

SINGAPORE CA QUALIFICATION (PROFESSIONAL) EXAMINER'S REPORT

MODULE: Integrative Business Solutions (IB)

EXAMINATION DATE: 4 December 2023

Section 1

About the company in the case study

Luna Holdings Limited is a Singapore-based group that in 2016 branched from the manufacturing and sale of internal combustion engine vehicles (ICEV) into electric vehicles (EV). It has 2 operating subsidiaries:

- Luna Motor Cars Limited, which assembles ICEV. This legacy business has been successful, but management felt that EVs would ultimately overtake the traditional ICEVs.
- Avalon Electric Vehicles Limited currently manufactures three EV models catering to different customer segments. Due to the high cost of production, it has not been profitable to date.

The case highlights many operational and strategic issues that Candidates are required to address.

Candidates received Advance Information (AI) documents three weeks before the examination date to undertake research, analysis and preparation. The AI documents contained 11 Exhibits within 37 pages, and they covered organisation history, recent financial performance, current organisational structure and governance, deficiencies in current IT systems, and strategic directions.

The Examination Day Documents (EDD) were given to the Candidates on the examination day itself. The EDD had 18 pages and five additional Exhibits. The EDD provided the most recent financial results, highlighted the need for a new IT app for supply chain and sales operations, and outlined a potential joint venture to install and operate EV charging points in Singapore.

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 – Analysis of performance, strategic risks and opportunities and benefits of digital marketing (34 marks)
- Requirement 3 – Evaluation of a new app that integrates sales, procurement and supply chain processes, and to evaluate a new transfer pricing arrangement (36 marks)
- Requirement 4 – Evaluation of a potential joint venture and associated assurance considerations (20 marks)

The structure of the AI and EDD and the minimum performance expected 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 Dec 2023 sitting is average. However, this sitting has the lowest pass rate compared to the last three sittings. As expected, Candidates fared better with the questions involving number crunching, where familiarity with the topics and pre-preparation work have helped. The question on digital marketing was generally well answered. However, Candidates fared relatively poorly on a few question parts that carried a relatively higher weightage of marks – identifying risks and opportunities (14 marks), the non-financial cost and benefits of a new IT app (12 marks) and the pros and costs of the potential JV (14 marks). Candidates should not apply inappropriate (and likely pre-prepared) business framework analysis to a question, for example, using the PESTEL model to answer the question on risks and opportunities. 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.

Section 2 **Analysis of individual questions**

Requirement 1

Candidates have to provide an executive summary.

Most candidates made a decent attempt with a good proportion of them scooping up “easy” marks, for example, the “sign off 1 extra mark”. A minimal number did not attempt the question altogether, presumably due to poor time management; however, as a percentage, this was assessed to be lesser than previous sittings.

Generally, the overall performance for this question was fair.

Requirement 2

2(a)

This question was on financial performance analysis.

This was the second best-performing question in this paper. Candidates demonstrated proficiency in the computation of ratio analysis, including margin mix analysis. However, to do even better, Candidates could have provided more business insights and better articulated the business drivers behind the financial variances.

2(b)

Evaluating the strategic risks and opportunities were the requirements of this question.

Some strategic risks and opportunities could be used to answer the question. While Candidates may not have the practical experience to answer the question professionally, it was a pretty disappointing that some Candidates tried to answer the question by applying whatever information was available without strategising their approach to the question.

Candidates could have been better prepared for this question as all available information could be found in the AI.

Less than half of the Candidates passed this question.

2(c)

This was the best-performing question in this paper.

The majority of the Candidates scored well as they had correctly indicated the benefits of digital marketing and provided at least two or more examples of digital marketing techniques.

Requirement 3

3(a)

The question required Candidates to identify and explain current issues and inefficiencies in the company's supply chain, manufacturing and sales processes.

Most Candidates managed to pick up the easy marks, although they struggled to do well. It appeared that as a 10-mark question, Candidates did not spend the full proportionate time to obtain the full 10 marks, instead listing down five points in a very brief summary without further elaboration. Content-wise, most Candidates were able to identify the supply chain inefficiencies.

3(b)

The question required Candidates to compute the cost and benefit of implementing a new IT system and to explain these costs and benefits further.

This question was poorly answered, with most Candidates missing out on the key criteria. This was the worst-performed question in this paper.

The calculations accounted for a lesser proportion of the overall marks. However, that was where Candidates placed most, if not all, their efforts. Substantial marks were thus lost in the discursive elements, accounting for most marks. Candidates also needed to discuss the non-financial benefits and costs of the new system, but unfortunately, such discussions were exceedingly rare.

While doing the calculations, the common issues were: **(i)** Candidates did not conduct a comparative or incremental analysis of the system's financials. However, when deciding whether to adopt a system, a "before" and "after" comparison of its financials was vital. **(ii)** Candidates also missed out on annualising the figures, with the case study only providing 6-month figures. **(iii)** Many Candidates missed out on how the COGS would increase in line with the sales spike, assuming (unreasonably) that the absolute COGS would drop by 1% despite sales increasing by 30%.

3(c)

This question tested Candidates' ability to identify the risks associated with implementing a new IT system.

Majority of Candidates did well for this question, with a significant number doing exceedingly so. Candidates were adept in identifying the various risks and appropriate risk management actions. A minority of Candidates provided short or generic risk management actions, thus scoring little or no merit. Candidates are reminded to provide practical and relevant suggestions to the case.

3(d)

The question required Candidates to advise on a change in transfer pricing arrangements between related entities.

Most Candidates understood and could explain the arm's length principle but did not provide further explanations from there. Candidates might have assumed that this was an exclusively tax-only question and failed to consider other aspects, particularly the impact of a change in the transfer pricing formula on the financial statements of both countries. Candidates could also have articulated the potential reaction from the two tax authorities.

Requirement 4

4(a)

This question part required Candidates to evaluate the proposed strategy under a suitable, acceptable and feasible framework.

This question was generally poorly answered, but there were a few good individual performances. However, despite the specific requirement in the question, some Candidates decided to use a different framework to evaluate the strategy.

Candidates who achieved high marks demonstrated their ability to describe and provide detailed discussion of the financial and non-financial considerations and made a sensible recommendation.

4(b)

This question part required candidates to explain suitable procedures for an SSRS 400 Agreed Upon Procedures (AUP) engagement.

Overall, this was poorly answered, with some not even attempting the question, possibly due to poor time management.

Among those who attempted the question, most could not describe the suitable procedures for AUP engagement, and some failed to distinguish between an AUP engagement and an audit/assurance engagement.