SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Integrative Business Solutions (IB)

EXAMINATION DATE: 7 June 2021

Section 1
About the company in the case study

A Singapore based subsidiary of a US biopharmaceutical company, Biomore Pte Ltd (Biomore) started operations in early 1990s and currently has about 1,000 staffs. It develops, manufactures and sells its own products globally specialises in using living biological systems such as animal cells and micro-organisms for revolutionary treatments chronic and life-threatening conditions like cancer; cardiovascular, metabolic and neurological diseases; and genetic disorders. Biomore has invested heavily in R&D and has deployed cutting-edge proprietary research with an acquisition. And more recently, it beefed up its IT into the digital space. In 2020, Biomore began a 3-year $3 billion investment project in upgrading the machinery at their various factories.

Candidates received the Advance Information (AI) document on 17 May 2021, three weeks before the examination date, to undertake research, analysis and preparation. The AI document contained 44 pages and 11 exhibits, which covered financial performance, organisation structure, new technology in in artificial intelligence and blockchain, and preamble of Armstrong Biologics for possible collaborations or restructuring to support Biomore expansion plans.

The Examination Day Documents (EDD) were given to the Candidates on the examination day itself. The EDD had 22 pages and 6 additional exhibits. The EDD evaluated the cash flows from the joint venture against internal manufacture. It also covered an impairment of a cancer drug, Pembrolumab, providing both financial and non-financial impacts. And lastly, information on marketing initiatives with investment in technology.

Candidates were expected to combine their pre-reading and analysis of the AI, 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 (35 Marks)
- Requirement 3 – Strategic options (30 Marks)
- Requirement 4 – Strategic change and ethical considerations (25 Marks)

The structure of the AI and EDD, the level of difficulty and the domain knowledge required were similar to previous IB examinations.

General comments on the overall performance of Candidates

Overall performance of the Candidates is good for this exam session. The sub-question parts may have helped the Candidates in presenting their answers that more focused in answering the requirements. As with previous, Candidates performed well in computation as sufficient preparation on the AI data and on the question on PESTLE. Candidates also showed good knowledge on current trends in artificial intelligence and use of blockchain technology. The question on strategic expansion differentiates the good Candidates from the average. Many Candidates fumbled on the accounting and tax treatments on R&D expenditure. Time management has improved compared to previous exam session as there were fewer unanswered question parts.

Section 2

Analysis of individual questions

Requirement 1

Most Candidates scored the 1 extra bonus mark for sign off, improving their score. Also, no Candidates have left this question unanswered compared to previous exams – indicating that Candidates are managing their time better. There were not many well explained answers, although most Candidates passed. It would help for Candidates to bring up the salient points more succinctly, particularly the financial performance and the decision whether to proceed with the Joint Venture (JV) or not and the reasons behind it.

Requirement 2

2(a)(i)

It was not well attempted. The majority of Candidates did not understand that profit variance is a comparison between the budgeted performance and the actual performance of 2021. Common mistakes made by the Candidates were providing a year-on-year analysis (which should be in Q2(a)(ii) instead) or merely discuss revenue variances (with no attention to cost items). Some Candidates had their own assumptions for what the budgeted numbers should be and where reasonable, such assumptions were fully accepted.

2(a)(ii)

Candidates did better for this question. The majority of Candidates undertook horizontal, vertical and ratio analysis, along with meaningful analysis of the numbers to Biomore. The minority of the Candidates who fared poorly either did not undertake sufficient numerical analysis or merely described the numbers, with little application to the firm.

As many Candidates overlapped their answers between **Q2(a)(i)** and **Q2(a)(ii)**, cross marking was done within the 2 sections, with merit given for relevant points regardless of where the answers were placed.

There were several cases of Candidates who referred to a certain Appendix, but it could not be found in the entire exam script. Other Candidates did not show workings and merely stated the ratios they had calculated but not found in the script. Candidates would do well if they show all workings and place appendices within the relevant question.

2(b)

This question was fairly attempted. Many Candidates were able to identify the issues within the impairment calculation and scored well.

A handful of Candidates did not show their workings and only gave their final answer. Candidates need to providing workings for their answers in order for markers to award appropriate marks in the event that the final answer is incorrect.

Again, several Candidates referred to an Appendix that could not be found in their script.

2(c)

Generally, this question was poorly attempted. There were several empty scripts and a significant proportion of Candidates took the wrong approach of discussing Written Down Allowances instead of the R&D tax deductions upon incurrence of qualifying costs.

Many Candidates also missed laying out the basics of why Biomore's activities would qualify as R&D in the first place and applying the tax reliefs to Pembrolumab's situation.

2(d)

Most Candidates came well prepared with the PESTLE analysis and scored well. Only a few Candidates scored well on the proposal.

Requirement 3

Candidates generally do well as the projected cashflows are easily computed with straightforward calculation performed. There are some Candidates that might have overcomplicated the calculation, however marks are still given as long it is reasonable.

A small number of Candidates tried to answer both the advantages and risks of entering into the JV together. As a result, the answers provided are not clearly articulated hence marks are not awarded.

Requirement 4

4(a)

Most Candidate could answer **Q4(a)(i)** well, but not for **4(a)(ii)** on internal resistance. Most Candidates only managed to state one resistance (employee), and many forget about internal resistance from managers, director, and also failed to consider the element of culture.

4(b)

Some Candidates gave the wrong answers, such as recommendation to make provision in the 2021 accounts, when it was a non-adjusting event. Many Candidates lacked comprehensiveness in their response. They did not think about the accounting and reporting implication of the restructuring proposal on company's Balance Sheet.

4(c)

Given that this is the last question, several Candidates did not have the time to complete or have answered with a few sentences. Many Candidates go straight into the discussing on the contents of Biomore's response and omitted the method of Biomore's responses, which constituted 5 marks. This explains the low score for most Candidates. Generally, the content also lacked depth.