revenue and so the gross profit % will decrease for the year ended 30 September 2025, in the absence of any other changes.

Return on capital employed will decrease. The additional borrowings required to fund the construction will increase capital employed, while return will either not be affected or will decrease slightly. The overall effect will be to increase capital employed by T\$360 million, which is $360.0 / (7,337.2 + 2,800.0) = 3.6\%$. Return will not be affected, so return on capital employed will decrease, but only to the extent of increasing capital employed by 3.6%, which will not make a significant difference. Nevertheless, return on capital employed is an important profitability ratio and so anything that decreases the ratio should be explained to the shareholders.

Gearing will increase. The work undertaken on the new building will not affect equity, but it will increase debt. Debt will increase by a total of \$360 million, including the T\$10 million borrowed during the financial year ended 30 September 2024. Debt will increase by $360.0 / 2,800.0 = 13\%$, which is a significant increase. Fortunately, Flatthall's gearing was already relatively high at $2,800.0 / (7,337.2 + 2,800.0) = 28\%$, so the increase could be viewed as significant.

Capitals

Manufactured capital comprises manufactured physical objects. These are used in the creation of revenue by the entity. The new building increases the number owned by Flatthall to 175, an increase of 0.6%. An increase in revenue of the same amount would be regarded as a moderate increase. The building itself is a new property on an attractive site close to a university that will create strong demand from students. It has the potential to enhance the quality of the accommodation that Flatthall can provide and so the shareholders should be pleased to see this addition. The new building can be featured in Flatthall's marketing materials and on its website as an example of the properties that the company can offer for rent to students.

Intellectual capital can take the form of knowledge and protocols. It could be argued that the new building indicates that Flatthall has gained valuable knowledge and experience in dealing with difficult planning applications. The new building is in a city centre that is noted for its architecture. The regulators responsible for protecting that city centre are reluctant to permit modern buildings from being built in Flatthall's preferred style because of the potential for impairing the city skyline. The fact that Flatthall has succeeded in obtaining permission to build on this site implies that it has

created a style of building that is both practical and suitable for construction in this type of site, in the face of a negative reaction from city planners. That knowledge is potentially transferrable to other locations and so could equip Flatthall to expand into other cities that have previously been inaccessible to developers because of the existing architecture surrounding the site. Some of that information will be in the public domain because of the need to submit and file plans as part of the planning process, but Flatthall's rivals may not necessarily be able to identify the features from the plan that were critical in the planning application.

Social and relationship capital takes the form of relationships with stakeholders and the company's social licence to operate. In this case, it appears that Flatthall has succeeded in obtaining the support of a local university for its application to build the city-centre accommodation. That is a potentially valuable relationship that may be useful in developing similar arrangements with other universities and colleges. Flatthall has created additional accommodation, which will make it easier for the university to recruit additional overseas students. Other institutions may seek a similar collaboration with Flatthall in response to this. The fact that Flatthall was able to work with Elder City's Planning Committee suggests that it was capable of developing a relationship with the members of the committee. It should be possible to use that experience to work with other cities' officers in order to negotiate further expansion.

SECTION 4

Changes to plan

One major difficulty is that the company will lose a whole year's revenue on 400 rooms if the building is not ready for occupation by October 2025, the start of the academic year. If there is any doubt about that completion date, then the University may be unwilling to publicise the availability of rooms in the new building when advising students, which could cause some rooms to be empty, even if construction is completed on time. Flatthall should attempt to address any uncertainty by agreeing a plan with the builder that either rewards prompt completion or penalises any delay. The details of that plan can then be shared with the University.

Given the controversy over the initial planning for this site, Flatthall may risk provoking the Planning Committee by changing the plans for its accommodation block and also by proposing the demolition of a building in the same sensitive city centre site. The Committee might insist that the office building should be restored with remedial work on its foundations to avoid the creation of a large gap between buildings. Flatthall should start by taking professional advice on the possibility of successful and cost-effective remedial work. Ideally, it will be possible to offer independent professional advice that the damage is too severe to risk restoring the building and so the only possibility is to demolish it. The changes to the design of the accommodation building should be restricted to structural changes to ensure that the building's foundations will be sound. That should minimise the likelihood of the Planning Committee rejecting the changes.

The possibility of building a second property could lead to delays caused by indecision on the part of Flatthall's Board. That could delay the start of construction while the Board decides on the best use of the additional land and the implications for the design of the building. The only practical way to address that concern would be to demolish the office building and make the earliest possible start on the building that has been planned and permitted. At worst, that might create an opportunity cost, but it will enable the first building to get under way. The Board can then decide what to do with the spare land on the basis that the site will be restricted to the space left after the original building has been completed.

Real option

The Board should consider whether there is evidence of sufficient demand for the additional 400 rooms that a second building will create. Flatthall is already committed to the creation of 400 additional rooms in a city that, presumably, already has sufficient accommodation for its students. The initial building will only be filled if the company can displace students from private rentals in the city or from PBSA operated by rival providers. It may be difficult to attract students to the city centre if Elder City has a student culture of renting private flats in particular areas of the outskirts of town where students gather to socialise. It would not be unduly expensive to delay work on the second building because potential demand will be clear by October 2026. Flatthall has committed only T\$20 million to the acquisition of the office block, so there will not be a huge amount of capital tied up while waiting.

It is important to avoid becoming distracted by the acquisition of the office building. There is no reason for Flatthall to be committed to using that site for any additional buildings that it constructs in Elder City. The only reason for buying the office block was to expedite the start of construction work on the first building. It may make more sense for any decision on a follow-on investment in Elder City to be planned on the basis of the availability of suitable sites. It may be more sensible to sell the site of the office building for development into, say, a retail space by a third party. That would then free Flatthall to plan any further construction on a site that had been chosen on the basis of its suitability. It may make more sense to avoid having two large buildings on adjacent sites. It may also make more sense to build any further buildings in a different city in the short to medium term rather than rushing to build in Elder City.

The Board should consider the possible reaction of rivals to the construction of the initial building in Elder City. It may make sense to build a second building quickly in order to capture as much of the market as possible before a rival can intervene. It may be possible to obtain some initial feedback from the University concerning the level of interest in the new accommodation that is under construction, which could inform the Board about plans for a further investment. If the signs are good, then the Board might make some initial investments in plans and professional work in preparation of seeking permission for a second building. That would hopefully create the possibility that work could get under way in time to have a second building in place by October 2026. It may then be difficult for rivals to obtain approval for their plans in time to have their properties in place for the October 2026 start of the academic year. Even if the purchase of the office block had not been planned, it still creates an opportunity to beat any rivals to the opening of a further residence in the city centre.

A further issue for the Board to consider is whether the Elder City Planning Committee would approve a further building that is only fit for accommodation adjacent to the building they recently approved. Because of the difficulties that Flatthall faced in obtaining planning permission for their current building, it could prove very difficult to obtain planning permission again for a second similar building.



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Management Case Study

May & August 2024

Exam Answers

Variant 3

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SECTION 1

Social media

A disruptive technology is one that can cause a fundamental change that disrupts the business model in an industry. Flatthall's basic business model is to offer safe and attractive rooms for rent at prices that reflect the quality of the accommodation that is being offered. The negative comments voiced on social media could undermine that model and could discourage students from renting from Flatthall. The concern is that students who are considering renting from Flatthall can find these negative posts simply by putting the company's name into a search engine. Doing so will almost certainly leave them with a negative perception of the service provided by the company, which could undermine the commercial benefits of investing in good quality service. That may be particularly true of overseas students who are organising their first year's accommodation based on internet sources. They may be attracted by Flatthall's website, but the claims made there could be undermined because of complaints voiced by students.

Social media will only disrupt the PBSA industry if it leads to fundamental change in the industry's business model. It should be noted that Flatthall and its rivals build their accommodation in locations that are conveniently suited to the institution where they are studying. The convenience associated with such locations will offset potential concerns about the quality of service. The PBSA industry competes with official halls of residence, which are generally full to capacity and cannot take any further custom from PBSA, and private rentals, which are of variable quality. It makes sense to continue to offer good service and to respond quickly to complaints made through formal channels in order to retain the custom of students who will return to university in their second and third years, and who might recommend Flatthall to friends.

It would make more sense for Flatthall to develop a better tailored response to negative posts, replying to any complaints with advice to the effect that any concerns should be reported through the formal channels and offering a link to the Customer Service email

account. That would demonstrate that Flatthall takes an interest in student complaints and would create the impression that the student's complaint has not been made through proper channels. Making such responses would not be disruptive in terms of dealing with complaints, although it could involve the use of new digital technologies to provide a specific response that reflects the wording of the complaint.

Evaluating staff

The poor response rates to student questionnaires could mean that the results obtained are biased and are, therefore, misleading because they are only collecting favourable responses. It may be that positive responses are solicited by concierges and cleaners, who use their contact with students to request favourable feedback. It appears that unhappy students are more likely to make negative posts to social media than to complete questionnaires, which means that Flatthall does not have a clear understanding of their concerns. Indeed, negative social media posts are more likely to signify specific complaints about the need for repairs and could say very little about the overall satisfaction of students who make such posts.

Students who complete questionnaires may not necessarily provide Flatthall with clear and consistent feedback because students are unlikely to fully understand the norms that they should be using as the basis for their feedback. Many students will have nothing to compare their building to because they are either in their first year or they have returned to the same building for later years of study. Students could be tolerant of poor standards of behaviour by concierges or from cleaning staff because the quality of service is tolerable. Students may not realise that things should be better. Students could also be misled by factors that should not be credited to the building staff. For example, they could be satisfied with their accommodation because it is in a convenient location or because they have several friends staying in the same building, and that could be reflected in high scores for all aspects of their stay.

It appears to be difficult for concierges and cleaning staff to control the factors that affect student satisfaction. The students who are dissatisfied appear to have high standards with regard to responses to problems with their accommodation.

It would be ideal if students could be motivated to provide feedback on a more consistent basis. It may be possible to do so by offering incentives to complete and submit questionnaires, possibly in the form of gift vouchers or other benefits. Alternatively, Flatthall could set up its own social media site that would enable students who rent rooms to participate in chats. These appear to be more popular with students and so there could be a higher level of participation. Flatthall could obtain feedback on specific matters by inserting prompts, such as a request for comments on security or the cleanliness of the public spaces in its buildings. Any discussion might lead to students from different buildings learning more about what they are entitled to expect.

Flatthall could also consider conducting inspections of its buildings, using staff from Customer Service to conduct unannounced visits. That would clearly be more expensive and time-consuming than the use of questionnaires, but it would provide an insight into the quality of service across the company and would enable detailed feedback for building staff at each location. The inspection teams would be able to talk to any students who were available during the meeting and that might give a better insight into the issues that affect satisfaction and willingness to recommend Flatthall

to friends and classmates. It may be, for example, that students are less concerned with cleanliness than had been expected, but care about issues that had not been foreseen, such as noise complaints when they are busy with essays and coursework. Flatthall could require staff to be more proactive with regard to their own property inspections and in responding to any faults.

SECTION 2

Predicting cashflows

The potential inflows associated with having access to this type of analysis will be difficult to estimate with any certainty. The Board will have a better understanding of students' perceptions of the company, but it will be difficult to estimate how that will translate into cash. Knowing that students are dissatisfied could assist Flatthall to plan improvements in its buildings. The problem is that it may be unclear whether that will lead to higher occupancy rates or lowered costs. The Board will have to consider whether there is reason to believe that performance could be improved because of this enhanced knowledge. For example, do some buildings have lower retention rates, with more students leaving for alternative accommodation after one year? Factors such as turnover rates and the number of vacant rooms in any given year would enable Flatthall to estimate the maximum benefit that it might obtain in terms of generating additional revenue. That would leave the question of whether more rooms would be occupied if the company improved its service. It may be difficult to eliminate all turnover and to fill every room.

The information that will be obtained from the use of this software will not necessarily relate directly to the student behaviour that actually interests Flatthall. Software mining will enable the company to determine whether students are satisfied and will also enable the causes of that dissatisfaction to be identified. The problem with spending so much on this software is that it may not be beneficial to change the service that is being offered. Students may choose to rent rooms from Flatthall because its buildings are in convenient locations for travel to college or university. They might continue to rent with the company, even if they are unhappy because of unresolved maintenance problems. Students sign contracts that commit them to rental periods that cover a whole academic year, so they cannot move out even if they are dissatisfied with the service. Flatthall has a good reputation for quality that appears to persist despite mixed reviews and comments on social media. If it can fill most of its rooms at the start of every academic year, then it could be argued that there will be very little harm caused by complaints about specific issues. Eliminating complaints may increase operating costs, without necessarily creating any corresponding increase in revenues.

The software itself is expensive, but there is a further problem with determining the associated costs in terms of staff training and possibly staff recruitment to make best use of the program. The software appears to be highly flexible in terms of the types of analysis that it can carry out and so it may require specific IT skills to make appropriate use of the new technology. That could require a heavy investment in training for existing IT staff. The ability to analyse and collate data in an unstructured format could create opportunities to carry out analyses and investigations that had previously been impossible to envisage. It may be that the new software will result in senior managers and the Board making constant requests for customised reports. That could require the appointment of additional IT staff to undertake that work. IT staff with these skills will be highly marketable and so Flatthall may have to increase salaries in order to ensure that it does not lose key staff who may become indispensable. Staffing may create a number of uncertainties in relation to cost, but the company knows how many of its existing IT staff it plans to train and the training costs can be determined by seeking a quote from a training provider. It is unlikely to be necessary to recruit more than one or two additional IT staff to work with this software.

Debt

Debt is generally a relatively inexpensive source of finance compared to equity. The gross cost is lower because lenders take fewer risks than shareholders. The net cost is further reduced by the fact that tax relief is granted on interest payments. Borrowing increases gearing and so increases risk in terms of increasing the volatility of shareholder returns, but the increase in this case goes from $2,800.0/(7,337.7+2,800.0) = 28\%$ to $(2,800.0+200.0)/(7,337.7+2,800.0+200.0) = 29\%$. The gearing is already moderately high, which makes any increase undesirable. Although it could be argued that the increase is not particularly great, possibly not enough to concern the shareholders unduly, but it may affect Flatthall's ability to borrow to fund future investments. One downside of debt is that the new software will increase Flatthall's fixed operating costs because of additional salaries and also amortisation of the software licence. That downside will compound the additional fixed finance costs associated with the increase in gearing and so the impact on the volatility of the shareholder returns will be accentuated still further.

Flatthall's relatively high gearing ratio could mean that lenders are keen to seek additional security before they are prepared to advance a T\$200 million loan. Unfortunately, the software will not provide a suitable asset that can be pledged as security. Flatthall may not be permitted to transfer its licence to use this software to any third party, including the lender. The software might not, in any case, retain its value if a new version of the software is created or if a rival software house creates a better data mining package. Flatthall does benefit from owning 174 properties that could have a significant market value. It may be possible to pledge a property as security for this loan, assuming that the buildings have not already been pledged as collateral. The Board should consider reviewing its existing debt covenants to establish whether it can borrow this sum in order to take advantage of the low cost of debt.

SECTION 3

Zero defects

In this case, a “defect” should be defined in terms of a delay in addressing problems that have been identified. It is impossible to prevent accidental damage in a student residence and domestic appliances will fail from time to time. Building staff should be required to act promptly on problems as soon as they have been noticed or reported to them. It will be difficult for all defects to be identified, even if building staff are vigilant. For example, a flat’s cooker might not be working, but the cleaner responsible for that flat will only be aware of the problem if someone points the defect out. Flatthall should consider sending out regular reminders by email or text to every student to ask for assistance in terms of prompt reporting of problems through concierges or emails to Customer Service. Encouraging students to report problems will reduce the risk of necessary repairs being left outstanding. It will also reduce the risk of unhappy students who assume that all problems will be resolved automatically.

Cleaners should be given new responsibilities to identify and report any maintenance issues that they identify when cleaning public areas of their buildings, including the communal living areas of flats. Those responsibilities should be largely reactive and restricted to reporting visible damage encountered. Even that will ensure that many problems will be identified and processed. The cleaning staff should report all problems to the concierges, which will then feed into the existing system whereby concierges deal with problems that have been notified to them. That will simplify the system and will also reduce the risk of problems being overlooked because of a lack of communication between cleaners and concierges.

The concierges should be required to extend one of their security patrols to cover all public areas within the building. Those extended patrols could be scheduled for the evening, well after the cleaners have visited those spaces. The primary purpose of those patrols will continue to be safety and security, but there will be an important secondary requirement to identify unreported issues in need of repair. That will pick up any problems that have not been reported by students or by cleaners. If possible, concierges should aim to book repairs immediately. If there is a delay in completing any work, then the concierges should notify the students who will be affected that the repair has been requested and will be completed as quickly as possible.

Perceptions of value

Typically, students’ live experience has accustomed them to living in safe and well-maintained homes in which repairs, replacements and refurbishments happen without any action on their part. Many students leave home in order to pursue their studies, which means that they are unaware of the issues associated with being responsible for a property, as either tenants or owners. They may have unrealistic expectations concerning the condition of the property that is being rented and in terms of Flatthall’s ability to carry out immediate repairs because they are accustomed to properly maintained accommodation without any responsibility on their part. Students are used to having their parents notice accidental damage such as torn carpets and are used to leaving the responsibility for organising domestic repairs or replacements to their parents.

Flatthall must also deal with the fact that only a minority of students appear to object to unresolved problems, but those who are offended by ongoing maintenance issues tend to overreact. Taking the example of the torn carpet, four students made a total of 11 social media posts about the continuing need for repair. None of the students appears to have considered taking a more constructive approach to the problem, even though it clearly annoyed them. That may suggest that some students simply enjoy the feeling of power associated with posting negative comments, rather than attributing value to a fault-free building. The difficulty that this creates is that Flatthall may have to address emotional needs rather than just practical needs with regard to the condition of its buildings and the equipment that is provided as part of the rental package.

It would be helpful for Flatthall to work with university and college accommodation services to educate students concerning the responsibilities implied by being a tenant in rented accommodation. Students often undergo induction programmes to prepare them for the transition from school to higher education and it might be helpful to include a session on managing landlords in any such programme to ensure that students view any advice that is offered as impartial. It would also be helpful for Flatthall to reach an agreement with accommodation services that they will not become involved in any student complaints unless the student has first contacted Flatthall and is unhappy with the company's response. That will help to spread the message that issues with accommodation should be reported to the landlord in the first instance. It is to be hoped that landlords will be willing to resolve any complaints in a reasonable manner.

Flatthall should consider the creation of student committees in each of its buildings. Membership would be voluntary and the committee would meet regularly with the building's chief concierge. The formal purpose of this committee would be to enhance communication with students, so that problems such as the need for repairs are reported to the company through the senior concierge. A secondary, but non-trivial, benefit of having such committees is that they will, hopefully, attract students whose personalities lead them to enjoy making complaints. Giving such students a venue to voice their opinions may reduce their need to post complaints on social media.

SECTION 4

Determining goodwill

Goodwill is determined by comparing the fair value of the purchase consideration with the fair value of the separable net assets. The starting point will be to determine the value of the shares that Flatthall will have to issue in exchange for the shares that it will receive in Briksav. That value will constitute the purchase consideration. Flatthall is a quoted company, so the share price can be determined by referring to the market price on the date that the exchange is made. That will, hopefully, be a fairly objective figure. Flatthall will have to take care in the event that there is some volatility in the share price caused by the issue of the new shares or the acquisition of a subsidiary. The relevant share price will be the market value at the time the contract with Briksav's founder is being completed.

Briksav does not have many tangible assets, but the fair value of those that it does have will have to be determined. Supervisory staff have tablet computers, which will have to be valued at their fair values. Such a valuation may prove difficult because new models of tablets are constantly being sold. Given that there are only 20 tablets, it may be sufficient to argue that the fair value is not materially greater than zero and so they could be ignored. The company also owns 20 cars, each of which will have a fair value that depends on a range of factors including model, age, condition and mileage. The fair value could be determined by having each supervisor approach a local car dealership in order to request a valuation. Car dealers are experts in estimating the fair values of cars for trade-in purposes.

It appears that Briksav has some significant intangible assets in the form of training materials and software. These can be treated as assets for goodwill purposes because they could be sold separately. These will be difficult to value because there are no observable markets that can be used to verify the fair values against. The valuation could be based on the value that Flatthall attributes to the materials and software. While those amounts may not reflect market values, there is nothing to suggest that Flatthall's values would differ to a significant degree. The value of these intangibles is likely to be a significant reason for Flatthall's motive for the purchase of the company. It might be possible to obtain details of the time and effort required in the initial creation of the materials. Hopefully that information can be obtained from the founder. It would then be possible to estimate the cost of replacing the assets by multiplying the time required to create the assets by a suitable consultancy rate.

Business risks

Operational risk arises from the possibility that processes will fail or will prove inadequate. For example, Briksav may expect the concierges and cleaners to participate in their induction course. It may be that the course proves inadequate or is actually counterproductive because it may be tailored to commercial offices rather than student accommodation. Flatthall staff may not engage with their courses because they do not accept that it is relevant to them. That could lead to problems with communication and supervision with Briksav's supervisors. There could be an ongoing culture clash between the building staff and the supervisors who will now be

expected to supervise them. Worse, important tasks could be overlooked because of a lack of mutual understanding between the building staff and their supervisors.

Contractual inadequacy risk arises when contracts do not take account of problems that might arise. One concern is that Flatthall's buildings staff may be unwilling to change employer from Flatthall to Brikkasav. The employees may decide to resign, creating a shortage of experienced staff. They may also be entitled to redundancy payments from Flatthall, meaning that the company will have to pay for the loss of staff whom it wished to retain. There could be problems associated with the transition from one employer to another. Concierges and cleaning staff are not accustomed to working under the direct supervision used by Brikkasav. Staff may refuse instructions on the grounds that they are not consistent with their terms and conditions of employment. Such disagreements could lead to disciplinary problems that could undermine staff morale. It may be difficult to ensure that supervisors can exercise proper authority in the buildings that they are responsible for.



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Management Case Study

May & August 2024

Exam Answers

Variant 4

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SECTION 1

Ecosystem

It is difficult to tell whether there is sufficient market demand for this style of accommodation. There are no similar properties available on the rental market. The fact that Flatthall has enjoyed success in renting out student accommodation does not mean that there is sufficient demand from other groups of young people. Students are looking for relatively short-term rentals that are intended to facilitate the completion of an academic year of study. Shop workers will be looking for a more open-ended arrangement. Students are prepared to pay quite substantial rents for a room in a shared flat because they are working towards a degree and will only rent on this basis for a maximum of 3 years. Shop and office workers may be looking for more value from renting a larger space that may be better suited to socialising and other activities.

There is, at present, no competition for this market. That could change very quickly if Flatthall obtains permission to build for the Build-to-Rent (BTR) market. If Flatthall creates a precedent, then it will become easier and less expensive for rivals to make their own successful application. The entry of rivals into BTR could cost Flatthall revenue if they aim for the same towns and cities in which the company has already obtained permission to proceed. Flatthall has an established reputation in student accommodation, but that may not be known or deemed relevant by potential tenants from different backgrounds. Competitors could interfere with Flatthall's entry into this market by purchasing sites that Flatthall would have been interested in for this new market. Unwelcome competition could also drive up the cost of all sites through the submission of bids for suitable sites, which, in turn, have the effect of driving up the cost to the successful bidder, whether that is Flatthall or someone else.

There could be social resistance to the proposal to develop BTR. This proposal will bring hundreds of young people in relatively poorly paid jobs into town and city centres. Those people are working there already, but they would previously have commuted to homes that were not in the city centre. By building BTR accommodation, Flatthall will

be bringing in new groups of residents who may behave differently from the students who presently live in this style of accommodation. There could be concerns that BTR will change the character of town and city centres by replacing shops and offices with flats. Paradoxically, large-scale BTR could affect the number of potential tenants if it led to the demolition of the properties in which they had previously been employed. Major employers, particularly retailers, could argue that BTR is damaging their businesses and so they could lobby city planners to reject proposals for additional accommodation.

This style of accommodation will require careful consideration by regulators. At present, these properties are built for students, who are vetted to a certain extent by their institutions. There could be concerns about safety and privacy associated with creating flats for a wider range of people, who could put younger and more vulnerable residents at risk. It will be difficult for Flatthall to predict whether there could also be concerns about the need to protect the proposed sites for these buildings from further encroachment for accommodation purposes.

Accounting for professional fees

The basic question that has to be decided is whether the expenditure on professional fees should be capitalised as an asset. If not, it should be written off as an expense as the cost is incurred. If Flatthall intends to acquire or create a tangible non-current asset in the form of land and/or a building, then it could argue that the professional fees are effectively part of the cost of acquiring those assets. It would certainly be acceptable to capitalise the cost of architects' plans and drawings or legal fees incurred in the course of an acquisition.

It could be argued that these fees will result in documents that will be Flatthall's property, regardless of whether or how they are used. Architectural drawings, say, will belong to the company. That raises the question of whether the expenditure can be capitalised as an intangible asset under the terms of IAS 38 *Intangible assets*. IAS 38 requires an asset to be separable, which could be the case because Flatthall could decide not to proceed with a project and could sell survey reports and architectural drawings to a third party. A key part of the definition of an asset is whether it will yield future economic benefits. If it is unlikely that the intellectual property acquired through expenditure on professional fees will result in the construction of a building or that the plans will be sold, then the cost will not be capitalised under IAS 38.

If the costs are capitalised, then they will have to be amortised over their expected useful lives. No amortisation will be charged while the buildings are under construction. In that case, the professional fees will be carried as intangible assets until the buildings have been completed and are available for occupation. The amortisation will be aligned with the depreciation charged on the buildings, using the same useful lives.

SECTION 2

Impacts

A decrease in the value of property could reduce the cost of buying sites on which to build the new BTR properties, which will have the effect of increasing the net present value of the project, thanks to the reduction in the initial investment. Once prices have been agreed and contracts signed, any decrease in the value of property will have no immediate impact on cash flows. Changing market prices will not affect receipts or payments. The only real possibility would be that the residual value of the property could be affected if the price of land remains low when the buildings reach the end of their useful lives, although it is unlikely that market trends will persist for the life of a building. The biggest concern is that there could be uncertainty about the timing of any acquisition because the shareholders will be unhappy if the company invests heavily in property, only for the value of that property to decline. The Board should consider negotiating the purchase price to make a reasonable allowance for the possibility that prices will fall.

The additional cost of safety regulations will reduce the net present value of the project because the changes will undoubtedly be mandatory and the cost may be significant. Changing designs to take account of new safety requirements will require significant redrafting of plans and specifications and those changes will have to be submitted to the appropriate authorities to ensure that they are both compliant with the new regulations and are consistent, with all of the necessary changes carried through. Any changes that are made once construction is under way could prove even more expensive if, for example, fire alarm systems have to be removed and replaced with more sophisticated models. The most appropriate response to this uncertainty would be to design the system to exceed the present requirements and possibly to make use of the very best available technology. If superior systems comply with current requirements are expected to be made mandatory in the future, then the worst possible case is that Flatthall will exceed the minimum. Even that should not be a problem because improved safety could be a selling point for renters.

The proposed change in the law could reduce demand for BTR rentals because many office workers will consider working from home. Indeed, some employers may insist on employees working from home in order to avoid having to provide office space. A decrease in demand could lead to fewer rooms being occupied, or the rentals changed may have to be lower in order to fill all available spaces. In either case, the net present value of the BTR project could decrease. Paradoxically, the contraction of city centre employment could lead to more vacant buildings, which could further reduce the market price of city-centre properties. Cheaper properties could reduce the cost of buildings for BTR and that could have the effect of increasing net present value. Flatthall should extend any market research to break down the potential market for BTR rentals between retail and office workers. The higher the proportion of retailers, the less likely that this development will affect the project. Flatthall should also pay close attention to all new reports and other sources of information about working from home. It may help the Board to decide whether the proposed change in the law is likely to occur.

Ratios

The most immediate impact is that the loan will increase Flatthall's gearing from $2,800.0 / (2,800.0 + 7,337.7) = 28\%$ to $(2,800.0 + 550.0) / (2,800.0 + 550.0 + 7,337.7) = 31\%$. The company's gearing was already relatively high, although the fact that it owns a significant amount of property will offset the risk perceived by lenders. The increase to 31% is quite an increase and could create problems if any debt covenants restrict gearing to an agreed limit of 30%. This increase will persist into later years, unless the profits on the BTR project are sufficient to increase retained earnings dramatically.

The return on capital employed will be affected quite significantly by these borrowings because the loans will increase capital employed from $2,800.0 + 7,337.7 = \text{T\$}10,137.7$ million to $2,800.0 + 7,337.7 + 550 = \text{T\$}10,687.7$ million, an increase of 5%. The return for the year will not be affected by the project. It is too soon for the project to generate any profits. The overall impact will be to reduce return on capital employed, which is generally regarded as the most important of the profitability ratios. That impact will persist until the BTR properties start to generate profits.

The borrowings will also have an impact on the liquidity ratios. Current assets will increase by T\$550 million, which is nearly eight times current assets as at the beginning of the current financial year. Taken at face value, this will create the impression that Flatthall is highly inefficient, having a huge bank balance that has not been put to work by the directors. It should be possible to inform the shareholders that the substantial bank balance will be temporary and that the cash will be put to work within the next few months.

SECTION 3

Target costing

Flatthall is used to renting properties to students who have very different financial needs from the market for BTR properties. Students may be supported by their parents and so can afford relatively high rents while completing their studies. BTR tenants will be in full-time employment and are more likely to be required to support themselves while they are staying in Flatthall's accommodation. They may also be saving to move to a larger rented flat or to buy a home of their own. Flatthall must ensure that it does not set its BTR rents at a level that exceeds what potential renters are able to pay. It seems likely that most renters will be in relatively poorly paid employment and so there will be a limit to the maximum that they would be prepared to pay for accommodation. Target costing would be an ideal basis for designing the BTR accommodation, taking account of the total costs that will have to be passed on to tenants.

Target costing provides a framework for evaluating the manner in which the market will perceive a particular feature. All of the matters listed as "important decisions" could make BTR rooms more desirable, but they could also contribute to pricing BTR out of the market. For example, it would be important to consider just how much room each tenant will need in a single room. It may be more preferable to have smaller rooms that enable more tenants to be housed in a property and so rents can be smaller. Flatthall's experience with students may be irrelevant because students need space to store books and study materials in their rooms and also workspace in which they can set up laptops. BTR tenants may be satisfied with a space that is large enough to sleep and store clothes. They may be willing to spend their evenings in the communal areas of their flats in order to reduce rent. Target costing could start with the rent figure that Flatthall has identified as a realistic amount to charge and will assist the company to decide whether or not costs can be justified in terms of commercial benefit.

The problem with target costing is that this is a new type of accommodation and potential renters may not be able to help Flatthall in deciding how to weigh up price versus desirability. Market research results may suggest that potential tenants will be prepared to accept a small space in return for a low rent, but it may be difficult to understand how cramped a room of particular dimensions might feel without seeing it or even without sleeping in it for a few nights. It may be that Flatthall will struggle to determine just how many people will be willing to remain in BTR accommodation that it designs to achieve a particular price point. There is a further complication in that there will be a limit to the length of the rental contract that Flatthall can impose on tenants for BTR flats, unlike students who are prepared to sign contracts for a whole academic year at a time. If tenants are unhappy with the rooms that are designed during a target costing exercise, then they may tend to leave as soon as their contracts permit them to do so. That could leave Flatthall constantly incurring marketing costs in order to replace tenants.

Capitals

The buildings can be reflected in manufactured capital because they are physical assets that belong to the company and contribute to the creation of revenue. From a manufactured capital perspective, the key points to raise will be the facts that the

buildings can accommodate large numbers of tenants, demonstrating an efficient use of space. It would also be relevant to discuss the factors that enable the buildings to be operated in a cost-effective manner, including safety features that permit the company to comply with the law.

Human capital reflects competencies, capabilities and experience. The focus here could be the fact that Flatthall has developed experience in working with architects and other professionals to design and construct properties that are deemed to have architectural merit. Tenants may benefit from good architecture if it enables good use of space and the free flow of people in the public spaces in the property. Good architecture is more likely to attract tenants and may be of value in retaining them for a longer period before they move on. It will be possible to draw upon this experience in order to create further BTR properties if the first batch of properties proves successful.

Social and relationship capital could benefit from good architectural designs that complement existing city skylines. There will be fewer objections to new buildings that look attractive, especially when viewed alongside existing buildings. Flatthall relies on its ability to build in sensitive areas, particularly city centres, in order to grow and develop additional capacity. The company will enhance its relationships with regulators if it can offer designs that look attractive and that enhance the buildings that are already there.

SECTION 4

Leadership style

It would make most sense for the Senior Manager in charge of the investment centre to adopt a participative style of leadership, with some modification to that style when needed.

Subordinates are to be assigned difficult and sensitive duties such as negotiating with planning committees. Those subordinates must be granted some freedom to develop their own preferred approach to such negotiations. It will not always be possible to achieve a specific outcome. The Senior Manager should brief managers tasked with particular negotiations on the matters that must be agreed and should set out the criteria on matters that are desirable but are not necessarily vital. If the managers cannot obtain all of the required concessions, then they should report back to the senior manager for further consultation.

The Senior Manager is responsible for managing professional people, including architects and lawyers. Such people would not be comfortable with being issued instructions in an autocratic manner. A participative leadership approach will help those professionals to interact and engage with the Senior Manager and will help the Senior Manager to understand the constraints arising from their professional viewpoint. Encouraging interaction will enable the Senior Manager to make the best use of the professional skills that are on offer and may reduce the risk of costly problems. If the Senior Manager adopts an autocratic approach, then the professionals may respond by making suboptimal and even dysfunctional decisions. For example, imposing an impractical constraint on a structural engineer could lead to the submission of plans that cannot be passed by regulators because they have been prepared on the basis of illogical instructions.

Working with construction companies might require a combination of participative and autocratic styles of management. Certainly, it would be desirable for building companies to be encouraged to offer their opinions about planned construction projects. It may also be necessary to adopt a more assertive approach to managing matters such as deadlines and costs, particularly when budgets are exceeded. The Senior Manager should respond to developments in a manner that best fits the circumstances, without necessarily being constrained by a need to adopt a single style of leadership.

Transfer prices

Optimal transfer prices are frequently determined by considering the opportunity cost of the resource being transferred.

In some cases, the opportunity cost will effectively be zero because the professional staff are not fully employed because of a quiet spell in their department or because their departments are engaged in projects that are at phases that do not require their particular skills. In such cases, the transfer price could be set at the marginal cost of secondment, which could be zero or limited to whatever travel expenses might be incurred by the seconded staff. The Senior Manager would be delighted to accept staff on that basis. Unfortunately, the managers responsible for the staff who are to be

seconded might be reluctant to admit that the staff are not gainfully employed in their permanent departments and so it could be difficult to persuade managers to release them. It would be relatively easy to put professional people to work and to claim that they cannot be spared, especially if there is no financial compensation for the department making the secondment.

Where there is a lack of capacity, it might be possible to identify circumstances in which a compromise might be reached. There could be situations in which a department has professional staff who are busy, but whose work could be done by a more junior external consultant for the duration of the secondment. For example, the Senior Manager requires a senior property law expert to draft a planning application. Another department has a senior property law expert, who could be replaced in the short term by a more junior lawyer. The Senior Property Law Expert could be seconded in return for the cost of employing the Junior Lawyer on a consultancy basis. Such an arrangement is, unfortunately, likely to be unpopular with the manager making the secondment because it will be preferable to retain the services of an experienced professional who is known to be competent. Managers might discourage the use of staff on this basis by exaggerating the qualifications and experience that would be required in the temporary replacement. It will always be difficult to estimate the opportunity cost of a professional person engaged in this type of activity.

Paradoxically, the seniority and technical nature of the work being undertaken by the Senior Manager in charge of the new investment centre and the status of the senior manager's counterparts in the other departments will make it difficult to impose an effective scheme that will optimise temporary transfers of staff. It may be necessary to rely on the professionalism and integrity of the managers to simply release professionals on request, provided the staff are available to be seconded. This is a complex scenario that does not lend itself to a mechanical decision rule. Such as the techniques that might apply in, say, a manufacturing scenario in which there could be benefits from internal trade between factories. In Flatthall's case, the professionals vary in ways that make it difficult to identify a meaningful market value for lost time and effort. There could also be concerns raised by any transfer pricing scenario in which managers might attempt to direct the new investment centre's manager towards less capable professional staff, who will be less likely to be missed within their departments.



Management Case Study

May & August 2024

Exam Answers

Variant 5

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SECTION 1

Reliability of responses

There is a significant risk of non-response bias. In other words, the respondents to the questionnaire might not be representative of the population as a whole. It could be that 60% of current students are not interested in paying twice as much, even if the Premium Flats are significantly better than the ones that are presently on offer. This possibility leaves Flatthall with a dilemma in interpreting the questionnaire results. In the best possible case, 50% of the student population would pay twice as much to rent Premium Flats. There is, however, a worst-case scenario in which only the 40% who responded have any interest at all in the flats and only 50% of them would be prepared to rent such a flat. That would indicate that $40\% \times 50\% = 20\%$ of the population might be interested in this proposal. There is a further complication in that the questionnaire was only distributed to students in residence in Flatthall accommodation. It may be that Premium Flats would open up a new market that currently makes alternative arrangements. There could be a large body of students who do not rent in the PBSA market because they wish to have a higher standard of accommodation than that which is currently on offer. Those students have not had an opportunity to inform the company of their interest in this proposal.

Flatthall could be misled by the results because there was no cost to submitting a favourable questionnaire response to this proposal. Students might have been attracted by the prospect of private bathrooms and better communal areas and could have been reluctant to offer a negative response as to whether they would be prepared to pay double the rent in order to have those amenities. Some could have been strategic in their responses, knowing that responding in a negative way might discourage Flatthall from creating these new flats. There is no guarantee that Premium Flats will be as expensive as suggested in the questionnaire and positive respondents could have been assuming that it would be less expensive. There may also be a psychological issue with positive responses. Students might have completed the questionnaires on the basis that they would pay twice as much for this standard of

accommodation. That belief might persist in the abstract, but students might change their views when they are faced with the need to actually pay twice as much for accommodation and consider the sacrifices that would be implied by doing so.

Many of the students who rent PBSA properties are from overseas and are supported by wealthy families and this could result in a distorted response to the questionnaire because many students do not actually pay for their accommodation. Students who are supported by their parents might have been positive about Premium Flats because they intended to ask their parents to cover the additional cost of such accommodation. There is no guarantee that even wealthy parents will incur a significant additional cost if they are already supporting their children through expensive overseas education. Parents might be prepared to pay for PBSA because it is safe and convenient in comparison to private rentals, even though PBSA is relatively expensive. Even wealthy parents might resent being asked to pay more for accommodation so that their children do not have to clean their own rooms and will have a larger social space outside their bedroom in which to socialise.

Financing

From a practical point of view, Flatthall must be ready to proceed with the conversion work at the end of the current academic year so that the work can be completed before the start of the next academic year; otherwise, a whole year's revenue will be lost on those flats. Debt can be raised more quickly than equity and it would be possible to structure a loan so that the cash is available to be drawn down by Flatthall as and when it is required to pay for each stage of the conversion work. The only quick way to raise equity would be to suspend a dividend payment, but that could make the shareholders uncertain about the company's future, even if the reasons for the suspension were explained.

Borrowing T\$200 million will increase Flatthall's gearing ratio from $2,800 / (2,800 + 7,337.7) = 28\%$ to $(2,800 + 200) / (2,800 + 200 + 7,337.7) = 29\%$. Any increase in gearing could imply an increase in risk for the business, but it should be borne in mind that the company has steady earnings and so the shareholders will not be too concerned about a slight increase in gearing. There is also very little in that increase to concern lenders. Flatthall has a strong asset base comprising properties in town and city centre locations and so loans can be protected by security.

Debt is cheaper than equity because lenders are asked to take fewer risks than shareholders. The lenders who finance this investment will not be directly exposed to the success or failure of Premium Flats. They will receive their agreed interest and repayments regardless. Debt also carries tax relief on the interest payments, while funding the project with equity will not offer any tax benefits. Debt will also have fewer issue costs than equity. A rights issue would require additional work for Flatthall's management and its professional advisers and that would push up the costs of raising the funds.

SECTION 2

Managing project

There should be an overall plan for the project that will serve as the basis for all of the work that will be undertaken across all 174 buildings. That plan should be developed as soon as possible in order to enable subsequent planning stages to commence. The initial plan should assist with planning the changes that will be made in each building. For example, will the Premium Flats be located on the upper floors of the buildings? The initial plan will also clarify matters such as whether furniture and fittings will be selected and ordered locally or whether these goods will be ordered centrally and in bulk.

There are too many buildings to manage the remodelling of each centrally. Given that Flatthall has more than one building in some towns and cities, it would make sense to have a project team to take charge of remodelling each town or city's buildings. These local project teams would be responsible for hiring architects and other professionals who would create the plans required to remodel each room in the buildings for which they are responsible. The local teams will approve the plans, ensuring that they meet the standard required by the Premium Flat concept.

The local project teams will not normally be based in the towns and cities for which they are responsible, so they will operate mainly from head office. However, they will have to plan to visit their buildings as and when necessary, both for planning purposes and also to check progress. They may also enlist the support of building concierges, who should be able to keep them informed of any developments, particularly with regard to problems that emerge. The local teams will also have to ensure that the plans for the remodelling are integrated with those for the repairs and refurbishments that will take place during the summer vacation.

The local teams will be responsible for appointing contractors to undertake the remodelling work within each building. They may have to coordinate this work to allow for the availability of different trades. Making teams responsible for all properties within a given area will reduce the risk of teams competing to obtain the services of contractors and possibly creating a lack of resources necessary to complete all work on time. The local teams will seek quotes and make sure that they are within the budgets allocated to them for the work required on their buildings.

The local teams will visit the sites on a regular basis, ideally organising things so that each building has reached a stage of completion at which it makes sense to conduct an inspection. The visits should check on progress, in order to identify any delays at the earliest possible stage so that they can be resolved quickly and efficiently. The work should also be checked regularly to ensure that contractors are achieving the required quality to ensure the Premium Flat standard is being met.

Designing out costs

The starting point would be to brief an architect to take responsibility for each building. The architect's brief should be to look for the most efficient way to change the layouts of walls so that the fewest possible changes are made to supporting walls. It may be necessary to make some compromises in order to achieve this. For example, it may

be easier and cheaper to locate the Premium Flats in a particular area of each floor within some of Flatthall's buildings. It may be that the original plan had been to set aside specific floors for Premium Flats, but that could prove expensive if it means removing large numbers of supporting walls and having beams installed to ensure that the structure of the building remains sound. The architects should be instructed to take remodelling costs into account when they are submitting their plans and drawings.

It may be possible to reduce the costs of plumbing and electrical work by resisting the temptation to start with a blank sheet when designing the flats in each building. For example, it may be possible to leave some of the present shared bathrooms in place, changing the locations of doors so that they lead directly into individual flats rather than being linked to the communal areas. It may also be possible to schedule structural work so that pipes and electrical cables can be run through the flats without having to make holes for access purposes.

The results of safety inspections can be reduced by having contractors carry out thorough tests of all alarms and other safety features before they sign off their work. Flatthall can then have building concierges check the alarms once all building work has been completed on any given flat. That should enable the official safety checks by the independent contractors to be scheduled for a single visit to each building, saving time and hopefully reducing the costs of inspections and of remedial work.

SECTION 3

Responsibility accounting

There is a risk that accusing Ellis and the members of her department of overspending could lead to dysfunctional behaviour during the completion of this project. There has been considerable time pressure to complete the planning of this work so that the remodelling could start as soon as the properties were vacated for the summer vacation. The building work itself now has to be completed in time to permit students to move in at the start of the new academic year. If the Board makes too much fuss about these figures, then Ellis could become more cautious over managing costs, taking longer to negotiate with contractors and tradespeople and risking buildings being unavailable in time for the new year. The overspend is $10,000/115,000 = 9\%$ of the budgeted cost, which is significant, but is not ridiculously high.

The fact that each building is unique means that it is very likely that some flats will cost more than the budgeted T\$115,000, while others will cost less. Indeed, Ellis reports that some flats cost as little as T\$90,000 to remodel. There could be a concern that the flats that have been completed to date have been the easiest and simplest in terms of remodelling work and so the average cost of the remaining flats may be even higher. The Board should ask Ellis to investigate the causes of this first round of figures in order to establish whether there is realistic scope for cost savings. Such a request should not lead to dysfunctional behaviour.

It is also possible that there is a learning curve associated with remodelling the first 100 flats. Ellis and her department now have more experience of working with contractors and negotiating contracts with tradespeople and so, hopefully, they will be able to reduce costs on future remodelling. There is no guarantee that this is the case, so the Board should ask Ellis whether there are things that will be done differently in the future, taking account of the lessons learned to date.

Accounting treatment

One useful starting point would be the treatments specified in IAS 37 *Provisions, contingent liabilities and contingent assets*. The IAS will help Flatthall to determine whether the cost of repairing the eight buildings should be recognised as a provision in the financial statements. There is also the question of whether Flatthall can recognise the compensation that could be claimed from the builders and architects who appear to have been negligent. The question that arises is whether the losses and compensation associated with these errors should be accounted for in the financial statements for the year ended 31 August 2024. If not, then any costs and reimbursements will be accounted for as and when they are paid out or received and so will be recognised in the financial statements associated with the dates when they occur.

IAS 37 defines a provision as a liability of uncertain timing or amount. To meet that definition, Flatthall will have to be under an obligation to conduct repairs, which may be the case if there is a legal obligation to make the property safe. If the repairs are at Flatthall's discretion, then there is no potential liability until such time as the company makes a binding decision, perhaps by signing a contract with a builder who will be paid to rectify the damage. If Flatthall is required to repair the buildings, then a provision for

the cost could be recognised as a cost and as a liability if the amounts payable can be estimated reliably. It may be difficult to determine how much these repairs will cost without conducting a detailed survey of the damage and obtaining quotes from builders. In the absence of such evidence, the cost may be too difficult to predict for it to be recognised in the financial statements. In that case, IAS 37 would require disclosure of the circumstances in the notes to the financial statements as a contingent liability.

According to the advice received from Flatthall's lawyers, the company may be in a position to make a claim against the builders and architects who were responsible for the damage to these buildings. According to IAS 37, the accounting treatment should be determined according to the likelihood that the success of Flatthall's claims can be considered to be "probable". In this context, probability is usually judged in terms of whether the success of the claim is more likely to occur than not. The fact that the recovery of these losses depends on the outcome of future negotiations and possibly on the success of court action makes the recoverable amounts contingent assets. If recovery is probable, then the asset should be described in the notes to the financial statements. If recovery is only possible, then no disclosure should be made, even in the notes. It may be that claims for the rectification work on the buildings will have to be considered separately from the rent lost because the buildings are not available for the commencement of the academic year. Flatthall's legal advisers might, for example, advise that the recovery of the repair costs is probable, while the recovery of the lost rent is not.

SECTION 4

Pricing

Pricing student accommodation is complicated by the fact that overpriced flats may be left vacant for the whole of the academic year if tenants cannot be found before the start of the first semester. Premium Flats were intended to be rented for double the normal rate, which might still be realistic. Unfortunately, only half of the flats will be available for inspection before contracts are signed. Students may be unwilling to commit to paying twice as much for enhanced accommodation that they cannot see before they make a commitment. In the short term, Flatthall could consider reducing the rents on Premium Flats from the intended amount in order to encourage wealthier students to take the risk of signing contracts without first seeing their rooms. Unfortunately, that could create a dilemma because it may be difficult to increase its rents to the planned amount in future years. Students may be discouraged from returning to Premium Flats if the price rises significantly. Flatthall also faces the risk of upsetting students who are unable to find places because eight buildings are not safe for occupation.

Flatthall could work on the basis that Premium Flats have an intrinsic value of twice the standard flats. The new flats were designed to be priced at twice the normal rent. If demand for the Premium Flats that are ready for occupation proves disappointing, then the Board might decide that it was over optimistic and it might reduce the rents to, say, 1.5 the price of standard flats. Flatthall could consider offering a discount to students whose flats are not yet ready for occupation in return for signing contracts. That would avoid the problem of there being a perceived rent rise if more is charged in the second year of this venture. Flatthall might address the problem created by the fact that some students cannot return to Flatthall for their second or third years of study by offering vacant rooms in nearby buildings to those that cannot be occupied. Once all of the standard rooms in those buildings have been taken then Flatthall could, on an exceptional basis, release Premium Flats rooms to those students, charging the standard rent.

Negotiating contracts

Flatthall should start by considering what it hopes to achieve through these negotiations. Presumably, the Board wishes to obtain commitments from contractors, architects and tradespeople to ensure that they are available for the next summer vacation. It is important to have all of the trades and professions available. It could prove impossible to complete the remodelling of some buildings if there was a lack of, for example, plumbers. The negotiations should allow for the possibility of an incentive to honour any commitments made, perhaps in the form of an advance payment by Flatthall or a penalty that will become payable by the tradespeople if they are not available as promised. Flatthall should probably focus on being generous in its negotiations with contractors and so on because rival PBSA providers might be encouraged to offer their own enhanced flats if Flatthall's prove successful. It may make more sense to pay a retainer on signature of a contract to motivate contractors to agree to terms.

Flatthall will have to take a rather delicate approach to pricing because the first batch of rooms cost 20% more than planned. Ideally, Flatthall should aim to retain the services of the contractors and others who have already worked on remodelling to Premium Flats standard, but it would also be desirable to persuade them to reduce their prices if there is a realistic way to do so. Any negotiations over pricing should be handled with care to avoid risking the loss of key tradespeople and so delaying the completion of the remodelling. It may make more sense to accept the additional charges in order to motivate the counterparties to agree to work for Flatthall. It may be possible to structure some of the payment to make it contingent on work completed to an acceptable standard and on time.

Contract negotiations should take account of the publicity associated with the damage to eight buildings and the reputational damage caused to the architects and builders who have been blamed for those mistakes. Flatthall will wish to word contracts in a way that protects them against any repeat of this negligence, while the counterparts to the contracts may be afraid that they could find themselves held responsible for problems that were not of their making. Flatthall should brief the counterparts on the background to the errors that led to the wrong walls being removed. It may be possible to identify the causes of those errors and to offer precautions that might prevent a recurrence. For example, it may be possible to furnish builders with the original architectural plans and drawings from when the buildings were first constructed. The contracts could also clarify who will bear the risks of problems arising with the remodelling of other buildings.



AICPA® & CIMA®

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Management Case Study

May & August 2024

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

Collaboration with institutions

Having staff share a stall will enable Flatthall's staff to observe experienced academics interacting with students. That could assist in dealing with cultural issues associated with interacting with students from different backgrounds. It will be easier for Flatthall's staff to seek advice from academics about the factors that influence student decisions in different countries if they share stands. Different student markets may have different concerns in relation to student life and studying abroad. Working with institutions will alert Flatthall's representatives to those key issues. Collaborating with institutions could reduce the cost of attending slightly because Flatthall will not need to pay T\$2,000 for a stand. At worst, institutions may ask for a small contribution towards the cost. Being seen to be associated with one or more institutions will assist Flatthall to establish its credibility with students and so its presence may have more impact if it shares a stand. Being seen to share a stand may also make it easier to interact with academics from other institutions. It may be possible for Flatthall's staff to persuade other institutions to place some of Flatthall's promotional material on their stands, as evidence that good quality accommodation is available in their cities. There could also be practical synergies such as the institution's staff covering for meal breaks, passing out brochures and so on.

The institutions may be willing to have Flatthall share their stalls in case students have questions about the availability of accommodation, but their primary interest will be in promoting their courses. Academic staff may be reluctant to allow Flatthall's representatives interrupt them when they are promoting their courses to potential applicants. Attendees at the fairs might overlook the presence of Flatthall at college or university stands. Alternatively, they might draw the conclusion that Flatthall's accommodation is only available in a limited number of cities in Towland, as implied by their presence at specific stalls. Institutions might insist on promoting Flatthall's rivals, even if Flatthall is sharing their stands, because they would be keen to demonstrate that good quality accommodation is readily available from a variety of providers. Flatthall could risk alienating institutions because sharing a stall with a

college or university could be viewed as a public act of support for a rival institution, given the importance of recruiting overseas students. Flatthall could be making a false economy. Stands cost only T\$2,000 and it may be possible for the company to make a much greater impact by having its own stand in a prominent position within each fair.

Business risks

There could be operational risks associated with involving staff in this exercise. Flatthall will have to release head office staff to attend exhibitions because accommodation buildings are staffed by concierges and cleaners. Taking head office staff from their regular duties at Head Office could lead to important tasks being left unattended, which could lead to losses and inefficiencies. It may be necessary to release several staff at once if there are multiple exhibitions running at the same time and so the impact on administration could be significant. It might be necessary to release staff from their regular duties for several days at a time so that they can attend multiple fairs in different regions. These fairs are likely to occur at times of year when PBSA providers will be busy promoting accommodation and signing up students through traditional channels. Any inefficiency in Head Office operations could be damaging at this time.

There could be problems arising from contractual inadequacy risks if staff contracts do not cover the need to employ staff at alternative locations. Flatthall's staff may be unwilling to support this venture if they are reluctant to spend time overseas, particularly if they may have to take extended trips to attend two or more exhibitions in a row. Staff might insist on additional salary or other incentives to attend what will already be an expensive event because of the cost of flights and hotel accommodation. There could also be concerns that staff involved in these fairs will lack the knowledge to advise students about Flatthall's contracts. Students who receive misleading advice at a fair may subsequently claim that they received misleading advice and the company could find itself in a damaging dispute if a student rents a room on the basis of a misunderstanding.

SECTION 2

Discounts

Offering discounts during the fair, well in advance of the start of the academic year, could create the impression that Flatthall struggles to fill its flats. The offer of a discount could create the impression that Flatthall has quality problems and so is willing to cut its prices in return for a guaranteed rental. The decision to attend these fairs was motivated by the fact that overseas students often come from fairly wealthy backgrounds and so the offer of a discount may not be particularly appealing. It may be preferable to leave the price as quoted, but to argue that the rental cost represents value for money because the accommodation on offer is of excellent quality.

Discounts could encourage students to take advantage of reduced rents, even though they have not finally committed themselves to a particular institution for study. Students may not honour contracts. It will be difficult for Flatthall to enforce a rental agreement because it will be necessary to pursue students through the courts in their home countries. That may be expensive and could lead to bad publicity. Signing these contracts could lead to a situation in which some students will take advantage of the reduced prices while others do not take up residence because it does not suit them to do so. That could lead to rooms being left unoccupied.

If rival PBSA providers attend these fairs, then they may respond to news that Flatthall is offering discounts by matching or undercutting Flatthall's prices. A discount could very easily result in a rent price war that will harm all companies, including Flatthall. There is, arguably, very little upside to offering a discount and a significant potential downside.

Integrated report

Intellectual capital comprises organisational intangibles that are controlled by Flatthall. The company can claim that it has developed brochures and other promotional materials that can be used in other countries. Those documents have been tailored to meet local interests and requirements, so Flatthall has developed the ability to communicate with students from different backgrounds and cultures. Flatthall has developed systems for booking attendance at student fairs, including the ability to organise practical matters such as travel and hotels for staff. These systems ensure that staff arrive in a fit state to attend fairs and to promote the company effectively. Staff have developed systems for managing their stall, while taking advantage of the opportunity to engage with other stakeholders who are present at these fairs.

Human capital reflects the competencies developed by Flatthall's staff. In this case, the company is developing sales skills in head office staff who would otherwise rarely interact with students. Those skills will be potentially useful in terms of developing marketing and other materials, both for foreign students and those who are from Towland. Having that direct contact may also motivate the management team to pay greater attention to problems that need to be resolved in order to address students' concerns. The skills arising from that contact will also be valuable in advising senior management to better understand students' priorities when selecting a place to live when they are planning to study in Towland. That may lead to the provision of more suitable facilities that reflect students' needs and interests.

Social and relationship capital reflects relationships with stakeholders and the ability to communicate. Sending teams of four will mean that Flatthall's representatives will be able to interact with staff from academic institutions when they are not busy at the fair. Flatthall's staff will develop working relationships that might enable them to contact the people who can address problems at different colleges and universities. For example, if complaints are being made to the student accommodation service at a particular institution, then it may be possible to reach a satisfactory resolution by approaching a contact from a recruitment fair. Attendance at fairs may also enable staff to develop informal contacts with counterparts from rival PBSA providers. Such contacts may have value in developing continuing communication links that could be helpful in dealing with problems that affect the industry as a whole.

SECTION 3

Selecting team members

Team members should be selected on the basis that the individuals have the necessary people skills to interact effectively with students. It is important that students feel confident in the advice that they receive from whichever member of staff they interact with when they visit the stand. Team members will require the patience and communication skills to establish what students wish to know and to answer questions in a helpful and constructive manner. It will not benefit Flatthall if team members become bored because students will frequently ask the same questions and may ask questions that are dealt with in a clear and effective manner on Flatthall's website. Staff members who wish to be considered for this role should receive training, which should include roleplay. Those who do not demonstrate the required skills should not be selected.

Each team should comprise members from a variety of different backgrounds, in order to increase the team's ability to deal with unusual or unexpected questions. Team members will then be able to refer such questions to colleagues, which will ensure that students receive immediate responses in which they can feel confident. Having such a broad range of expertise may also help Flatthall to identify areas in which procedures need clarification. For example, if several students ask about the complexities of organising monthly rent payments through their overseas bank accounts, then a representative from Finance might note that as an issue that should be followed up. It may not be possible to have a representative from each department on every team, but it would be ideal if each department is represented on at least one team.

The seniority of team members is an important consideration. Ideally, team members will have sufficient experience of working with Flatthall to be able to explain the company's strengths to potential renters. Junior staff who have limited experience or insufficient seniority to make decisions will be less likely to offer credible responses to students' queries or concerns. It would be ideal if each team could consist of sufficiently experienced staff from roughly the same level in the company. That will reduce the risk of creating an unpleasant atmosphere if team members are deferring to a clear leader. Team selection should also take account of the impact on ongoing activities at Flatthall's head office. There will be a cost in terms of availability regardless of the choice of team members, but it would be counterproductive to send team members who will spend significant amounts of time on video calls to colleagues in Towland.

Benchmarking

Students attend fairs in order to talk to representatives from different colleges and universities. Their plans may not be sufficiently well developed to enable them to sign rental agreements during a fair. It is difficult to tell whether attending fairs will have generated any additional revenue for the company. It may be possible to ask students to register their email addresses using a tablet or a laptop on Flatthall's stand. That would provide evidence of the number of students who were contacted during the fair and who had sufficient interest to leave their contact details. The number of students leaving contact details would be a valid measure of the productivity of each team,

especially if a further analysis of renters is carried out to establish the number who had left an address.

The performance of teams could be affected by the number of students attending each fair. It would be unfair to view a team as unproductive if student numbers are disappointing. The team members should not be permitted to choose the fairs that they visit, so they cannot be held responsible for a poor response in terms of signed rental agreements. Each team should be required to submit a report about the lessons learned at each fair, backed up with details of the number of student consultations carried out and contact details gathered. That would provide the team members with an incentive to make the best possible use of their attendance at each fair.

Each team will be sent to a different geographical region, which means that each team will be dealing with students from different cultural and economic backgrounds. It may not be realistic to expect the same results from each team because students from one region may find it easier to afford PBSA accommodation than others. It may be possible to address that problem by seeking advice from contacts at Towlandian institutions to assist in restricting attendance to fairs that are likely to attract students who can afford to rent from Flatthall.

SECTION 4

Accounting for rental contracts

Rental income will have to be accounted for in accordance with the requirements of IFRS 15 *Revenue from contracts with customers*. There is a clear contract between Flatthall and each student and the rights and obligations of both parties can be identified. Flatthall can account for revenue under these contracts if they have commercial substance and if it is probable that Flatthall will be paid. That creates difficulty in deciding whether those conditions have been met. It seems reasonable to recognise these contracts during the year in which they are signed because students are making payments worth a total of 2 months' rental and so there is a strong likelihood that they expect to join their desired course and to take up their place at a Flatthall building. Flatthall will not, in any case, have met any of its performance obligations under these contracts before the end of the current financial year, so the advance rents and the security deposits will be accounted for as current liabilities.

Once the students arrive to take up their places, Flatthall will be free to recognise the rental payments as revenue on a month-by-month basis. Presumably, most students will remain in residence for the whole of the academic year. Academic years are shorter than financial years and so the whole year's rent will be earned and recognised as revenue in the financial year that is about to commence. The security deposits should be returned after students have vacated their properties, unless Flatthall is entitled to keep some or all of the payment because of damage. All charges made against security deposits should be retained and offset against operating costs such as repairs.

Flatthall is effectively protecting students against currency risks that might arise in the course of the contract. That exposes Flatthall to currency movements on these monetary items. Changes in currencies should be accounted for in accordance with the requirements of IAS 21 *The effects of changes in foreign exchange rates*. A student whose home currency is, say, the X\$, might be required to make an immediate payment of X\$2,000 for the first month's rent and a security deposit of X\$2,000. The X\$4,000 will be outstanding at the financial year end and will be translated at the prevailing exchange rates. The gain or loss on currency movements will be recognised in the statement of profit or loss.

Students will be charged a fixed amount in their home currencies each month for the duration of their rental agreements. Those amounts will be recognised as revenue on a monthly basis. That could complicate Flatthall's bookkeeping because it will have to recognise the resulting income on the basis of the prevailing rates as at the date the monthly advance rental is paid. There will be no separate gain or loss on currency in Flatthall's financial statements in respect of these transactions. The net amount receivable in T\$ will be recognised as revenue. The amount of the security deposit that is returnable at the year-end will be adjusted for exchange movements and, again, any gains or losses will be added to or offset from operating costs.

Responsibility for costs

Each of the four teams is based in a different geographical region. That suggests that each team will be subject to different costs for travel and accommodation. Each team will require intercontinental flights to and from the region in which they will be based, plus two local flights to transport them between the fairs that they will attend. Different airlines and the popularity of different routes could have a major impact on the costs that will be incurred. The fact that there are four people in each team further compounds the effect of any differences in local costs for travel and accommodation. The teams were not responsible for selecting the fairs that they would attend, so they should not be held accountable for the differences in the costs incurred.

Decisions made by senior management might have a significant impact on total cost. Clearly, it would be unfair to hold a team responsible for the decision to have a director observe its activities in person. There could also be additional accommodation costs because of the gaps between the fairs that each team will attend. There is no reason to believe that those gaps will be of the same duration. Airline timetables could also have an impact. If there are relatively few flights to a particular destination, then it may be necessary to travel out a few days before the start of the fair, increasing hotel costs.

It may have been a mistake to permit each team's leader to book accommodation because each team could be inconsistent in terms of the choice of flights and accommodation standards. Different managers will have their own priorities for different factors associated with planning attendance. For example, some may spend more on business class flights or better quality hotels in order to ensure that the team is better rested when attending the fairs. Others may be more focussed on minimising total cost.

Management Level Case Study May & August 2024

Marking Guidance

Variant 1

About this marking scheme

This marking scheme has been prepared for the 2019 CGMA Professional Qualification Management Case Study [May & August 2024].

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

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

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

General marking guidance

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

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

How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

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

3. Select a mark within the level

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

Summary of the core activities tested within each sub-task

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

SECTION 1			
Task (a) Recommend with reasons whether or not Flatthall should price rents on 3-year contracts differently from the 1-year contracts that it currently issues.			
Trait			
Recommendation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues	1
	Level 2	Offers recommendation	2-3
	Level 3	Offers detailed recommendation	4-5
Reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some justification for recommendation	1
	Level 2	Justifies recommendation	2-3
	Level 3	Offers full justification for recommendation	4-5
Task (b) Explain how Flatthall should account for rental income and security deposits in its financial statements throughout the 3 years of the proposed contracts.			
Trait			
Accounting issues	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Refers to IFRS 15	1
	Level 2	Identifies accounting issues	2-3
	Level 3	Discusses accounting issues with good justification	4-5
Rental income	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes approach	1
	Level 2	Applies IFRS 15	2-3
	Level 3	Applies IFRS 15 with good justification	4-5
Security deposits	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes approach	1
	Level 2	Applies IFRS 15	2-3
	Level 3	Applies IFRS 15 with good justification	4-5

SECTION 2			
Task (a) Evaluate the product risk, product reputation risk and contractual inadequacy risk that might arise from the introduction of 3-year contracts.			
Trait			
Product risk	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies risks	1
	Level 2	Evaluates risks	2-3
	Level 3	Evaluates risks with justification	4-5
Product reputation risk	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies risks	1
	Level 2	Evaluates risks	2-3
	Level 3	Evaluates risks with justification	4-5
Contractual inadequacy risk	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies risks	1
	Level 2	Evaluates risks	2-3
	Level 3	Evaluates risks with justification	4-5
Task (b) Explain how a significant uptake of 3-year contracts might affect Flatthall's weighted average cost of capital (WACC).			
Trait			
Information	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies immediate impact	1
	Level 2	Discusses immediate impact of release of information	2-3
	Level 3	Justifies immediate impact of release of information	4-5
Cash flows	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies implications of cash flows	1
	Level 2	Discusses implications of cash flows	2-3
	Level 3	Justifies implications of cash flows	4-5

SECTION 3			
Task (a) Evaluate the arguments for and against the appointment of two separate project teams, one to draft the terms of the contract and the other to recommend the approach to promoting the new contract, rather than having a single project team to fulfil both roles.			
Trait			
Arguments for	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies advantages of separate teams	1-2
	Level 2	Discusses advantages of separate teams	3-5
	Level 3	Discusses advantages of separate teams with justification	6-8
Arguments against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies disadvantages of separate teams	1-2
	Level 2	Discusses disadvantages of separate teams	3-5
	Level 3	Discusses disadvantages of separate teams with justification	6-7
Task (b) Evaluate the challenges associated with using target costing to decide whether Flatthall should offer the benefits listed in the Finance Director's email in order to encourage students to sign 3-year contracts.			
Trait			
First challenge	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines target costing	1
	Level 2	Describes challenge	2-3
	Level 3	Evaluates challenge	4
Second challenge	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies challenge	1
	Level 2	Describes challenge	2
	Level 3	Evaluates challenge	3

Third challenge	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies challenge	1
	Level 2	Describes challenge	2
	Level 3	Evaluates challenge	3

SECTION 4			
Task (a) Recommend with reasons the approach that Flatthall should take when preparing to negotiate with this student.			
Trait			
Recommendation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes negotiation	1-2
	Level 2	Recommends negotiation approach	3-5
	Level 3	Recommends negotiation approach in detail	6-8
Reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues	1-2
	Level 2	Discusses reasons	3-5
	Level 3	Discusses reasons with justification	6-7
Task (b) Identify and evaluate the difficulties associated with predicting the cash flows to be used in calculating the net present value (NPV) of permitting students to remain in Flatthall's accommodation through the summer vacation.			
Trait			
Identification	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies difficulties	1
	Level 2	Describes difficulties	2-3
	Level 3	Offers detailed description of difficulties	4-5
Evaluation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues	1
	Level 2	Evaluates issues	2-3
	Level 3	Evaluates issues with justification	4-5

Management Level Case Study May & August 2024

Marking Guidance

Variant 2

About this marking scheme

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How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

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

3. Select a mark within the level

- Once you have selected the level, you will need to choose the mark to apply.
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Summary of the core activities tested within each sub-task

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

SECTION 1			
Task (a) Evaluate the usefulness of Flatthall's business model in appealing against the Planning Committee's rejection of our application.			
Trait			
1 st argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issue	1
	Level 2	Discusses usefulness	2-3
	Level 3	Discusses usefulness with justification	4-5
2 nd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issue	1
	Level 2	Discusses usefulness	2-3
	Level 3	Discusses usefulness with justification	4-5
Task (b) Evaluate the main upside and downside risks associated with appealing against the Planning Committee's rejection of our planning application in Elder City.			
Trait			
Upside	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies upside risks	1-2
	Level 2	Evaluates upside risks	3-5
	Level 3	Evaluates upside risks with good justification	6-8
Downside	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies downside risks	1-2
	Level 2	Evaluates downside risks	3-5
	Level 3	Evaluates downside risks with good justification	6-7

SECTION 2			
Task (a) Recommend with reasons the composition of the project team. I believe that the team should comprise a maximum of four individuals, including the team leader.			
Trait			
Recommendations	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies team members	1
	Level 2	Describes roles	2-3
	Level 3	Describes roles in detail	4-5
Reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some justification	1
	Level 2	Justifies roles	2-3
	Level 3	Offers full justification for roles	4-5
Task (b) Recommend with reasons the types of information that the project team should submit to the Board in its weekly progress reports.			
Trait			
1 st type	Level	Descriptor	
		No rewardable material	0
	Level 1	Describes type of information	1
	Level 2	Offers recommendation	2-3
	Level 3	Offers recommendation with justification	4-5
2 nd type	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes type of information	1
	Level 2	Offers recommendation	2-3
	Level 3	Offers recommendation with justification	4-5
3 rd type	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes type of information	1
	Level 2	Offers recommendation	2-3
	Level 3	Offers recommendation with justification	4-5

SECTION 3			
Task (a) Explain the likely impact of this project on Flatthall's gross profit %, return on capital employed and gearing ratios for the financial statements for the year ended 31 August 2025. I am looking for an explanation of whether the ratios will increase or decrease, I do not require the actual calculations.			
Trait			
1 st ratio	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes impact	1
	Level 2	Explains impact	2-3
	Level 3	Explains impact with justification	4
2 nd ratio	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes impact	1
	Level 2	Explains impact	2
	Level 3	Explains impact with justification	3
3 rd ratio	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes impact	1
	Level 2	Explains impact	2
	Level 3	Explains impact with justification	3

Task (b) Explain how the design and construction of this new building might affect Flatthall's manufactured capital, intellectual capital and social and relationship capital in the integrated report.			
Trait			
Manufactured capital	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines capital	1
	Level 2	Explains impact	2-3
	Level 3	Explains impact with justification	4-5
Intellectual capital	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines capital	1
	Level 2	Explains impact	2-3
	Level 3	Explains impact with justification	4-5
Social and relationship capital	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines capital	1
	Level 2	Explains impact	2-3
	Level 3	Explains impact with justification	4-5

SECTION 4			
Task (a) Identify and evaluate the difficulties that the changes to the construction plan might create and recommend responses.			
Trait			
Difficulties	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies difficulties	1
	Level 2	Evaluates difficulties	2-3
	Level 3	Evaluates difficulties with justification	4-5
Responses	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Suggests response	1
	Level 2	Recommends response	2-3
	Level 3	Recommends response with justification	4-5
Task (b) Recommend with reasons the matters that should be considered in deciding whether to retain the additional land in order to create an option to construct a second building.			
Trait			
1 st matter	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies matter	1
	Level 2	Recommends with reasons	2-3
	Level 3	Recommends with reasons and good justification	4-5
2 nd matter	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies matter	1
	Level 2	Recommends with reasons	2-3
	Level 3	Recommends with reasons and good justification	4-5

3 rd matter	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies matter	1
	Level 2	Recommends with reasons	2-3
	Level 3	Recommends with reasons and good justification	4-5

Management Level Case Study May & August 2024

Marking Guidance

Variant 3

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Summary of the core activities tested within each sub-task

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

SECTION 1			
Task (a) Evaluate the argument that we should regard social media, as used by students in relation to accommodation matters, as a disruptive technology.			
Trait			
Classification	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines disruptive technology	1
	Level 2	Offers argument for or against	2-3
	Level 3	Offers detailed argument for or against	4-5
Evaluation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains classification	1
	Level 2	Discusses classification	2-3
	Level 3	Offers detailed arguments for classification	4-5
Task (b) Identify the difficulties associated with evaluating the work of Flatthall staff in individual buildings. Recommend with reasons suitable solutions, taking into account student responses to questionnaires and social media posts.			
Trait			
Evaluates difficulties	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies difficulties	1-2
	Level 2	Evaluates difficulties	3-5
	Level 3	Evaluates difficulties with justification	6-8
Questionnaires etc.	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies problems with student responses	1-2
	Level 2	Discusses problems with student responses	3-5
	Level 3	Discusses problems with student responses with justification	6-7

SECTION 2			
Task (a) Identify and evaluate the difficulties associated with predicting the cash flows to be used in calculating the net present value (NPV) of investing in this software.			
Trait			
Identification	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies problems	1-2
	Level 2	Explains difficulties	3-5
	Level 3	Explains difficulties in detail	6-8
Evaluation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers limited evaluation	1-2
	Level 2	Offers detailed evaluation	3-5
	Level 3	Offers detailed evaluation with justification	6-7
Task (b) Evaluate the characteristics of debt that might affect its suitability for funding the purchase of this software.			
Trait			
Characteristics	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes characteristics of debt	1
	Level 2	Explains characteristics of debt	2-3
	Level 3	Offers detailed explanation of characteristics of debt	4-5
Suitability	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Links issues to scenario	1
	Level 2	Explains relevance of characteristics to scenario	2-3
	Level 3	Explains relevance of characteristics to scenario with justification	4-5

SECTION 3			
Task (a) Recommend with reasons an approach that we might take to ensuring zero defects in terms of Flatthall's buildings.			
Trait			
Approach	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes approach	1
	Level 2	Describes approach in some detail	2-3
	Level 3	Offers full description of approach	4-5
Reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some justification for approach	1
	Level 2	Offers detailed justification for approach	2-3
	Level 3	Offers full justification for approach	4-5
Task (b) Evaluate the difficulties associated with identifying the extent to which maintenance problems affect students' satisfaction and recommend responses to those difficulties, stating reasons.			
Trait			
Difficulties	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies difficulties	1-2
	Level 2	Explains difficulties	3-5
	Level 3	Explains difficulties in some detail	6-8
Evaluation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some evaluation of difficulties	1-2
	Level 2	Evaluates difficulties	3-5
	Level 3	Offers full evaluation of difficulties	6-7

SECTION 4			
Task (a) Identify the challenges associated with determining goodwill on the prospective acquisition of Briksav and recommend responses, stating reasons.			
Trait			
Challenges	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines goodwill	1-2
	Level 2	Identifies items that are difficult to value	3-5
	Level 3	Identifies items that are difficult to value with good justification	6-8
Responses	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Suggests response	1-2
	Level 2	Explains relevant responses	3-5
	Level 3	Offers relevant responses with good justification	6-7
Task (b) Identify and evaluate the operational risk and contractual inadequacy risk that might arise from transferring the employment of Flatthall's concierges and cleaners to Briksav.			
Trait			
Operational risk	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines risk	1
	Level 2	Discusses risk	2-3
	Level 3	Offers full discussion of risk	4-5
Contractual inadequacy risk	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines risk	1
	Level 2	Discusses risk	2-3
	Level 3	Offers full discussion of risk	4-5

Management Level Case Study May & August 2024

Marking Guidance

Variant 4

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(b)	D	Measure performance	40%
Section 2			
(a)	B	Implement senior management decisions	60%
(b)	D	Measure performance	40%
Section 3			
(a)	C	Manage performance and costs to aid value creation	60%
(b)	E	Capitals	40%
Section 4			
(a)	C	Manage performance and costs to aid value creation	40%
(b)	E	Manage internal and external stakeholders	60%

SECTION 1			
Task (a) Evaluate the difficulties associated with understanding the ecosystem for the Build-to-Rent (BTR) market.			
Trait			
Difficulties	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies difficulties	1-2
	Level 2	Discusses difficulties	3-5
	Level 3	Offers a full explanation of difficulties	6-8
Evaluation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains difficulties	1-2
	Level 2	Evaluates difficulties	3-5
	Level 3	Offers a detailed evaluation of difficulties	6-7
Task (b) Recommend with reasons the appropriate treatment of the professional fees described in the proposal in Flatthall's financial statements.			
Trait			
Accounting issues	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies relevant standards	1
	Level 2	Identifies accounting issues	2-3
	Level 3	Offers a detailed explanation of the accounting issues	4-5
Application	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some application to the scenario	1
	Level 2	Applies accounting issues to the scenario	2-3
	Level 3	Applies accounting issues to the scenario with justification	4-5

SECTION 2			
Task (a) Evaluate the difficulties associated with predicting the impact that the three events listed by the Finance Director will have on the net present value of the investment in the first 10 BTR buildings and recommend, with reasons, potential responses.			
Trait			
1 st event	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes difficulty	1
	Level 2	Evaluates difficulty	2-3
	Level 3	Evaluates difficulty with justification	4-5
2 nd event	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes difficulty	1
	Level 2	Evaluates difficulty	2-3
	Level 3	Evaluates difficulty with justification	4-5
3 rd event	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes difficulty	1
	Level 2	Evaluates difficulty	2-3
	Level 3	Evaluates difficulty with justification	4-5
Task (b) Evaluate the impact that the T\$550 million loan will have on the interpretation of Flatthall's financial statements for the year ended 31 August 2024.			
Trait			
Ratios	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies ratios that might be affected	1
	Level 2	Explains the impact on ratios	2-3
	Level 3	Offers a detailed explanation of the impact on ratios	4-5

Interpretation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Interprets the result	1
	Level 2	Offers a detailed interpretation of the result	2-3
	Level 3	Offers a detailed interpretation of the result with justification	4-5

SECTION 3			
Task (a) Evaluate the potential usefulness of target costing for deciding on the nature of the rooms and the facilities that Flatthall will offer in its BTR properties.			
Trait			
1 st argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies relevant issue	1
	Level 2	Discusses issue	2-3
	Level 3	Discusses issue with justification	4-5
2 nd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies relevant issue	1
	Level 2	Discusses issue	2-3
	Level 3	Discusses issue with justification	4-5
3 rd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies relevant issue	1
	Level 2	Discusses issue	2-3
	Level 3	Discusses issue with justification	4-5
Task (b) Explain how a high standard of architectural design for our BTR buildings might be reflected under manufactured capital, human capital and social and relationship capital in Flatthall's integrated report.			
Trait			
1 st capital	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines capital	1
	Level 2	Discusses treatment	2-3
	Level 3	Offers some detail on treatment	4

2 nd capital	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines capital	1
	Level 2	Discusses treatment	2
	Level 3	Offers some detail on treatment	3
3 rd capital	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines capital	1
	Level 2	Discusses treatment	2
	Level 3	Offers some detail on treatment	3

SECTION 4			
Task (a) Recommend with reasons the leadership style that will be required for the senior manager who will be in charge of the proposed new investment centre.			
Trait			
Recommendation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines leadership	1
	Level 2	Describes leadership style	2-3
	Level 3	Offers a detailed description of leadership style	4-5
Reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some explanation for recommendation	1
	Level 2	Explains recommendation	2-3
	Level 3	Explains recommendation with justification	4-5
Task (b) Identify and evaluate the difficulties associated with setting transfer prices for the secondment of managers to the proposed investment centre. Prices should encourage the release of staff while being acceptable both to the new investment centre and to the other departments (which are also managed as investment centres) and be optimal to Flatthall overall.			
Trait			
Identification	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies difficulties	1-2
	Level 2	Describes difficulties in some detail	3-5
	Level 3	Offers a full description of difficulties	6-8
Evaluation (2)	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains difficulties	1-2
	Level 2	Explains difficulties in some detail	3-5
	Level 3	Offers a full explanation of difficulties	6-7

Management Level Case Study May 2024 – August 2024

Marking Guidance

Variant 5

About this marking scheme

This marking scheme has been prepared for the 2019 CGMA Professional Qualification Management Case Study [May & August 2024].

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

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

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

General marking guidance

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

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

How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

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

3. Select a mark within the level

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

Summary of the core activities tested within each sub-task

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

SECTION 1			
Task (a) Evaluate the reliability of the response to the student questionnaire as a basis for proceeding with the remodelling exercise.			
Trait			
1 st argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issue	1
	Level 2	Evaluates issue	2-3
	Level 3	Evaluates issues with justification	4-5
2 nd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issue	1
	Level 2	Evaluates issue	2-3
	Level 3	Evaluates issues with justification	4-5
3 rd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issue	1
	Level 2	Evaluates issue	2-3
	Level 3	Evaluates issues with justification	4-5
Task (b) Recommend with reasons how this remodelling should be financed.			
Trait			
Recommendation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes features of source	1
	Level 2	Recommends source	2-3
	Level 3	Offers a full explanation of source	4-5
Reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies relevant factors from the scenario	1
	Level 2	Discusses relevant factors from the scenario	2-3
	Level 3	Discusses relevant factors from the scenario with good justification	4-5

SECTION 2			
Task (a) Recommend with reasons how the project to remodel the flats should be organized locally and managed.			
Trait			
Recommendation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies relevant steps	1-2
	Level 2	Describes relevant steps	3-5
	Level 3	Offers a detailed description of relevant steps	6-8
Reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Relates steps to the scenario	1-2
	Level 2	Explains recommendation with respect to the scenario	3-5
	Level 3	Explains recommendation with respect to the scenario with justification	6-7
Task (b) Recommend with reasons ways in which the project team should attempt to minimise the costs associated with the conversion work required to create the Premium Flats.			
Trait			
Recommendation (2)	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Outlines importance of minimising costs	1
	Level 2	Offers some recommendations	2-3
	Level 3	Offers detailed recommendations	4-5
Reasons (2)	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some reasons	1
	Level 2	Discusses reasons for recommendation	2-3
	Level 3	Discusses reasons for recommendation with justification	4-5

SECTION 3			
Task (a) Recommend with reasons whether the Board should hold Ellis and her staff responsible for the fact that the average cost of the first 100 flats exceeds the budgeted amount.			
Trait			
Recommendation (3)	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Outlines arguments for or against	1
	Level 2	Offers arguments for or against	2-3
	Level 3	Offers detailed arguments for or against	4-5
Reasons (3)	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains arguments	1
	Level 2	Offers a detailed explanation for arguments	2-3
	Level 3	Offers a detailed explanation for arguments with justification	4-5
Task (b) Recommend with reasons an appropriate accounting treatment for the rectification work on the eight buildings in need of urgent repair and the associated claims against the builders and architects.			
Trait			
Accounting issues	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies accounting issues	1
	Level 2	Discusses accounting issues	2-3
	Level 3	Discusses accounting issues with justification	4-5
Provisions	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies need for provision for costs	1
	Level 2	Applies standards to provision	2-3
	Level 3	Applies standards to the scenario with justification	4-5

Contingent assets	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possibility of contingent assets	1
	Level 2	Applies standards to contingent asset	2-3
	Level 3	Applies standards to the scenario with justification	4-5

SECTION 4			
Task (a) Identify the difficulties associated with determining the optimal price for the rental of Premium Flats and recommend, with reasons, a suitable response to those difficulties.			
Trait			
Difficulties (2)	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes difficulties	1
	Level 2	Describes difficulties in detail	2-3
	Level 3	Describes difficulties in detail with justification	4-5
Response	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes a response	1
	Level 2	Recommends a response	2-3
	Level 3	Recommends a response with justification	4-5
Task (b) Recommend with reasons the approach that Flatthall should take to negotiating contracts with contractors and tradespeople for the proposed conversion of additional flats during the next summer vacation. You should assume that none of those involved in the legal action will be asked.			
Trait			
Recommendation (4)	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Sets out issues for negotiation	1-2
	Level 2	Describes a negotiating position	3-5
	Level 3	Offers a detailed discussion of negotiating position	6-8
Reasons (4)	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies reasons	1-2
	Level 2	Discusses reasons	3-5
	Level 3	Discusses reasons with justification	6-7

Management Level Case Study May & August 2024

Marking Guidance

Variant 6

About this marking scheme

This marking scheme has been prepared for the 2019 CGMA Professional Qualification Management Case Study [May & August 2024].

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

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

General marking guidance

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

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

How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

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

3. Select a mark within the level

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

Summary of the core activities tested within each sub-task

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

SECTION 1			
Task (a) Evaluate the arguments for and against Flatthall collaborating with colleges and universities rather than taking its own stands.			
Trait			
For	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies arguments for	1-2
	Level 2	Evaluates arguments for	3-5
	Level 3	Evaluates arguments for with justification	6-8
Against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies arguments against	1-2
	Level 2	Evaluates arguments against	3-5
	Level 3	Evaluates arguments against with justification	6-7
Task (b) Identify and evaluate the operational and contractual inadequacy risks associated with Flatthall attending overseas student recruitment fairs.			
Trait			
Operational	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines a risk	1
	Level 2	Discusses risks	2-3
	Level 3	Evaluates risks	4-5
Contractual inadequacy	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines a risk	1
	Level 2	Discusses risks	2-3
	Level 3	Evaluates risks	4-5

SECTION 2			
Task (a) Recommend with reasons whether staff at fairs should offer students discounts in return for agreeing to sign a rental contract while at the fair, subject to them obtaining a place on a course of study and satisfying visa conditions.			
Trait			
Recommendation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies arguments relating to discounts	1
	Level 2	Describes issues associated with discounts	2-3
	Level 3	Offers a full description of issues associated with discounts	4-5
Reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes possible reasons	1
	Level 2	Discusses possible reasons	2-3
	Level 3	Discusses possible reasons with good justification	4-5

Task (b) Recommend how we might incorporate our attendance at fairs into the intellectual, human and social and relationship capitals in Flatthall's integrated report.			
Trait			
Intellectual capital	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines capital	1
	Level 2	Describes treatment	2-3
	Level 3	Describes treatment with justification	4-5
Human capital	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines capital	1
	Level 2	Describes treatment	2-3
	Level 3	Describes treatment with justification	4-5
Social and relationship capital	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines capital	1
	Level 2	Describes treatment	2-3
	Level 3	Describes treatment with justification	4-5

SECTION 3			
Task (a) Recommend with reasons the criteria that should be used for selecting the members of each team.			
Trait			
1 st criterion	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies criterion	1
	Level 2	Discusses criterion	2-3
	Level 3	Discusses criterion with good justification	4-5
2 nd criterion	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies criterion	1
	Level 2	Discusses criterion	2-3
	Level 3	Discusses criterion with good justification	4-5
3 rd criterion	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies criterion	1
	Level 2	Discusses criterion	2-3
	Level 3	Discusses criterion with good justification	4-5

Task (b) Identify and evaluate the difficulties associated with benchmarking the performances of the four teams and recommend responses, stating reasons.			
Trait			
Difficulties	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies difficulties	1
	Level 2	Evaluates difficulties	2-3
	Level 3	Evaluates difficulties with justification	4-5
Responses	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies responses	1
	Level 2	Discusses responses	2-3
	Level 3	Discusses responses with justification	4-5

SECTION 4			
Task (a) Identify and evaluate the difficulties associated with accounting for the rental contracts and associated exposure to currency movements described in the Board minutes and recommend responses, stating reasons.			
Trait			
Revenue	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies standards	1
	Level 2	Applies standards to the scenario	3-5
	Level 3	Applies standards to the scenario with justification	6-8
Currency	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies standards	1-2
	Level 2	Applies standards to the scenario	3-5
	Level 3	Applies standards to the scenario with justification	6-7
Task (b) Evaluate the extent to which it is realistic to hold the team leaders responsible for the costs associated with their teams' attendance at fairs.			
Trait			
Controllability	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes controllability characteristics	1
	Level 2	Describes controllability characteristics in context	2-3
	Level 3	Describes controllability characteristics in context with justification	4-5
Fairness	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes fairness characteristics	1
	Level 2	Describes fairness characteristics in context	2-3
	Level 3	Describes fairness characteristics in context with justification	4-5

Management level case study – Examiner’s report

May – August 2024 exam session

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

General comments

The Management Case Sstudy (MCS) examinations for May and August 2024 were based on a pre-seen scenario relating to Flatthall, a company that rents out purpose-built student accommodation (PBSA). It is a complex business because of the interested parties. Students can choose whether or not to rent from Flatthall and whether they wish to return for subsequent academic years. They can also post either positive or negative reviews on social media. Universities are important stakeholders because they can support any plans to build new properties. They can also refuse to list the company as a responsible landlord in advising their students. Local government may view Flatthall as a source of wealth in attracting students to their towns and cities.

Six variants were set on Flatthall:

- Variant 1: Flatthall is considering offering foreign students the opportunity to rent a flat for the whole of their course, instead of for one academic year at a time.
- Variant 2: Flatthall wishes to build a PBSA building in the centre of a city that wishes to preserve its architectural heritage. This will be the first PBSA venture in the city and has proved unpopular with residents.
- Variant 3: Flatthall is struggling to make sense of the online feedback scores provided by tenants for the quality of their accommodation and their experience of dealing with the company.
- Variant 4: Flatthall is considering the implementation issues associated with entering the build-to-rent market.
- Variant 5: Flatthall plans to refit and remodel a number of blocks to offer a luxury accommodation experience that will be sold at a much higher price.
- Variant 6: Flatthall plans to send sales staff to overseas student recruitment fairs, ideally working in conjunction with universities in the hope of providing a package of tuition and accommodation.

All six variants complied with the published blueprint and covered the core activities in the prescribed weightings. Each variant consisted of four tasks and each task was further subdivided into two separate requirements. The weighting attached to each requirement was stated and candidates were advised to allocate the time available for each requirement on the basis of those weightings. Markers were instructed to adopt a holistic approach to marking, which meant that the answer to each requirement was read and judged on its merits. Markers were provided with specific guidance as to the characteristics of level 1, level 2 and level 3 answers for each separate requirement.

From the candidate's perspective, the key to scoring well is to read and then answer the questions. The expectation is that candidates will be familiar with the context of the company and its industry from their prior study of the pre-seen. This is a large company that owns and operates a large number of properties. Reputation is important because potential occupants will often choose accommodation on the basis of reviews posted online. It is important to address the specific requirements set in each task. Higher marks are awarded to fuller answers that are relevant and correct. Relevance and correctness are frequently judged in the context of the scenario, taking account of the nature of the business and the specific issues raised by the new information provided in the variant itself and the tasks set by the requirements.

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

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

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

Variant 1 Comments on performance

	Designed to test	Core activity
Task 1	Should rental agreements covering a 3-year period be priced differently from annual agreements?	A – Explain which pricing strategies are appropriate.
	How should rents from 3-year contracts be accounted for?	D – Select appropriate accounting treatments and explain their implications for users of the financial statements.
Task 2	What business risks might arise from 3-year contracts?	C – Apply the techniques that quantify and present risk to stakeholders.
	How might a significant uptake of 3-year contracts affect Flatthall's WACC?	A – Explain the relevance of weighted average cost of capital.
Task 3	What are the arguments for and against having two project teams to draft contract terms from both a legal and a marketing perspective?	B – Identify the key project personnel, explain their responsibilities and set appropriate performance measures.
	What are the challenges associated with using target costing to decide whether specific benefits should be offered to potential tenants?	C – Identify and apply value management techniques to enhance value.
Task 4	How should Flatthall negotiate with an unhappy student?	E – Advise on the negotiation process.
	What are the challenges associated with predicting cash flows for a net present value analysis of a plan to offer accommodation in the summer vacation?	B – Apply appropriate project management tools and techniques to effectively manage projects at the appropriate stage in the project life cycle.

Task 1

Students are offered single-year contracts. It is hoped that students who rent rooms for their first year of study will return to Flatthall for their second and third years also. Flatthall will have guaranteed rental income from these rooms for 3 years instead of just one.

The first sub-task asked whether the annual rental charged for 3-year switch should be priced differently than the current rental for a 1-year contract. Level 3 answers tended to address the question by discussing the commercial implications of increasing or decreasing prices for longer commitments. Some answers at this level focussed on either an increase or a decrease in pricing, but most offered arguments for and against both. Level 1 answers tended to ignore the requirement and wrote about the potential advantages and disadvantages of offering the option of a 3-year contract. Those answers were marked on their merits, taking account of any mention of pricing.

The second sub-task asked about the accounting treatment of the 3-year contracts. Level 1 answers tended to identify IFRS 15 as the relevant standard but said little or nothing in developing that point by applying the requirements of the IFRS to the scenario. Level 2 answers were a little better, listing the requirements of the standard but not really applying it to the case. Level 3 answers focussed on the application of the standard, taking account of the difference between the recognition of rental income and the treatment of tenants' rental deposits.

Task 2

The first sub-task asked about business risks associated with 3-year contracts. Level 1 answers tended to be weak on product risk and contractual inadequacy risk, with arguments that either missed the point or were unrealistic. Candidates were poor on both risks and seemed not to understand what an inadequate contract could be or what risks it might create. Level 3 answers generally identified relevant issues relating to specific elements of business risk. Some of those answers were quite inventive, while remaining relevant to the scenario. Answers at this level often identified links between specific risks, such as the possibility that enforcing contractual rights against a defaulting tenant might lead to adverse publicity that would damage Flatthall's reputation.

The second sub-task asked about the implications of a significant uptake of 3-year contracts for Flatthall's WACC. Level 1 answers tended to offer quite contrived arguments that were often unrealistic. Level 3 answers recognised that 3-year contracts could affect the risks faced by providers of finance, primarily shareholders. Three-year contracts guarantee a rental income over the longer term, while reducing Flatthall's ability to change rents in response to changing costs.

Task 3

Flatthall plans to proceed with 3-year contracts. That raises some implementation issues that will have to be addressed.

The first sub-task dealt with the drafting of the contract for the 3-year contract. This contract will require consideration of both the commercial issues associated with ensuring that the contract is attractive to potential tenants and also the legal issues associated with ensuring that the terms of the contract are fair and enforceable. That raises the question of whether there should be a single project team or whether the responsibility for creating the contract should be split in two. Level 1 answers tended to ignore the requirement and write about the stages in establishing a team or of completing a project. Level 3 answers were generally focussed on the issues raised in the scenario, considering the need for focus on different aspects of the contract and also the need for communication between specialists.

The second sub-task asked about the use of target costing in deciding which, if any, benefits to offer to tenants who sign 3-year contracts instead of 1-year contract. The unseen material provided in the task listed a number of benefits that might be provided. Level 1 answers tended not to consider the issues raised in the scenario, focussing on summarising target costing. Level 3 answers tended to address issues such as the difficulties of determining the perceived value that tenants would attribute to these benefits and the wide range of costs associated with the benefits, which could complicate the costing of these benefits.

Task 4

The first sub-task asked about the preparation for negotiations with this student. Level 1 answers were quite generic and outlined the stages in a negotiation, with relatively little attempt to address the matters that Flatthall should consider at the outset. Level 3 answers offered a variety of arguments that were generally relevant and should have been considered at the outset. For example, if the student's contract requires the building to be vacated over the summer, then there would be less need to permit an extended stay.

The second sub-task asked about the difficulties associated with predicting the impact on cash flows of granting the tenant's request. Level 1 answers tended to ignore the difficulties and simply listed cash flows. Some scripts discussed the required rate of return in some depth, despite the requirement focussing on predicting cash flow. Level 2 answers often discussed some issues but failed to mention the impact on cash flows. Level 3 answers identified specific problems, such as the additional complexity of organising cleaning and repairs when there would be tenants in the building and also discussed the impact on cash flow.

Variant 2 Comments on performance

	Designed to test	Core activity
Task 1	Does Flatthall's business model offer useful support in appealing against a rejected planning application?	A – Select and implement suitable business models that will create value for stakeholders.
	What are the risks of appealing against the rejection of the planning application?	C – Apply the techniques that quantify and present risk to stakeholders.
Task 2	Who should be included in a project team?	B – Identify the key project personnel, explain their responsibilities and set appropriate performance measures.
	What information should the project team submit to the Board on a weekly basis?	D – Select and apply suitable tools and techniques for managing risk and uncertainty associated with performance-related issues.
Task 3	How will a construction project affect key accounting ratios?	D – Use the financial statements to assess and report on financial performance and position, interpreting and reporting on a wide range of ratios.
	How might the construction work be reflected in Flatthall's integrated report?	E – Explain the implications of Integrated Reporting for the reporting entity and its stakeholders.
Task 4	What are the difficulties in evaluating a change in the construction plan for a large building?	B – Apply appropriate project management tools and techniques to effectively manage projects at the appropriate stage in the project life cycle.
	Should an additional piece of land that has been acquired be retained?	A – Select appropriate capital investment appraisal techniques and apply them in order to support capital investment decisions.

Task 1

Level 3 answers evaluated a limited number of issues in depth rather than providing a long list of points without development. Key issues explored included the possibility of offering the Planning Committee an economic case for the benefits to the city of further student accommodation, especially as the university supports Flatthall's bid. Also, the fact that the Planning Committee does not need to pay any regard to Flatthall's business model when making a decision. Level 2 responses correctly identified appropriate issues but explored them in less depth. Level 1 answers identified some issues correctly but did not discuss or evaluate them.

Candidates were then asked to evaluate the main upside and downside risks associated with appealing against the Planning Committee's rejection of the planning application in Elder City.

Level 3 responses explored both upside and downside risks, correctly explaining that the appeal might be successful and give Flatthall the opportunity to increase its revenue and might enhance the company's reputation. On the other hand, the appeal might fail, costing money for professional fees with no return. A successful appeal might damage the company's relationship with the Planning Committee. Some level 2 answers discussed downside risks well but ignored upside risks. Others identified examples of both types of risk but did not explore them in sufficient detail and depth. Level 1 responses did not go beyond the identification of risks.

Task 2

Candidates were asked to recommend with reasons the membership of the project team.

Level 3 responses identified the skills needed for different roles in the project team and discussed who would be appropriate to carry them out. Arguments were well justified. Level 2 answers were often more generic, talking about team membership in general rather than the roles required in this specific scenario. Level 1 responses identified some roles and suggested how they could be filled but did not provide sufficient depth of discussion.

They were then asked to recommend with reasons the types of information that the project team should submit to the Board in its weekly progress reports.

Level 3 responses were well thought out and focussed on the specific requirement for weekly reports. Appropriate suggestions included summaries of meetings with key stakeholders, summaries of team meetings, plans for future activities and a timeline for the appeal submission. Level 2 answers tended to be less well focussed and often talked in general terms about project reports, rather than what would be appropriate to produce on a weekly basis. For example, discussing the need for a post project review report. Level 1 answers often included irrelevant information, focussing on what the project team should be doing rather than what they should be reporting to the Board.

Task 3

Candidates were asked to explain the likely impact of this project on Flatthall's gross profit %, return on capital employed and gearing ratios.

Level 3 responses correctly and clearly explained that gross profit % would probably not be affected much because the property will not be open until the following year, return on capital employed is likely to decrease because of the additional borrowings and gearing will rise. Level 2 answers often explained the impact in less detail or were incorrect about at least one ratio. A common error was to assume that any payments in advance from students for the accommodation could be immediately recognised, or that increased debt does not increase capital employed. Level 1 answers gave little explanation and were often only partly correct.

Candidates were next asked to explain how the design and construction of the new building might affect Flatthall's manufactured capital, intellectual capital and social and relationship capital.

Level 3 responses provided well justified and technically correct explanations of the potential impact, recognising that the new building increases manufactured capital and that it could be argued that the new building indicates that Flatthall has gained knowledge and experience in this area. This in turn increases intellectual capital and the support of the local university to build the new accommodation reflects an increase in social and intellectual capital. Level 2 answers were less well developed and sometimes only partially correct in their analysis. Some did not address all three elements asked for. Level 1 responses did not progress beyond defining the three capitals and showed very limited technical knowledge.

Task 4

Candidates were asked to identify and evaluate the difficulties that the changes to the construction plan arising from the acquisition of the office building might create and recommend responses.

Level 3 responses provided well justified explanations of the difficulties and also recommended appropriate responses. Relevant issues included the potential loss of a whole year's revenue if the building is not ready for the start of the academic year, the risk of provoking the Planning Committee by changing plans and the potential for decision making over the possibility of building a second property causing further delays. Level 2 responses evaluated the difficulties but with less developed arguments and were often too brief in their discussion of appropriate responses. Level 1 answers identified difficulties but did not evaluate them and sometimes omitted appropriate responses.

The final requirement was to recommend with reasons the matters that should be considered in deciding whether to retain the additional land in order to create an option to construct a second building.

Level 3 responses identified a limited number of relevant matters and explained them in some depth. For example, the Board would need to consider whether there is sufficient demand for an additional 400 rooms, whether it would be better to sell the site to a third party and what the possible reaction of rivals will be. Level 2 answers were less well developed, often identifying a long list of issues but not evaluating them in any depth. Level 1 responses identified issues but did not provide any supporting reasons why they should be considered.

Variant 3 Comments on performance

	Designed to test	Core activity
Task 1	Is students' use of social media a disruptive technology?	A – Analyse the impact of disruptive and digital operating business models in the context of digital ecosystems.
	What are the difficulties associated with evaluating the work of staff in different buildings?	C – Advise on the measurement, analysis and reporting on the performance of responsibility centres.
Task 2	What are the difficulties of predicting cash flows from the investment in new software?	A – Identify and use relevant digital data sources to assist in capital investment decisions.
	How might the characteristics of debt affect its suitability for financing a project?	B – Select suitable financing sources and explain the characteristics of the different types of funding.
Task 3	How might a zero defect approach be implemented in running Flatthall's buildings?	C – Identify and apply appropriate quality management techniques to enhance value.
	What are the difficulties of determining the impact of maintenance problems on tenant satisfaction?	D – Select and apply suitable tools and techniques for managing risk and uncertainty in business models.
Task 4	What are the challenges of measuring goodwill in an acquisition?	E – Explain the financial reporting implications of additions to the group.
	What business risks might arise from transferring staff to a new subsidiary?	B – Select and apply suitable tools and techniques for managing risk and uncertainty in capital projects.

Task 1

The case opens with a disclosure that informal online feedback appears to be replacing appropriate official channels and candidates are asked to evaluate the argument that Flatthall should regard social media as used by students as a disruptive technology. Level 1 responses tended to focus simply on social media and failed to develop the concept of whether a disruptive technology was in play. These were mostly relevant with level 2 answers, developing the concept a little but often remaining one sided in their arguments. Level 3 candidates answered the question well and discussed the principle of disruptive technology and went on to consider different aspects of social media and whether any of these were in fact disruptive. Better answers went on to consider follow-through actions to harness the feedback on social media and either respond appropriately or consider how to turn it to an advantage as a tool in Flatthall's management process.

In the second part of task 1, candidates were asked to identify the difficulties associated with evaluating the work of Flatthall staff in individual buildings. Further, to recommend with reasons suitable solutions, taking into account students' responses to questionnaires and social media posts. Level 1 answers tended to highlight the scarcity of student responses without any real investigation of why or how to engage more response. This type of answer was easily elevated to a Level 2 simply by discussing aspects of the channels of response and their ease of use or timeliness relating to isolated incidents. Better answers highlighted the differences between formal identified origin feedback and anonymous informal comments, usually negative. Level 2 answers formed some ideas of monitoring process and response methods. Level 3 answers tended to demonstrate an understanding of the dynamics of student life and discussed motivation, reward and feedback mechanisms to engage timely communication of issues. Providing rapid feedback mechanisms and eliciting dialog to address common factors observed were among several excellent common responses from better candidates who also tended to recognize that there may be very significant local issues to be addressed in individual buildings and their immediate management environment.

Task 2

In task 2, we move forward in time to consider the acquisition and deployment of a data mining piece of software which would assist with harvesting, consolidating and disseminating unstructured electronic sourced data. Candidates were asked to identify and evaluate the difficulties associated with predicting the cash flows to be used in calculating the net present value (NPV) of investing in this software. Level 3 responses tended to highlight the difficulties associated with identifying inbound cash flows. Level 2 responses claimed that with full occupancy every year it is difficult to see how an expensive piece of software can enhance the financial flows. However, the better answers identified the abilities to address issues before they become costly problems, to identify and differentiate aspects of different buildings addressing low levels of satisfaction in some places and celebrating and replicating highlights in others.

The value of the data can only be determined once the issues and problems highlighted are discovered, explored and understood. Ultimately, valuation needs to be made across different factors and not simply financial ones. Most candidates were much better at

identifying various costs associated with deployment, the better answers being rather more thorough in their consideration of training and skill sets to be developed and the subsequent retention of staff who find themselves with very marketable experience in today's AI environment.

On the whole, this question was answered reasonably well.

In the second part of task 2, candidates were asked to evaluate the characteristics of debt that might affect its suitability for funding the purchase of this software.

This was well answered, with better candidates demonstrating knowledge of calculating gearing ratios and commenting on the large, fixed asset base of buildings to secure loans against. Level 3 being more complete in their analysis and demonstrating awareness of the potential for existing covenants either providing further low-cost debt or indeed precluding the use of such asset as security.

Task 3

Task 3 considers potential gaps of understanding between issues and remedies and moves to request candidates to recommend with reasons an approach that Flatthall might take to ensuring zero defects in terms of Flatthall's buildings.

Many answers here apply Total Quality Management (TQM) to the scenario. Level 3 answers tended to be more integrated, demonstrating how all staff could be induced to participate in applying TQM principles within the daily or periodic execution of their workload around the buildings. Good answers displayed practical knowledge of definition of defects and a process for remediation which rewarded all parties involved with particular reference to timeliness of actions and effectiveness of communication between the parties.

Level 2 answers tended to be very similar but with less development of solutions. Level 1 tended to highlight problems and list possible solutions without development of these or much application to the Flatthall environment portrayed in the scenario.

In the second part of task 3, candidates were asked to evaluate the difficulties associated with identifying the extent to which maintenance problems affect students' satisfaction and recommend responses to those difficulties, stating reasons.

Level 1 responses often failed to discuss any real difficulties and remained vague about what really matters to students. Level 2 answers tended to develop various measurement criteria which might be used. Level 3 answers again identified the presence of various types of students and the differing factors affecting them. There could be a matrix-type solution which could vary within the different building communities and communication channels need to be identified to suit each type. Level 3 answers typically promoted the idea of student councils and open communications channels associated with the various buildings, promoting and rewarding communication and actions which lead to better student satisfaction.

Task 4

In task 4, we progress the scenario to consider the acquisition of an unquoted building maintenance company.

For many marginal students, this was the weakest section of their answers, failing to define the process for valuation of acquired assets, or indeed for identifying the value of the Flatthall shares to be issued in exchange. Level 2 answers identified all tangible assets and a mechanism for valuation. The better of these went on to consider the value of intangible assets which would have a resalable potential, namely application and training materials. A surprising number of candidates omitted these intangible assets entirely. Level 3 answers considered alternative means for valuation of all assets in some detail.

In the second part, candidates were asked to identify and evaluate the operational risk and contractual inadequacy risk that might arise from transferring the employment of Flatthall's concierges and cleaners to Brikksav.

Most candidates were able to describe a number of operational risks. However, the definition and identification of contractual risk proved problematic for many. Good answers highlighted and discussed many difficulties relating to changes of terms of employment which might be untenable for Flatthall's staff. Motivational issues, resignations and consequent skill shortages which might develop in managing Flatthall's various buildings. Level 3 answers had good discussion of the scenario and developed relevant possible outcomes engaging the facts rather than providing generic overviews of possible issues of discontent.

Variant 4 Comments on performance

	Designed to test	Core activity
Task 1	Would this proposal create a new ecosystem for Flatthall?	A – Select and implement suitable business models that will create value for stakeholders, including business models in the context of digital ecosystems.
	Can the initial survey and planning costs be capitalised?	D – Select appropriate accounting treatments and explain their implications for users of the financial statements.
Task 2	What are the difficulties associated with predicting the impact of specific concerns on the project's net present value?	B – Select and apply suitable tools and techniques for managing risk and uncertainty in capital projects.
	How will an additional loan affect the interpretation of the financial statements?	D – Use the financial statements to assess and report on financial performance and position, interpreting and reporting on a wide range of ratios.
Task 3	How might target costing assist in the evaluation of design features and facilities?	C – Identify and apply value management techniques to enhance value.
	How would good design be reflected under Integrated Reporting capitals?	E – Explain the implications of Integrated Reporting for the reporting entity and its stakeholders.
Task 4	What leadership style will the team require?	C – Compare leadership styles and identify the most appropriate style to use.
	How can transfer prices for the release of staff to the new subsidiary be used to optimise the use of staff?	E – Explain the behavioural and transfer pricing issues associated with internal trading.

Task 1

Flatthall is considering entering the Buy to Rent (BTR) market. This is a new market that involves the construction of city centre accommodation that will be rented to non-students. Evaluating this proposal will create a variety of implementation issues because this is a new venture. Previously, Flatthall and its rivals have owned and operated properties that were used to accommodate students. The regulations associated with student accommodation are different from those relating to other categories of tenant.

The first sub-task asked about the difficulties associated with understanding the ecosystem for the BTR market. Level 1 answers tended to demonstrate a lack of understanding of the ecosystem and so offered unstructured and irrelevant arguments. Fortunately, such answers were in a minority. Level 3 answers listed a number of relevant elements of the ecosystem and identified the issues facing Flatthall's management team in evaluating each element. Level 3 answers generally offered a logical evaluation of the issues associated with understanding the ecosystem associated with this new form of accommodation.

The second sub-task asked about the accounting treatment of the professional fees that had been incurred to date. Answers were frequently disappointing because a number of candidates had very little appreciation of the accounting issues involved in the scenario. Level 1 answers basically failed to appreciate basic issues, such as the need to decide whether to carry the costs incurred forward as an asset or to write them off as expenses. Level 3 answers identified the issues and drew upon relevant accounting standards in deciding on the appropriate accounting treatment.

Task 2

Flatthall plans to start work on the BTR proposal but must still address some implementation issues. The Board has identified some factors that might affect the net present value (NPV) of the first 10 properties that are to be built. Flatthall also has an opportunity to borrow at an attractive rate, but the loan will have to be taken out immediately in order to lock in the attractive rate.

The first sub-task asked candidates to comment on the impact that three possible events might have on the expected NPV of the buildings. This was generally answered well. Level 3 answers identified ways in which the amounts and, where appropriate, the timing of future cash flows might be affected by the anticipated events. Level 1 answers missed the point of the NPV calculation. For example, the widest discrepancies in answers occurred with respect to the first event, which suggested that the price of properties might decrease. Level 3 answers tended to express concern that demand for rental property might decline if potential tenants could buy their own property. There were alternative approaches to this event, but all distinguished themselves by discussing their impact on cash flows. Level 1 answers missed the point by ignoring cash. For example, recognising losses on revaluation will affect Flatthall's equity, but not the NPV of this investment.

The second sub-task dealt with the impact that the additional borrowing would have on the interpretation of Flatthall's financial statements. Level 3 answers focussed on key accounting ratios, primarily the ROCE and the gearing ratio. Other ratios were accepted, especially when their choice was explained. Level 1 answers either missed the point of interpretation of financial statements and so failed to address the requirement or addressed random ratios that would not be affected by the additional borrowing.

Task 3

Flatthall is still making plans as to how the BTR market should be addressed. Several key decisions have to be made.

The first sub-task asked about the potential usefulness of target costing in making decisions about the facilities that would be offered to potential BTR tenants. Level 3 candidates offered a balanced discussion of the reliability of target costing in arriving at these decisions. Answers at this level focussed on the difficulties of predicting the impact that certain decisions might have on demand for Flatthall's BTR accommodation. Stronger answers identified both the strengths and weaknesses of target costing in the context of developing a new business in which the company has no prior knowledge. Level 1 answers often restricted themselves to defining and describing target costing, with no real attempt to relate that description to the scenario.

The second sub-task asked about the impact that Flatthall's architectural design work might have on its integrated report. Most candidates were clear about the definitions of the three capitals listed in the questions and offered realistic applications to the scenario, often scoring level 3 marks in the process. Level 1 answers tended to be underdeveloped in comparison to level 3.

Task 4

The Board is still considering implementation issues on which it requires guidance.

The first sub-task asked about the leadership style required by a senior manager who will be responsible for the management of the BTR investment centre. Level 3 answers took a direct approach, recommending a specific style and explaining why it was deemed suitable. Level 1 answers listed different leadership styles and offered brief descriptions, with very little attempt to recommend a style that suited the situation.

The second sub-task asked about the difficulties associated with setting transfer prices for the secondment of managers. Level 3 answers generally identified the criteria required of transfer prices that were capable of optimising the use of the resource of managers' time. Level 1 answers often missed the point and discussed transfer pricing in very general terms.

Variant 5 Comments on performance

	Designed to test	Core activity
Task 1	How reliable is the feedback obtained from the survey for this purpose?	A – Identify and use relevant digital data sources to assist in capital investment decisions.
	What are the characteristics of debt and equity that would lend themselves to the financing decision?	B – Select suitable financing sources and explain the characteristics of the different types of funding.
Task 2	How should the project to design and deliver the luxury flats be organised?	B – Apply appropriate project management tools and techniques to effectively manage projects at the appropriate stage in the project life cycle.
	How can lifecycle costing be used to design costs out of the luxury flat product?	C – Identify and apply value management techniques to enhance value.
Task 3	How might a comparison of costs between different developments assist with management?	C – Advise on the measurement, analysis and reporting on the performance of responsibility centres.
	How should the potential penalties be accounted for and the associated claim that Flatthall is making against the builder?	D – Select appropriate accounting treatments and explain their implications for users of the financial statements.
Task 4	What are the issues with pricing the new flats?	A – Explain which pricing strategies are appropriate.
	How should Flatthall go about negotiating contracts with builders on the next phase?	E – Advise on the negotiation process.

Task 1

This scenario begins by providing candidates with the executive summary of a report on a proposal to create premium flats for students with larger bedrooms and ensuite facilities. A survey has shown that most respondents felt this sounded attractive, but only 40% of students responded to the questionnaire. 50% of respondents said they would be prepared to spend twice as much to rent this accommodation than for the standard rooms.

Candidates were first asked to evaluate the reliability of the response to the student questionnaire as a basis for proceeding with the remodelling exercise.

Level 3 answers recognised that students who are interested in the new flats would be more likely to respond to the survey, and also that although respondents might like to live in the premium accommodation that does not necessarily mean that they – or their parents – could afford it. They also explored the potential for differences in attitude between overseas and home students and the fact that surveying current students might not give an accurate picture of the views of future students. These arguments were clearly explained and evaluated. Level 2 responses often identified fewer issues and explored them in less depth. Level 1 answers often did not directly address the question posed, talking instead about Flatthall's business model and whether the new accommodation would meet its requirements rather than discussing the responses to the student questionnaire and whether or not this would be a good basis for proceeding.

Candidates were then asked to recommend with reasons how this remodelling should be financed.

Level 3 responses provided practical advice, comparing debt with equity and recognising that raising debt would be likely to be faster than equity; the change in gearing would be slight and that the company has a strong asset base to offer as security. Level 2 answers did make reasonable recommendations but discussion of the advantages and disadvantages of debt and equity was often quite generic and not well tailored to the specific scenario. Level 1 answers identified features of the sources of finance but discussion of relevant factors from the scenario was scant.

Task 2

In the second task, candidates were informed of a proposal to remodel 10 flats in each of Flatthall's 174 buildings to create Premium Flats. Each of the buildings is unique which will complicate the remodelling. It is proposed that planning takes place now and the building work over the summer vacation.

Candidates were asked to recommend with reasons how the project should be organized locally and managed.

There was a range of level 3 responses, some focussed on the skills needed to manage the project whilst others described the steps needed such as planning, appointing contractors and checking on progress. The need for local rather than central management was explained, and recommendations were well justified. Level 2 answers were often more generic, providing recommendations with references to the scenario but not exploring them in detail. Level 1 responses identified some steps which would be needed to manage the project and related them to the scenario, but discussion was scant.

They were then asked to recommend with reasons ways in which the project team should attempt to minimize the costs associated with the conversion work required to create the Premium Flats.

Level 3 responses recognised the need to brief the architects to find the most efficient way of creating the Premium Flats, with minimal expensive structural changes. This might, for example, influence the selection of flats for conversion. Detailed recommendations were made and justified. Level 2 answers offered some recommendations but did not fully justify them. Many focussed on the possibility of reusing material from remodelled flats and did not consider other factors such as design issues or reducing the costs of inspections. Level 1 answers recognised the importance of minimising costs but did not give detailed recommendations or practical advice.

Task 3

In task 3, candidates were informed that so far 100 flats have been converted and the average cost of flat conversions is higher than budgeted. There have also been errors in the plans prepared by the architects, leading to building contractors removing load-bearing walls, meaning that work has had to stop on flats in eight buildings which are now unsafe and must be closed.

Candidates were first asked to recommend with reasons whether the Board should hold Ellis and her staff responsible for the fact that the average cost of the first 100 flats exceeds the budgeted amount.

Level 3 responses set out arguments both for and against holding Ellis responsible. They recognised the risk that doing so could lead to dysfunctional behaviour, and that there might be a learning curve leading to costs being higher for the first flats converted. They also explored the fact that each building being unique could mean that some flats could be expected to cost more and others less, so the project could have begun with the simplest and cheapest or the most complex and expensive. Arguments were detailed and clearly explained. Level 2 responses made some good points but were less detailed and offered less justification for recommendations. Level 1 answers gave little explanation but did outline arguments for and against holding Ellis responsible.

Candidates were next asked to recommend with reasons an appropriate accounting treatment for the rectification work on the buildings in need of urgent repair and the associated claims.

Level 3 responses correctly identified that the best starting point was the treatments set out in IAS 37, which would help determine whether the cost of repairing should be recognised as a provision or not. Responses set out the conditions to be met if a provision is to be recognised. They also clearly explained that the claim against builders and architects should be considered according to the IAS 37 requirements needed to recognise a contingent asset. Work was technically correct and clearly set out. Level 2 answers were less complete, with some candidates only discussing the possibility of a contingent asset, ignoring the potential provision. Work was often technically correct but not fully justified. Level 1 responses often included technical inaccuracies but did identify some accounting issues.

Task 4

In the final task, candidates were asked to identify the difficulties associated with determining the optimum price for the rental of the premium flats and recommend with reasons suitable responses to those difficulties.

Level 3 responses provided detailed descriptions of the difficulties, such as the lack of similar properties to use as benchmarks and the danger that if overpriced the flats could be empty for the whole academic year. They also recognised that with only half the flats available to view, it could be difficult to convince students to sign leases on flats which are not yet completed. Suggested responses included offering a discount on flats which are not yet ready for inspection and benchmarking against luxury flats let to young professionals or in different locations. Level 2 responses described difficulties and offered solutions but, in less detail, in particular difficulties were often explained more fully than suggested responses. Level 1 answers identified difficulties but did not evaluate them and sometimes omitted appropriate responses.

The final requirement was to recommend with reasons the approach that Flatthall should take to negotiating contractors and tradespeople for the proposed conversion of additional flats during the next summer vacation.

Level 3 answers recognised the need to ensure that appropriate professionals and tradespeople would be available for the work in the next summer vacation. They also discussed the difficulty of pricing the work when the first batch of rooms was over-budget, and the fact that negotiations could be impacted by the publicity given to the damage to the eight buildings and the subsequent reputational damage and legal action. Level 2 answers described negotiating positions but were often much more generic, explaining stages of negotiation but without focussing fully on the specific scenario. Level 1 responses identified issues and reasons but without discussion or justification.

Variant 6 Comments on performance

	Designed to test	Core activity
Task 1	To what extent should Flatthall aim to collaborate with specific universities?	A – Select and implement suitable business models that will create value for stakeholders, including business models in the context of digital ecosystems.
	What are the business risks associated with attending?	D – Select and apply suitable tools and techniques for managing risk and uncertainty in business models.
Task 2	Should Flatthall give discounts to students who sign up for accommodation at a fair?	A – Explain which pricing strategies are appropriate.
	How would attendance be reflected in the integrated report?	E – Explain the implications of Integrated Reporting for the reporting entity and its stakeholders.
Task 3	How should the teams who will attend the fairs be selected and evaluated?	B – Identify the key project personnel, explain their responsibilities and set appropriate performance measures.
	Would it be helpful to benchmark the performance of teams?	C – Advise on the measurement, analysis and reporting on the performance of responsibility centres.
Task 4	How should the contracts be accounted for?	D – Select appropriate accounting treatments and explain their implications for users of the financial statements.
	To what extent are costs incurred by different project teams controllable?	C – Use appropriate cost management and cost transformation techniques to manage costs and improve profitability

Task 1

There were some good answers to this question and many reasonable ones. However, there were also level 1 answers which were fairly one-sided, giving only the upside of the evaluation rather than both sides. Level 2 answers were able to develop the benefits in more depth and go on to consider weaknesses or drawbacks from being tied to a particular University. Most level 2 candidates only touched passively on the aspects and drawbacks of Flatthall taking its own stand at the events. Level 3 answers gave a good discussion of both benefits and drawbacks of collaboration with the Universities but then went further to explicitly highlighting the differences with respective advantages and drawbacks of having a dedicated Flatthall stand.

In second part, level 1 answers tended to be rather brief, especially on contractual implications. Level 2 answers generally gave a reasonable overview of potential opportunities and threats created by taking on a new business process with existing staff and generally highlighted that contractually these people may need modifications to their terms and conditions of employment including incentives and potential benefits. Better level 2 answers considered the timing of the fairs and the potential impact on existing workload. Level 3 answers displayed a more thorough approach to both sides and both arguments, costs and benefits to the business and to the development of the staff themselves. Also, from a contractual point of view, Level 3 recognised the need to embed expectations and consider the profiles of the staff attending. Level 3 answers tended to show that a good deal of work was required to secure a good outcome.

There was strong evidence that a great many candidates simply did not understand the concepts involved in “Contractual Inadequacy”.

Task 2

Many candidates only produced a level 1 answer here by focussing only on the provision of a discount to boost sales, without considering that Flatthall’s occupancy is already at 100% and so would reduce overall revenues. Level 2 candidates were able to develop the concept and highlight potential pitfalls, while Level 3 answers developed the whole scenario and applied it to the practical aspects of reconciling discounted provisions for foreign students, while home students faced 100% tariffs. Better candidates showed an awareness of market competition and net effects that a discount war could bring.

In the second part, candidates were asked to recommend how we might incorporate our attendance at fairs into the intellectual, human, and social and relationship capitals in Flatthall’s integrated report. This was answered well, with different marks being awarded based on how much candidates developed their answers in relation to the details of the scenario. Level 1 answers tended to be brief and quite general, whilst level 3 answers developed the individual strands building into a more holistic view of Flatthall as an international player, able to understand and respond to particular needs of different cultures whilst also developing coherent marketing and staff skills awareness. The human and social issues were better developed than the Intellectual issues.

Task 3

Candidates were asked to recommend with reasons the criteria that should be used for selecting the members of each team to be sent to participate in the fairs. Many answers were good, with the basics of a varied team being put forward by most candidates. Level 1 answers tended to be very brief but usually gave a good outline of a team mix of different skills. Level 3 answers discussed the skillset needed and showed the benefits of training and feedback in this new venture to build to more successful outcomes.

In the second part, candidates were asked to identify and evaluate the difficulties associated with benchmarking the performances of the four teams and recommend responses, stating reasons. On the whole, answers here were rather vague, many simply stated that it would be difficult without developing any real reasons. Level 2 responses were able to articulate the difficulties and gave a reasonable discussion on why they occurred, while Level 3 answers went on to develop possible criteria for measurement of activity including measures of comparisons between teams, many candidates tried to use elements of balanced scorecard.

Task 4

There were wide variances in the answers given to this task; level 1 responses were vague and general with little evidence of any real knowledge being applied, while Level 2 and 3 answers were able to discuss the IFRS involved and provide some detail on how to apply it. Level 3 responses were able to pinpoint the relevant facts and apply them to the scenario.

On the whole, revenue recognition relating to the period of occupancy was discussed well, as was the treatment of security deposits retained until end of contract. However, the consideration of loss or gain on foreign exchange was rather weak.

Again, the best candidates applied the facts presented in the scenario to the theory and gave excellent answers. However, this was the weakest section in many marginal scripts.

In the second part of task 4, candidates were asked to evaluate the extent to which it is realistic to hold the team leaders responsible for the costs associated with attending fairs. On the whole, this question was reasonably well, with most candidates recognising that certain costs were outside the control of the team leaders and that it would be unreasonable to hold them accountable for variances in those areas. Level 2 responses gave some analysis of some of the additional areas of cost which could be considered, while level 3 responses displayed good understanding of the types of factors which may give rise to variances and discussed these in turn.