

SINGAPORE CA QUALIFICATION (PROFESSIONAL) EXAMINER'S REPORT

MODULE: Integrative Business Solutions (IB)

EXAMINATION DATE: 18 June 2024

Section 1

About the company in the case study

Red-Dot is a Singapore-based listed company that provides airport terminal services encompassing passenger services, in-flight catering, and cargo handling. It operates mainly out of Singapore Changi Airport and has operations in overseas airports. It has emerged from the difficult years of the COVID-19 pandemic and is poised for rapid growth.

The case highlights several financial, strategic and operational issues that Candidates are required to address.

Candidates received the Advance Information (AI) documents three weeks before the examination date to undertake analysis, research and preparation. The AI documents contained 11 Exhibits within 35 pages, and they covered the airport services industry, organisation history, recent financial performance, current organisational structure, deficiencies in current IT systems, a proposed business combination (in the form of a merger) and sustainability practices.

The Examination Day Documents (EDD) were given to the Candidates on the examination day itself. The EDD had 25 pages and 7 additional Exhibits. The EDD featured the most recent financial results, more details of a new IT system and the proposed merger, an ethical issue that has arisen, and an extract from the company's latest Sustainability Report.

Candidates were expected to combine their pre-reading and analysis of the AI, their pre-examination research and 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 mark allocation:

- Requirement 1 – An executive summary (10 marks)
- Requirement 2 – Analysis of financial performance and an evaluation of the proposed merger (40 marks)
- Requirement 3 – Evaluation of a new IT system for the company's operations to replace the existing standalone legacy systems, and explanation of the need and make recommendations for an employee recruitment and retention strategy (32 marks)

- Requirement 4 – Evaluation of an ethical issue and recommendations to enhance Environmental, Social, and Governance (ESG) monitoring and disclosures. (18 marks)

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

General comments on the overall performance of Candidates

The overall performance for the June 2024 sitting is in line with recent sittings. This is encouraging, given the fact that the quantitative-type questions carried only 16% of the total weightage, as Candidates are more adept in questions requiring number crunching. Candidates, in general, performed relatively well in the questions with higher marks weightage (10 marks and above), and this has contributed significantly to the overall performance. Most surprisingly, the worst-performing question was on the financial reporting treatment of a new IT system, as it is a topic that should be familiar to future chartered accountants.

Poor time management continues to be a concern, as evidenced by many brief and/or non-comprehensive write-ups in the Executive Summary and the last question.

Candidates are reminded to read the questions carefully and answer accordingly to avoid being penalised.

For example:

- If the specific formula/framework is provided, Candidates are required to use it to answer the question to avoid being penalised, i.e., The formula for computing return on capital employed (ROCE) is clearly stated in Question 2(a).
- Candidates should wisely use their pre-prepared notes and adapt their answers to fit the context of the questions. Otherwise, the answers may be too generic and akin to copying from the textbook and will not be awarded marks.
- Provide sufficient (but not excessive) elaboration according to the marks allocated for the respective question parts.

To do well for the IB exam, Candidates should spend time studying to obtain a good grasp of the various topics in the syllabus, which goes beyond the core Professional Programme (PP) modules. They should also plan out their time accordingly during the examination and employ correct answering strategies and techniques.

Section 2

Analysis of individual questions

Requirement 1

This question required Candidates to provide an executive summary.

Most Candidates achieved a passing score. It was observed that the summary was not comprehensive enough, i.e., not all the topics were included in the summary. Candidates are reminded that their summary needs to be concise, thorough, clear and complete to attain high/full credit.

Most Candidates provided a relatively good synopsis of the financials with the breakdown of RGS, RCS, and RFS and addressed the liquidity and growth aspects. The proposed merger was also well-covered including the downside and employee retention, but only some discussed the tax consequences and only a handful covered the SSAE 3400 assurance assignment. Those who covered the above points achieved a high score. Many Candidates also included commentary on the new IT system and ESG reporting.

Requirement 2

Question 2 was the best-performing question for the paper.

2(a)

This question was on financial performance analysis.

Most Candidates passed this question part which they likely expected and were well-prepared for. The question was straightforward, and the specific financial ratios asked for in the question also worked to the Candidates' advantage.

The computational aspects were well answered except for the working capital ratios. Only a handful of Candidates were able to compute the inventory and accounts payables days correctly. They should only use the cost of consumables as the denominator in their formula for both ratios; all other cost components should be excluded.

Several Candidates failed to use the ROCE formula set out in the question. Marks could not be awarded in these instances.

Some Candidates appeared to reproduce their pre-preparation work into the answers without adjusting their answers to the question requirement. For example, the question requirement is to compare between years 2024 vs 2023, but some Candidates provided calculations and explanations between years 2023 vs 2022.

2(b)

This question required Candidates to evaluate the proposed merger using a suitable, acceptable and feasible framework.

Most of the Candidates passed part (b). Those who excelled demonstrated their ability to describe and provide a balanced discussion and sensible recommendation.

Several answers placed too much emphasis on the suitability aspect over the acceptability and feasibility aspects of the framework.

A number of Candidates mentioned the need to raise finance if the merger were to proceed, overlooking the fact that the proposal was for a shares exchange, i.e., largely non-cash. Also, only a few pointed out the short time frame of four months to complete the merger, which is a challenge.

Some Candidates used a different framework other than the specified SAF framework to evaluate the proposed merger. Again, Candidates are reminded to read the question requirement carefully to avoid being penalised.

2(c)

Part (c) required Candidates to provide four potential significant taxation consequences following a merger. This was the second best-performing question part of the paper.

Most Candidates were able to provide a general discussion of various tax schemes available and the possible tax consequences.

Some Candidates provided detailed interpretations and applications of the tax schemes which was not required by the question.

2(d)

This question required Candidates to advise on the assurance engagement and the type of assurance report provided.

The quality of the answers was mixed. There were some Candidates who failed to distinguish between an AUP engagement and an audit/assurance engagement. A few Candidates seemed to be inadequately prepared for the question and did not provide an answer.

Requirement 3

Question 3 was the second best-performing question of the paper.

3(a)

This question required Candidates to list the pros and cons of implementing a new IT system and make a recommendation to the Board.

This was the best-answered question part of the paper. Most Candidates were able to state the pros and cons as required.

However, some Candidates failed to elaborate further, perhaps due to time constraints or a lack of familiarity with the topic.

Notably, very few highlighted a key point: the need for a proper cost-benefit analysis to be done to assist in decision-making.

3(b)

Part (b) required Candidates to explain the financial reporting impact of implementing a new IT system. This was the worst-performing question part of the paper, even though it tested on the basic financial reporting treatment.

Based on the Candidate's answers, it is likely that they did not understand that the question was asking about accounting treatment. Many Candidates lost marks as they did not mention or explain in detail the need to capitalise as intangible and expense others to P/L.

Candidates overlooked many pertinent points, such as the immediate write-off of any book balances of current legacy systems, the need for periodic impairment review, and the treatment of ongoing maintenance and training expenses.

3(c)

This question required Candidates to state six criteria for the selection of vendors.

Given that this is a rather generic question, the pass rate was lower than expected.

Generally, many Candidates provided less than six criteria. This could be due to a lack of knowledge and/or experience in conducting comprehensive and holistic evaluations of suppliers.

Also, several Candidates did not read the question carefully and provided the criteria to evaluate the software instead of the supplier. Again, Candidates are advised to read the question carefully to avoid being penalised.

3(d)

The question required Candidates to explain the need for an employee recruitment and retention strategy and to recommend actions to achieve its strategic objectives.

Overall, this question was well answered, with the majority of Candidates achieving at least a passing score.

Certain aspects of this question on human capital management are rather generic and most Candidates were able to identify specific aspects of a recruitment and retention strategy.

However, Candidates did not answer well in terms of why Red-dot required a recruitment and retention strategy. I.e., they have not highlighted the longer-term strategy of achieving 100% growth in revenue by 31 Mar 2030.

There were also a few Candidates who did not attempt the question part.

Requirement 4

Question 4 was the worst-performing question for the paper. It tested the concept of ethics and sustainability ESG KPI disclosures.

4(a)

This question required Candidates to evaluate the ethical issue that had arisen and recommend a course of action for its resolution.

Overall, most of the Candidates passed this question part. However, there were few outstanding answers.

It was observed that Candidates did better in identifying the ethical dilemma and fared poorly in evaluating the dilemma itself.

It is noted that the answers for many scripts were haphazard, as they did not follow the requested format of the question. It is likely that the Candidates pasted their pre-prepared answers without tailoring them to the question requirement.

4(b)

The question required Candidates to evaluate the existing sustainability reporting and proposals for enhancement. Half of the Candidates failed the question part.

As ESG is a relatively new topic, this probably accounts for the fact that the overall performance of this question part was slightly below average.

Candidates who attempted this were strong in evaluating the specific ESG metrics, but few were able to give an evaluation of the current overall state of ESG disclosures.

A significant minority seemed to have run out of time and gave incomplete answers or skipped it entirely.