



REPORT ON CANDIDATE PERFORMANCE

1.0 General Overview

The TOPCIMA exam is designed to test candidates' higher level skills and to test their ability to apply their knowledge and use their judgement to solve multi-faceted problems given in the pre-seen and unseen material.

There were a much smaller number of candidates sitting the May 2005 TOPCIMA exam, around 800 candidates, due to the change in the eligibility rules to sit this final CIMA exam. Under the previous syllabus, many candidates chose to sit the Case Study exam along with their other three final level papers. However, from May 2005, the new syllabus does not allow candidates to sit the final TOPCIMA exam until all three Strategic Level papers have been passed. Therefore the majority of candidates sitting TOPCIMA in May were those who had passed the final level exams, but who had either not sat the Case Study exam previously, or had been unsuccessful.

This unusual profile of candidates has resulted in a lower pass rate than in some previous Case Study exams. The reduced pass rate is not related to the changed assessment matrix in any way, but simply due to less well prepared candidates entering this exam sitting despite these candidates only having to concentrate on the TOPCIMA paper.

The industry setting for the first TOPCIMA case was the recycling industry, which is a new and growing industry, which has received much publicity due to EU legislation that is putting pressure on companies and individuals to increase the volume of recycling.

The un-seen material always gives an unexpected twist to the case, so that candidates can be tested to see whether they can apply their knowledge to the case. In this case the unexpected twist was the introduction of Shard. Shard is a glass manufacturing company, which had also successfully diversified into the newspaper publishing and printing industry. Shard was considering the option of acquiring one of its suppliers of recycled materials, either ReuseR or NOW, in the form of backward integration. Candidates who had researched the recycling industry would have found many instances of manufacturing companies who have chosen to backwardly integrate their suppliers of recycled raw materials.

The key to passing TOPCIMA is candidates' ability to be able to apply their technical knowledge and understanding of the industry to the requirement set, using the new data supplied in the unseen material on the exam day.

From marking and reviewing a large number of scripts from the May 2005 TOPCIMA exam the following three points are relevant to candidates who were not successful:

1. There was a sizable number of scripts that did not demonstrate a sound understanding of a number of areas of financial and business strategy. Some candidates did not grasp many of the strategic issues contained in this case. One example is that NOW cannot simply be acquired as it is a private company. Another strategic issue that many candidates failed to grasp, concerned ReuseR valuation price. If ReuseR were to be acquired at a higher price than the discounted value of future cash flows, this will not create shareholder wealth for Shard's shareholders.

Candidates are advised to learn or revise all of the business and financial techniques that are included in the Strategic level syllabus.

2. The majority of scripts demonstrated little understanding of the industry setting and no research or real life companies were cited as experiencing the type of problems that companies such as ReuseR and NOW are experiencing. More extensive research into the industry in which a case is set is required, and a better understanding and familiarity with the pre-seen material is also recommended.
3. The candidates who demonstrated some understanding of business and financial techniques in general, mainly earned low marks in the assessment criterion for Application, as they did not demonstrate their ability to apply their knowledge to the actual situation in the case. It is vital in the business world to have a sound understanding of business techniques and the ability to apply them to solve business problems. More practice is required using past Case Study papers and other past Strategic level or Final level exam papers. For example, many candidates prepared SWOT analyses, but most were for ReuseR and NOW and not the company in the question, which was Shard. Additionally, most of the SWOT appeared pre-prepared, and did not incorporate new information presented in the un-seen material.

In summary, the TOPCIMA paper is trying to prepare you for the role of an ACMA. Part of this role is the ability to “think on your feet”, which requires a sound understanding of a variety of business and financial techniques and commercial understanding, as well as the ability to apply this knowledge to new information presented to you. This is what you will have to do in your future career. This final test of professional competence was testing just that – candidates’ competence in applying their knowledge to the case.

2.0 Areas that were well attempted by candidates

It was apparent that the additional 20 minutes reading time had assisted many candidates, with very few scripts showing time management problems. The 20 marks Logic criteria covering recommendations had been very well attempted by the majority of candidates. Additionally almost all candidates earned pass marks for the display of relevant technical knowledge. Another area that has shown improvement from previous exams is that candidates had prepared accurate and well presented calculations to support their discussion. Detailed below, by assessment criteria is a detailed analysis of each criterion and where improvements can be made.

3.0 Areas that were not well attempted by candidates

The two areas that had not been well attempted were the prioritisation of the key issues and the application of knowledge to the case. It was particularly disappointing that many candidates had not identified, or not prioritised, the key issues facing Shard. This opening paragraph to the report should assist candidates with writing the rest of the report. However, where the issues had not been identified, then in many cases the rest of the report was muddled and unclear and not all issues had been discussed.

4.0 Assessment matrix and areas for improvement

4.1 Overview of the TOPCIMA Assessment matrix

The new TOPCIMA assessment matrix has a number of areas of overlap, as indeed the previous matrix had. However, overall, it is considered that a well-prepared candidate was not penalised in any way by the introduction of the new matrix. Reasonable marks were awarded for the majority of candidates for the display of relevant technical knowledge, although it was the criterion of Application, where these candidates did less well.

4.2 Technical

Around 90% of candidates achieved pass marks in this criterion by demonstrating several aspects of technical knowledge. These included valuation techniques, ratio analysis, SWOT's and other relevant techniques. However, candidates earned low marks for quoting the names of relevant theorists, without fully explaining the relevant theory and why the theory was applicable or relevant to the case. Overall, this criterion was well attempted.

4.3 Application

Whilst most candidates earned marginal pass marks in this criterion, it was disappointing that many candidates were unable to demonstrate their application of technical knowledge to the case. Many candidates had not even attempted to prepare any calculations for the two companies being considered for acquisition. However, what was more worrying was that many candidates did not calculate discounted cash flows (DCFs) using the forecast cash flow data given in the unseen material to calculate whether either of the acquisitions would increase, or decrease, Shard's shareholder value, depending on what price would be paid for the acquisition. The lack of recognition that a company will only add value if the price paid is less than the value of future discounted cash flows is an area that candidates need to understand much more thoroughly.

Overall, the application criterion was not well attempted and it was disappointing to see a sizeable number of candidates earning lower than pass marks. However, it must be noted that the candidates who had prepared detailed calculations, had generally prepared well presented and mainly correct calculations.

4.4 Diversity

There was a very limited range of issues discussed by the majority of candidates. Additionally, there was little evidence of any research or understanding of the recycling industry demonstrated by most candidates. The pre-seen material had been available for over eight weeks, and this should have allowed candidates time to gain a far greater understanding of this new, high profile industry. This would have enabled them to make far better informed comments. The industry life cycle analysis was an appropriate knowledge area that should have been discussed for higher marks. More industry research is recommended in the future.

4.5 Focus

Overall, most candidates earned good marks in this assessment criterion and were able to focus the report to meet the requirement of the question and not to discuss un-important non-strategic issues. The only reason for some candidates not earning high marks was where they had not discussed all three ways in which Shard could secure supplies of recycled materials, as some candidates only discussed the acquisition option, and not the long term contracts or growing Shard's own recycling division. Generally, this criterion was well attempted.

4.6 Prioritisation

It was very surprising, and disappointing, that this criterion was so badly attempted and the majority of candidates earned below pass marks. This criterion and the 10 marks available was the same as in the previous Case Study assessment matrix. Furthermore, candidates are advised to always prepare a position audit first.

A company cannot decide how it should progress in the future unless it knows where it stands now. It is important to prepare a PRIORITISED list of the key strategic issues at the start of the report. This should then be followed up, in the body of the report, to discuss each of these issues in depth. The key strategic issues should be clearly identified and discussed in a priority order to earn marks under this assessment criterion.

Many candidates simply produced a SWOT for ReuseR and for NOW (that had been pre-prepared and not updated for new material) and they had not prepared a SWOT for Shard (the company in the case) nor had any of the issues in the SWOTs been discussed in the body of the report or prioritised in any way. Therefore, these relatively easy marks for prioritisation had not been awarded to many candidates.

This assessment criterion was badly attempted at this sitting and marks were lost by many candidates for either not producing any analysis of the key issues, or for not prioritising these issues. It is recommended that a position audit should be prepared in future by all candidates clearly prioritising the issues facing the company in the case.

4.7 Judgement

This was an important criterion, which was poorly attempted by the majority of candidates and is an area that needs to be improved for the future. This criterion is to reward candidates for their reasoning ability and demonstration of commercial judgement concerning the possible acquisitions of ReuseR and NOW or for entering into long-term contract with some suppliers. Some candidates clearly did not recognise the crucial issue that if Shard pays more to acquire ReuseR or NOW than the value that future discounted cash flows will generate, then it will damage Shard's shareholder value.

Three further issues that were handled weakly (or not at all), and rather naively by many candidates concerned:

- The price to acquire NOW for. Many candidates simply stated acquire NOW for €73.8 million with no other calculations of future cash flows or a range of possible prices that could be paid for this profitable high growth company.
- Many candidates did not identify that as NOW is a private company, an attractive price would need to be offered to entice the Patel brothers to sell. Additionally, they may simply decline all offers and wish to remain a private company. Shard cannot simply choose to acquire NOW and for the acquisition to proceed.
- Again, many candidates did not produce a range of possible acquisition prices, but more importantly did not produce a maximum price, which should not be exceeded for each of the two target companies.

Candidates must demonstrate a far better commercial understanding of acquisitions and the importance of maintaining (and enhancing) shareholder value. Most candidates quoted the key words "shareholder value" with no apparent understanding of this most important concept.

4.8 Integration

This criterion rewarded candidates for their ability to discuss diverse areas of knowledge and skills and to integrate them effectively. Unfortunately the majority of candidates did not attain a pass in this criterion, as the reports produced were often badly integrated. Most candidates produced calculations (which were generally well presented and clear) in an appendix to their report, but then did not discuss any figures at all in the body of their report. Some simply picked up a value and included it in a recommendation. All of the data calculated or presented in appendices to the report should have been further discussed, or at least referred to, in the main report.

If a candidate's report flowed well and discussed all of the issues in a logical sequence culminating in a justified recommendation, then the candidate would be awarded at least pass marks in this criterion. Like much of the TOPCIMA assessment matrix, there is a degree of overlap between each criterion. This has been apparent with the integration criterion, where candidates who wrote a good well reasoned answer earned pass marks in Logic (see below) as well as in integration.

4.9 Logic

This crucial 20 mark criterion rewards candidates for preparing justified, well argued recommendations and for the clear presentation of their report. In any business report, the most important section, as far as many managers are concerned, is the recommendations section and how clearly and well justified the recommendations have been made. This criterion rewards candidates for doing just that.

The body of the report should be discussing all of the issues identified, and the recommendations section should be making clear justified recommendations on all of the issues identified earlier in the report and needs to follow on logically from what has been discussed earlier. Many candidates chose to end each paragraph, within the main body of their report, with a recommendations section. This is acceptable but the recommendations should additionally be summarised at the end of the report. Additionally recommendations on an issue should not be made at the end of the report if it had not been identified and discussed earlier.

All TOPCIMA candidates attempted the recommendations section quite well with the majority earning at least pass marks. Almost all candidates earned high marks for a well presented report and there was less evidence than in previous exams of time pressure. Hopefully the additional 20 minutes reading time has allowed candidates to assimilate the new data in the unseen material. This appears to have been translated into candidates spending longer on the recommendations section and earning good marks. The two areas that should be improved for candidates who were unsuccessful are:

- Preparing fully justified, well reasoned recommendations. Candidates should not simply state "I recommend..." but instead should state "I recommend that Shard does... because..."
- Recommendations should cover all areas of the report, not simply the proposed acquisition of ReuseR or NOW. Many candidates did not prepare any recommendations on how Shard should proceed with its own recycling division or whether, or not, it should enter into long-term contracts with its suppliers for recycled materials.

4.10 Ethics

This new criterion was not well attempted by the majority of candidates, with the majority not earning pass marks. However, there were many very good answers that did correctly identify a range of ethical issues in the case and offered advice on how these ethical problems could be dealt with.

To earn good marks in this criterion, it was not sufficient to simply list issues such as poor health and safety, the dual roles of Kurt Finehart etc. What the examiner was looking for was for the candidate to identify what the ethical issues were (and there were many) and to then briefly justify why each issue had an ethical dimension. Higher marks were then awarded for candidates who further offered realistic advice on how to overcome the ethical issues, such as improved safety training and higher rates of pay and improved conditions of employment for NOW workers.

This new criterion is one where candidates need to identify, justify and recommend advice on how to overcome the ethical dilemmas to earn pass marks. Discussion of the ethical problems alone is insufficient to earn pass marks.

5.0 The requirement

Candidates are reminded to ensure that the answer that they write does fully answer the requirement stated, and not the requirement that they expected or wanted it to be. The answer given should be focused to the actual requirement set. Furthermore, candidates

should ensure that their answer covers all aspects of the TOPCIMA assessment matrix, which is used to assess their answers.

In the Shard case, candidates were asked to discuss the points minuted from a Shard Board meeting. The minuted points concerned not just the proposed acquisition of ReuseR or NOW but also whether Shard should enter into long-term contracts for recycled materials and how it could grow its own recycling division. Many candidates only discussed the proposed acquisitions and therefore they had not fully answered all aspects of the requirement. Candidates are reminded to ensure that all aspects of the requirement have been discussed and that recommendations on all aspects of the question are presented.

6.0 Advice for candidates re-sitting TOPCIMA in future

It is advised that some form of tuition or study method be used to ensure that candidates who are re-sitting TOPCIMA are fully prepared for this final CIMA exam.

CIMA advises that candidates should practice on at least three cases prior to sitting the TOPCIMA exam, so research and preparation using past TOPCIMA or case studies is advised.

Additionally, candidates are referred to the TOPCIMA Study System textbook, (published by CIMA Publishing through Elsevier) which is the recommended reading text for this exam. This Study System takes candidates through past cases and demonstrates how to analyse the pre-seen and unseen material and how to prepare their answers. It also contains a chapter on Technical issues, including revision of all of a range of business and financial techniques that candidates should understand and incorporate in their answers. Candidates are reminded that the TOPCIMA assessment matrix is heavily weighted towards the application of technical knowledge to answer the case.

It is necessary for many of the candidates who were unsuccessful in this sitting to learn, understand and revise thoroughly the underlying strategic issues, as well to improve their ability to apply financial and business knowledge and techniques to the case material to a far greater degree than was demonstrated in their answers at this exam sitting, before they attempt the TOPCIMA exam again.

7.0 Recommendations and conclusions

As the final step before candidates are eligible to become an ACMA, CIMA has set the TOPCIMA exam at a high level to test candidates' abilities to analyse and interpret multi-faceted problems – in the same way that ACMA's in business have to tackle difficult problems.

This exam is designed to prepare you for the world of a qualified accountant that is ahead of you. The examiner appreciates that learning the necessary skills and how to apply them to each case is not easy, but it is necessary in order to prepare you for becoming an ACMA in the future.

Finally, it should be noted that candidates who prepare thoroughly for the TOPCIMA exam, and who are able to demonstrate their ability to apply their knowledge to the requirement in the question will put themselves in a far better position to be able to pass the TOPCIMA exam. Therefore, preparation and research are vital, but this is not enough to pass this exam. You must also have a thorough understanding of the required techniques and how to apply them to the case material.

To summarise, the four key tasks that will put you in a better position of passing TOPCIMA in the future are:

- Thoroughly research at least 3 past cases. Then write your answer and compare it, and mark it, against the case writer's answer
- Research thoroughly the industry setting for the case that you will be sitting and familiarise yourself totally with the pre-seen material
- Learn and understand business strategies and techniques (as detailed in the CIMA Study System) and learn how to apply them to the case material.
- Familiarise yourself with the TOPCIMA assessment matrix, to ensure that your answer covers all nine of the criteria that your answer will be assessed against.

Remember – prepare well and write a thorough, well reasoned answer to all aspects of the requirement and hopefully you will be successful.