

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Integrative Business Solutions (IB)

EXAMINATION DATE: 2 December 2024

Section 1

About the company in the case study

Edge Semiconductors Pte Ltd is a Singapore-registered semiconductor company that was set up in 2001. It grew from a modest-sized facility in Woodlands Industrial Estate to two larger manufacturing facilities in Changi and Tuas in 2009 and 2015, respectively, each significantly increasing its manufacturing capacity. Edge has solidified its position as a significant force in Singapore's semiconductor industry. Edge specialises as a foundry manufacturer that caters to a diverse range of customers both locally and internationally. Its customer base can be divided into two segments: Distributors Customers and Direct Customers.

Candidates received the Advance Information (AI) documents prior to the examination date to undertake research, analysis and preparation. The AI documents contained 29 pages and 10 Exhibits, and it covered financial performance, organisation structure, semiconductor industry outlook and challenges, expansion plan and supply chain strategies.

The Examination Day Documents (EDD) were given to the Candidates on the examination day itself. The EDD had 25 pages and 10 additional Exhibits. The EDD evaluated the cash flows with more information on expansion plans and strategies.

Candidates were expected to combine their pre-reading and analysis of the AI, their pre-examination research and the new information in the EDD to address the issues raised in the requirements and demonstrate their ability to work diligently and accurately under time pressure. There were four broad requirements to address as stated below with the relevant marks allocation:

- Requirement 1 – An Executive Summary (10 Marks)
- Requirement 2 – Competitor analysis, financial performance review and enhancing supply chain management (38 Marks)
- Requirement 3 – Evaluation of strategic decision to expand semiconductor manufacturing in Malaysia and related financial reporting and taxation implications (36 Marks)
- Requirement 4 – Improving the internal control and governance of semiconductor production (16 Marks)

The structure of the AI and EDD as well as the minimum performance expected by the Examination Team from the Candidates were similar to previous IB examinations, as was the level of difficulty and the domain knowledge required.

General comments on the overall performance of Candidates

The overall performance for the December 2024 sitting is better than recent sittings. Most Candidates were able to answer questions well and illustrated acumen for IB. This sitting however, had the most unanswered questions including Requirement 1 Summary and Requirement 4 which can be prepared prior to the exam. As with most previous sittings, Candidates performed well in computation showing they had sufficient preparation on the financial data and on the question on use of debt and financial analyses. Most Candidates managed to answer the question on control and governance well.

Section 2

Analysis of individual questions

Requirement 1

Executive Summary

Overall performance was borderline, though several Candidates came close to full marks. While several Candidates omitted key financials for financial analysis, several of them scored perfect scores for this question. An unprecedented number of Candidates did not attempt to answer, probably due to poor time management.

Among those who attempted this question, understanding of the subject was strong, and answers were well-organised. Candidates are advised to use the Advance Information to prepare the summary for basic marks. Executive Summaries were generally well-structured, with scores varying depending on whether key points were omitted or if a succinct synopsis of the key areas was provided. Most Candidates could effectively sub-categorise the summary points for readability, with some even using highlighting or bold text to emphasise key messages. Additionally, most Candidates indicated the addressee and signed off on the Executive Summary, which was a good practice noted in well-structured answers.

Requirement 2

Question 2(a)

Candidates were familiar with this question on financial performance review, as it had appeared in every past exam. Most Candidates made correct calculations of the variances and ratios, which contributed to the good performance of this question. They also generally articulated revenue, gross profit and margin trends well.

However, the cost of sales variance was largely overlooked by many Candidates and most did not reference the operating statistics (e.g., Quality Control pass rates, employee turnover and costs). Among those who did, very few made the connection between these factors and the increase in the cost of sales. As a result, only a small number of Candidates scored more than half the marks allocated for the explanation

on the cost of sales.

A number of Candidates did not fully identify all relevant areas of the financials that should be addressed. For example, some provided lengthy descriptions on gross profit and margin but did not mention operating profit. Some omitted the balance sheet analysis altogether.

Candidates' ability to analyse and synthesise information was generally good, although many of the valid points made were straight from the Exhibits. Many Candidates had evidently pre-prepared Excel spreadsheets, which they attached as an appendix to support their calculations. This approach was effective, as some marks would be awarded for correct calculation, even if these numbers were not explicitly referenced in their written analysis.

Some Candidates merely described the variances/ratios without going into the reasons behind the figures. For example, answers such as "overall revenue increased by X% due to an increase of Y% in segment A and Z% in segment B" did not receive any marks.

This question tested mostly basic knowledge. Some Candidates, however, highlighted the potential adverse implications of cutting Research & Development (R&D) expenses. A few Candidates did pre-examination research and compared Edge against recent industry statistics, which, while commendable, was unnecessary for this question.

Candidates should consider all Exhibits in the case for possible explanations. For example, Exhibit 7 (over-reliance on a few suppliers) could help explain the increase in costs, yet very few Candidates mentioned this. Another example was the proposal to set up a new factory in Malaysia, which supported the need for tighter working capital and cash management.

Question 2(b)

This question on Porter's 5 Forces comprised two parts. For each force, Candidates had to analyse the competitive landscape, followed by Edge's possible response. Some Candidates failed to address the second part.

Candidates were familiar with the topic and could provide good explanations in their answers. Notably, most accurately provided the ranking (high, medium, low) of each force which was good evidence of their understanding of the topic.

The question specifically required Candidates to "...explain how Edge can mitigate against the power of each competitive force..." However, some Candidates overlooked this by failing to comment on those forces that they ranked "low", resulting in lost marks.

Most Candidates were able to draw the correct explanation or justification from the information provided. Answers were generally well structured and presented in a logical sequence, with each force described and followed immediately by Edge's

possible response.

Clarity and organisation were generally good. However, in some cases the answers were excessively long for a 12-mark question. Some answers exceeded 4,000 words (equivalent to more than 10 A4-sized pages), suggesting these were pre-prepared.

Some Candidates lost marks by not fully answering the question requirements, particularly in describing Edge's mitigation strategies in addition to the competitive landscape. Additionally, the question specifically asked for an overall conclusion which not all Candidates provided.

Question 2(c)

Candidates generally understood what was fully required of the question. This was a straightforward question which Candidates performed well. Most Candidates addressed the operating issues that could arise. However, some merely mentioned "supply chain disruptions" without further elaboration.

Importantly, very few mentioned poor bargaining power and price volatility as other consequences of the current situation. For some Candidates, the points made were taken verbatim from the information provided without much analysis and synthesis.

The clarity and organisation of the answers were generally good. However, as in Question 2(b), some answers were excessively long for a 11-mark question. One answer contained 8,826 words, equivalent to more than 20 A4-sided pages. (For comparison, the suggested solution was 768 words long). These long answers were evidently pre-prepared, as writing them in the exam would have taken at least two hours.

This was a straightforward question that Candidates could apply common sense or draw from their work experience. Some Candidates provided strong insights by highlighting that the vertical integration approach could divert funds from essential R&D activities.

Requirement 3

Question 3(a)

Overall, the cohort did not allocate sufficient time on this question. Around 15% of the cohort did not attempt the question, and many who attempted, provided very brief explanations. This was probably due to the lack of time as Candidates could have prioritised other straightforward questions first or lacked proficiency in valuation topics.

Among those who attempted, many Candidates did not apply the Net Asset Valuation method. Instead, they jumped straight into Discounted Cash Flow (DCF) method. As a result, the majority of the Candidates failed to compare and discuss

the two valuation methods.

The questions required a comprehensive evaluation on the various assumptions, yet many Candidates either failed to provide an evaluation of the assumptions or provided only limited evaluation.

A few outstanding Candidates successfully performed both the calculation and a comprehensive critique of the assumptions being used in the DCF model. Most Candidates lacked depth in their evaluation of the assumptions. A few of these Candidates demonstrated critical thinking by conducting sensitivity analysis to illustrate how the valuation outcomes could change under DCF with less optimistic assumptions.

Another common issue was the lack of conclusion or recommendation after the evaluation was presented. Many Candidates lost precious marks by not explicitly stating their final valuation outcome or recommended method. Given that the evaluation of assumptions (which demonstrates critical thinking skill) carried a higher weightage, failing to address this aspect significantly impacted Candidates' performance.

Question 3(b)(i) and (ii)

Candidates who scored well provided detailed analysis of both the benefits and risks in detail and provided a sensible recommendation on how to proceed.

However, there were some Candidates who went beyond the question requirements by applying the acceptability and feasibility framework. This was not required by the question and instead could backfire as the answer provided may be irrelevant that did not address the question requirements.

There were a few Candidates who provided well-balanced discussions. However, most Candidates did better in discursive parts of a question than in applicative parts relating to financial reporting, audit and taxation implications.

Question 3(c)

The section required Candidates to provide five potential financial reporting implications. While the question part was generally well answered, some weaker Candidates relied on pre-learned knowledge as the basis for their answers and did not integrate or apply the case material adequately and listed financial accounting implications not directly relevant to the disposal as a result.

Most Candidates demonstrated fairly good ability to analyse and synthesise information. However, weaker Candidates provided answers that tended to be longwinded and pre-memorised, lacking adequate application of concepts to the case scenario with examples

Question 3(d)(i) and (ii)

Most Candidates performed well in identifying tax implications, although some Candidates provided excessive and unnecessary details of various tax incentive schemes.

It was evident that most Candidates did better in the discursive parts of a question than in the applicative parts, particularly on financial reporting implications. In addition, most Candidates provided better answers on the acquisition of asset (part (ii)) compared to the divestment of asset (part (i)).

Some Candidates went beyond the scope of the question and provided details of various tax incentive schemes. Most Candidates provided better answers on acquiring of asset part compared to the divesting of asset part and could identify the concepts required for the question.

Better performing Candidates were able to clearly identify the key concepts required for the questions, explained how those concepts were applied in the given scenario, and used headers and structured paragraphs to present their answers clearly. In comparison, weaker Candidates tended to provide unstructured responses, making it difficult to follow their reasoning, and included unnecessary details that did not merit marks.

Requirements 4(a) and 4(b)

Most of the Candidates who performed well in both question parts had prepared adequately and clearly identified the relevant exhibits and requirements. However, since this was the last question in the exam, some Candidates may not have allocated enough time or overlooked the question requirements. Time management remains a key area of improvement, especially since this is the final exam before being recognised as a Chartered Accountant of Singapore (CA (Singapore)).

It was observed that a few Candidates answered Question 4(b) from the angle of Question 4(a), and vice versa, e.g., referring to Exhibit 13 instead of Exhibit 9. Errors like this suggested a lack of attention to details. Both question parts are straightforward, and most Candidates provided clear answers when they had correctly identified the exhibits and answered in the flow of the exhibits given. Some Candidates struggled with timing, possibly due to a lack of holistic understanding of the cases.

Key weaknesses noted include:

- **Incomplete, irrelevant answers that lacked in-depth analysis:** Most answers were similar and lacked in-depth analysis. A handful of Candidates did not attempt the questions or provided responses that failed to address the question requirements.

There were a number of Candidates that either took the standard way of dumping chunk of information or theories to answer the questions e.g., referring to the code of corporate governance, etc., and ended up not linking back to the

actual situations of the case.

- **Poor answer structure:** Most of the Candidates were able to structure their answers accordingly after identifying the relevant exhibit to each question. Candidates who took the standard way of providing too much unnecessary information found themselves steering away from the situation indicated in the case and ended up not answering the question at all.
- **Unanswered questions:** There were Candidates who did not even attempt this question at all. Regardless of time constraints, Candidates should always attempt every question, even if only to provide a brief but relevant response. Effective time management and strategic exam planning are essential to avoid such omissions.

In summary, Candidates in the future exam sessions must take note of the following:

- Allocate time effectively for all questions
- Read the question carefully and refer to the correct exhibit to support responses.
- Avoid excessive theoretical content: apply concepts to the scenario rather than providing generic answers.
- Demonstrate critical thinking by incorporating real-world perspectives instead of merely repeating case information.
- Attempt every question, even under time pressure, to maximise marks.

By addressing these issues, Candidates can improve their performance and better demonstrate the critical thinking skills expected at this level.