

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Integrative Business Solutions (IB)

EXAMINATION DATE: 6 December 2021

Section 1

About the company in the case study

Red Dot Petroleum is a Singapore registered and listed oil trading company. It is a leading Asia regional oil and gas exploration, production, refining, storage and distribution company also which is also involved in the trading of crude and refined petroleum products. Red Dot operates a matrix product and distribution structure with centralised finance and human resources as shared service centres. With nuances from the Hin Leong scandal, Red Dot has revamped its governance model for increased transparency in line with new regulatory framework for integrated reporting to boost confidence of all stakeholders. The oil and gas industry is also facing challenges related to climate change, market demands for alternative energy sources, and the emergence of disruptive technologies and the pandemic has accelerated the need to meet those challenges including digitising and use of technology and artificial intelligence.

Candidates received Advance Information (AI) documents on 15 Nov 2021 three weeks before the examination date to undertake research, analysis and preparation. The AI documents contained 39 pages and 10 Exhibits, and it covered financial performance, organisation structure, oil and gas industry outlook and challenges, new governance on corporate social responsibilities and integrated reporting.

The Examination Day Documents (EDD) were given to the Candidates on the examination day itself. The EDD had 24 pages and 6 additional Exhibits. The EDD evaluated the cash flows for an offshore solar farm in Thailand in collaboration with Sigma Solar Farms.

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 – Strategic and performance analysis (27 Marks)
- Requirement 3 – Business options (37 Marks)
- Requirement 4 – Reporting and controls (26 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 of candidates was comparable to previous exam sessions. The breakdown into smaller sub-question format helped but this cohort did poorly on time management with many unanswered questions. As with previous exam sessions, candidates performed well in computation as sufficient preparation on the financial data was provided and on the question on use of debt and financial analyses. Most candidates managed to capture the increased governance from the Hin Leong scandal and integrated reporting trend in the industry. The strategic collaboration on solar farm in Thailand question was also answered well. Many however fumbled on the accounting treatments on equity and assets contributed in kinds.

Section 2

Analysis of individual questions

Requirement 1

Generally above average with many candidates who included computations, integrated reporting and covered most aspects scored near perfect. A relatively large number however missed the bonus without signing off which is surprisingly high for this cohort. There was a small proportion of candidates who did not answer or answered halfway which ended abruptly probably due to poor time management as executive summary is typically left to the last. A handful of candidates dumped their computations from pre-works in the summary body which affected the overall presentation and flow but some marks were awarded nonetheless for the efforts considering exam time factor.

Requirement 2

2(a)

The majority of candidates did well in analysing the performance of the firm. The best answers were well structured, systematically covering various aspects of the performance such as revenues, costs, margins and capital structure. Answers that scored poorly had weak structuring and a lack of direction. Candidates are encouraged to give thought to a clear structure when crafting the answers.

In the later part of 2(a)(ii), the majority scored well. A significant minority was confused between the “impact of” Red Dot (what the firm had done) and the “impact on” Red Dot (how the firm is affected by its environs). This caused the answers to deviate from what was required. Some evaluated the future initiatives of Red Dot, when the question specifically asked to evaluate the past years of ESG impact.

2(b)

This question suffered from greatly inconsistent performances within the cohort. There were candidates who left the question blank or ignored the question

requirement for a business model. Ignoring such a vital question requirement meant inevitable failure for this specific question.

Merit was awarded for any relevant models applied by candidates. However, there were many candidates that used models that were not appropriate for the industry or/and the company's products. This led to an awkward application of the models.

Candidates are reminded that when asked to perform an evaluation, there should be a conclusion for the overall answer.

2(c)

This question was very well answered by the Candidates, with many scoring perfectly. Candidates looked to have been prepared for this and gave extensive answers.

All relevant models did gain full merit. A few Candidates were not able to apply the models in a manner that shed light on the competitive environment, focusing too much on the internal features of the firm instead.

Candidates are reminded that when asked to perform an assessment, there should be a conclusion for the overall answer too.

Requirement 3

3(a)

Candidates performed badly for this question part. Quite a number of candidates did not capture the need to calculate the fixed and variable costs (which is already stated in the Advance Information). This is key to understand the breakeven in both price and volume and it is also used to explain the rationale of whether to keep the oil in operation should the price of oil falls below \$50 per barrel i.e. fixed costs are "sunk" and whether oil field is in operation, fixed costs will be incurred.

3(b)

Candidates generally able to at least identify the use of futures or forwards to protect the business from volatility of oil prices. However, many candidates were not able to articulate how futures or forwards were being utilised in Red Dot's scenario.

3(c)

More than half of the candidates did not consider the "acceptability" factor by various stakeholders i.e. shareholders, customers, employees.

3(d)

Most of the candidate considered gearing and impact of the Hin Leong scandal. However, they did not consider that financing by debt is still likely to be less

expensive than cost of equity and as such, WACC may continue to fall even if gearing increases.

3(e)

Majority of the candidates were able to identify the arrangement as joint arrangement and eventually joint venture. Although candidates were also able to articulate that equity accounting be used with application of application of SFRS(I) 1-28, most of them did not indicate that there is no guidance on measurement under SFRS(I) 1-28. As a result, there is a need to make reference to other SFRS(I)s that deal with similar issues and in this case SFRS(I) 10 may be applied.

Requirement 4

4(a)

Candidates generally spend time on explaining what is CSR and its importance and failed to focus sufficiently on the critical appraisal. Eg. None mentioned “limited philanthropy, none mentioned “not CSR 2.0”.

4(b)

The question part was generally not well performed with many candidates failing to mention disadvantages.

4(c)

Candidates generally failed to mention “scope of the assurance engagement” and “Engagement risk”. Also, they failed to see the importance of “managing stakeholder’s management” and “stakeholder’s communication”.

4(d)

Candidates responses were more internally focused with many failing to view the responses from competitive perspectives. E.g. No mention of competition stake in RD refinery; no mention of competition from new mega-refineries.