Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION (PROFESSIONAL) EXAMINER'S REPORT

MODULE: Integrative Business Solutions (IB)

EXAMINATION DATE: 19 June 2023

Section 1
About the company in the case study

A Singapore-based food and beverage company founded in 1994 with a property management arm. Shiok Life Group is a privately owned enterprise whose operations are based entirely in Singapore. Shiok Life Group is the holding company for two wholly-owned independent trading groups:

i. Shiok Makan: This subsidiary is a Singapore-based restaurant group with five brands and almost 30 restaurant sites located in the central business district (CBD) and the heartlands; and
ii. Shiok Shop: The company diversified into property management and formed this company that owns and manages three retail commercial properties near major residential areas in the heartlands.

There was a senior management change in 2015 and an ownership divestment opportunity in 2019 but was aborted due to the pandemic.

The Advance Information (AI) documents contained 30 pages and 11 Exhibits, and it covered financial performance, organisation structure, industry outlook and challenges amid recovery from COVID-19, corporate restructuring on emerging global challenges from the Russia-Ukraine war and other pan Asia political situations affecting supply chain.

The Examination Day Documents (EDD) were given to the Candidates on the examination day itself. The EDD has 25 pages and 5 additional Exhibits (excluding Requirements Exhibit). The EDD supplied management accounts for more detailed analysis and for restructuring propositions including a change in downstream chicken supplier.

Candidates were expected to combine their pre-reading and analysis of the AI, their other 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 – Evaluation and strategic review (43 Marks)
- Requirement 3 – Business options, financial reporting and tax (27 Marks)
- Requirement 4 – ESG (20 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

Overall performance was moderate with few who fared badly and those who were outstanding. Many barely passed. The questions on data and ESG were not well answered, with a handful applying inconsistent or rather confused discount rate/cost of equities and some mixing up security deposit and prepayment. As always time management remained a key weakness. Candidates seemed rather lacking in work experience with many fumbles on financial reporting sections.

Section 2

Analysis of individual questions

Requirement 1

Overall, the question was not well answered. Most candidates earned the bonus mark by including a signoff and this has helped a number of candidates to achieve a passing mark, although a few failed to earn this mark by not signing off as “Jasmine Lee” and instead (presumably) signed off in their own names.

Two key observations are:

i. incomplete answers – because the question is usually answered last, candidates who ran out of time failed to cover all the topics that were required;
ii. brief answers – many candidates forgot a cardinal rule of an executive summary, namely that it should be a standalone report. Answers were often too brief without sufficient detail. For example, they merely provided the recommendation(s) without the rationale, or referred the reader to the detailed report for recommendation(s). Like the point above, the brief answers could also be due to a lack of time.

A few candidates provided rather lengthy answers to aspects not required in the EDD, for example, industry outlook, which earned no marks. It appears that these were prepared before the exam.

Finally, it is worth pointing out not a single candidate linked the financing challenge of the Can Tho Proposal (having to make payment a year in advance) to the financial restructuring proposal.

Requirement 2

2(a)

Many candidates could provide only 1 or 2 non-financial benefits (personalization, customization). This could indicate Candidates lack of understanding on the potential power of data analytics.

Surprisingly, many candidates could not articulate well the financial benefits from data analytics.

They could have commented more on the financial revenue benefit from customer retention, attract new customers, and margin benefit from smarter and intelligent pricing.

2(b)

All candidates were able to articulate the approach to manage and evaluate each of the strategic risk. Candidates who evaluated the strategic risks in a systematic way and considering perspective of impact and likelihood tend to score higher or full marks.

2(c)

Majority of candidates did not strategize how to answer the question. This can be seen as follows:

i. Lengthy calculations e.g. inclusion of depreciation, amortization, etc. and calculation of NPV was performed when exhibit 14 contained most of the information required to perform the annual financial impact.

ii. Non-financial perspectives were not answered in a holistic manner e.g. the impact to different stakeholders were seldom considered. The comparison was always referenced back to financial perspectives e.g. overdraft, profit and loss.

2(d)

This was a relatively easy question, and many candidates performed well.

Many candidates could perform the common ratio calculations and provided basic commentary that were relevant to the case.

Many failed to calculate and did not comment on ROCE and Interest cover ratio. A few candidates wrote excessively, while others repeated the same commentary.

Requirement 3

3(a)

This question required the usage of the FCFE approach to find the value the firm's equity. Only a few candidates identified this and performed it perfectly. Many candidates used the FCFF approach, while not noticing the contradiction in using the Cost of Equity as the discount rate. Candidates are reminded to be aware of the distinction between the two approaches.

When it came to showing the post-restructuring shareholdings, many candidates did it correctly. Regrettably, some students had left this entire question blank.

3(b)

This question required the various stakeholders to be systematically examined. Most students did well for this question, with the stronger candidates listing out each stakeholder and analysing them one at a time. The weaker answers were haphazard and, in the same breath, used broad comments to address multiple stakeholders. The professional skill of writing in a specific and structured manner is to be emphasized.

Some had done a DCF or FCFF model to find the overall valuation of the firm, when what was needed was to address the unique impact and concerns of each single stakeholder. A few had left this question blank, which was regrettable as it was a straightforward one, with marks being readily attained.

3(c)

It was a disappointing performance, especially for a "bread and butter" topic for aspiring chartered accountants. Many candidates failed to score any marks at all.

Few candidates addressed the relevant section of the SFRS relating to modifications followed by an explanation. Instead, they focussed on classification and disclosure requirements for the new loan and the related interest expense.

It also seemed that some candidates were confused over financial reporting vs financial analysis, and instead discussed the latter, for example, impact of the new loan on gearing, cash flow, interest cover, etc.

3(d)

The majority of candidates struggled with this question. Some had misunderstood it and focused more on the equity aspects, while the question had laid emphasis on the terms of the firm's debt (loan and overdraft). Many had also wrongly stated that the loan to finance the purchase of a business does not qualify for any tax relief.

The key comment that it was a refinancing and the deductibility of the interest expense incurred on the re-financing loan follows that of the repaid loan based on

the direct link test under Section 14(1)(a) of the Income Tax Act – that was picked out by a minority of candidates. In such questions, candidates are encouraged to inspect each significant term within the loan arrangement and give their comments. Many Candidates had skipped over certain terms, thus dropping valuable marks.
Requirement 4 4(a) Generally, most candidates answered this question well, with most scoring at least the passing mark. 4(b) Several candidates passed this question, with many scoring above 9 points. Generally, the question was well attempted with many candidates sticking to the requirements of the question to discuss about benefits, costs and risks. 4(c) Several candidates did not answer this question missing out on easy points. A good number of candidates also put in rather simplistic and immature answers to what was a simple question. A fair number also simply stated the requirements without explaining more. Generally most candidates passed but could have done better.