

## **TOPCIMA - November 2005 - Post Exam Guidance report**

### **1.0 General Overview**

The TOPCIMA exam is the final CIMA exam, taken by candidates who have successfully passed all three strategic level exams. The November 2005 TOPCIMA exam was sat by over 1,600 candidates, of which over half had sat a TOPCIMA or the previous Final level Case Study exam before, and been unsuccessful in previous attempts.

The industry setting for this TOPCIMA case was the construction industry. The company in the case was Domusco, which was a listed company in the country of Zee, a non-Euro based country in Europe, which has overseas subsidiary companies and undertakes much international construction work.

As the TOPCIMA exam is taken on its own, with the pre-seen material available over 8 weeks before the exam, it was envisaged that candidates would be well prepared and would have researched the industry setting, the construction industry. However, it was apparent from many answers that little research or background reading on the construction industry had been undertaken. This contrasted with the candidates who did discuss relevant real life examples and how the problems particular companies had experienced were similar to those facing Domusco. It cannot be stressed enough that the TOPCIMA exam relates as much as possible to real life scenarios and it is very important to read the financial press and research the industry setting to prepare yourself as much as possible to understand the business environment in which the case is set. Overall, far more background reading and research are recommended.

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 November 2005 unseen material the unexpected twist was that Domusco had a cash forecast that showed a deficit of almost Z\$2,500 million in the next 6 months and that urgent action was needed to manage the company through this difficult time. If the cash issue was not urgently addressed, then the company could either go into liquidation or could be the target of a hostile taken over. Many candidates failed this TOPCIMA exam as they had not identified cash as a key issue, despite the size of the forecast cash deficit.

To further compound the problems that Domusco was facing, the unseen material gave details on a recent take-over of KLT that market analysts felt had been over valued. Domusco's share price had fallen in value from Z\$13.85 to Z\$7.50 in the last few months due to a number of factors including exchange rate fluctuations, which led to local interest rates rises, so leading to a slow down in sales in Zee. The company urgently needs to address its cash requirements, but the two main routes for raising cash, which are debt or an equity issue, were closed off, as the unseen material stated that Domusco had loan covenants restricting further debt. Also with such a depressed share price and lack of investor confidence, a rights issue would not be successful at this time. Therefore the cash issue had to be handled differently. There were also a number of other issues included in the unseen material, including low investor confidence, the resignation of Domusco's Finance Director, a bribery issue and some organisational problems.

Some candidates did not recognise these two major restrictions and simply advised that Domusco should "issue more shares" or "take out a further loan". These demonstrated a lack of commercial awareness and earned very low marks.

The key to passing TOPCIMA is candidates' ability to be able to apply their technical knowledge and understanding of the industry to the actual requirement set, using the relevant new data supplied in the unseen material on the exam day. It is very important to identify the new issues and to understand which are the most important issues. For example, the proposed reorganisation of Domusco's project planning department is far less important than the huge forecast cash shortfall.

From marking and reviewing scripts from the November 2005 TOPCIMA exam the following points are relevant to candidates who were not successful:

1. There were many candidates who failed to discuss how the forecast cash shortfall could be overcome. There were even some candidates who missed this entirely and stated that Domusco was a “cash rich” company. (Maybe they had sat the September TOPCIMA exam – in which Domusco had been depicted as being cash rich – but the November 2005 unseen material had clearly shown a slow down in sales and a forecast cash shortfall of Z\$1,150 and Z\$1,030 in the next two quarters). The advice here is to read (and reread!) the unseen material and to note down the key issues in your answer plan. Cash was a crucial issue in this case – as it is for all construction companies operating in the real world – and a forecast cash shortage needs urgent action. The proposals made by some candidates such as “monitor cash closely” or “generate more cash” were inadequate to earn marks. The company needs to actually take action NOW and the report needed candidates to clearly discuss and recommend what actions should be taken. Monitoring cash will not stop the company sliding into liquidation!
2. Another disappointing area that candidates did not display the expected level of knowledge on was Judgement. Marks were awarded for discussion on alternative ways in which the forecast cash shortfall could be overcome and for ways in which investor confidence could be improved. Marks were available for discussion about renegotiation of loan covenants with the ALT and BRG banks and for slowing down construction work on unsold houses and offices in Zee, especially on the Hadsi project. Alternative ways of generating cash were to sell parts of Domusco’s substantial land bank (including the land bank that was acquired with KLT) or by selling parts of Domusco, such as the office building subsidiary or the USA housing subsidiary.
3. The majority of candidates demonstrated little technical knowledge, although it was pleasing that so many candidates did at least prepare a SWOT analysis. However, many SWOT analyses missed the key issue of cash. There were many relevant techniques that could have been prepared and applied to the case material including PEST analysis, the use of the Balanced Scorecard and Porter’s generic strategies. A small number of candidates did correctly refer to Argenti’s corporate collapse model and identified that Domusco had demonstrated a number of relevant features.
4. It is disappointing that some candidates are writing at length on a broad spectrum of pre-prepared subjects, including corporate governance, business strategy HR issues and risk management, but are not relating their comments to the new material given in the unseen material on the exam day. It must be stressed that candidate’s reports should be tailored to discuss and recommend on the key issues identified in the unseen material.
5. While some scripts demonstrated some knowledge and understanding of the construction industry, many scripts did not display any research into this industry or quote relevant details from real life companies about the types of problems experienced. 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.

In summary, the TOPCIMA paper is trying to prepare you for the role of an ACMA. This means that you have to analyse the new material presented to you on the exam day (the unseen material) and absorb the impact of the key issues. Many candidates did not appreciate the severity of the low share price and the size of the forecast cash shortfall, and instead discussed how Domusco can improve its profitability and its management structure in the longer term. However, what was needed in this TOPCIMA case was an appreciation that Domusco simply will not have a long term, if it does not survive the next 12 months. Drastic action is needed to be made in the short term to both overcome the cash shortfall and to reassure shareholders that Domusco is taking action that will have a positive effect on their confidence, and ultimately the company’s share price. There were many other issues to be discussed, including filling the role of Finance Director, especially as it would be this post holder who would be needed to guide Domusco through the difficult year ahead.

Therefore, it cannot be stressed enough that in order to pass TOPCIMA you MUST discuss the relevant data given in the unseen material on the exam day and ensure that your answer relates to

the requirement that has been set. While it is important to practice and prepare material before the exam, it is more important that you come into the exam hall with an open mind and not a pre-prepared answer. Your answer must relate to the key issues as raised in the unseen material, which may, or may not, coincide with what you were expecting to come up.

## **2.0 Domusco – the first TOPCIMA case that had two exam sittings**

The Domusco case was the first TOPCIMA case that had two different exam sittings using the same pre-seen material. There was a pilot sitting of a few hundred candidates in September 2005, using the first unseen material and the November 2005 sitting used a different unseen material. Both were totally exclusive, as both unseen materials followed directly on from the pre-seen material. Knowledge of what transpired in the first unseen material was NOT required for those candidates who sat the TOPCIMA exam in November. Indeed, in order not to confuse candidates, it is recommended that candidates do NOT familiarise themselves with the previous unseen material. For your information, the September 2005 unseen material depicted Domusco as going through a very successful phase and that it had a cash surplus of Z\$1,000 million and identified a number of projects that it was considering.

Candidates should remember that the two different unseen materials will deal with the company in the case in different ways. Therefore any familiarity or knowledge of the first unseen material has no bearing or influence whatsoever on the second sitting. Therefore **each** of the two unseen materials **follows directly on from the pre-seen material**, and NOT the previous unseen.

In these two cases, the over-riding issue happened to be cash, in the September 2005 exam, Domusco did not know what to do with the Z\$1,000 million surplus and in November 2005, Domusco had identified a forecast cash shortfall of Z\$2,500 million. Both exams covered large cash sums – and in both exams some candidates chose not to discuss cash. They failed.

## **3.0 Areas that were well attempted by candidates**

To assist candidates in their preparation for the November 2005 exam, CIMA emailed all candidates with details of some guidance notes that had been put on the CIMA website ([www.cimaglobal.com](http://www.cimaglobal.com)). It was apparent that this document has helped many candidates as a much higher than usual number of candidates had prepared a SWOT analysis (many of which were very good and earned reasonable marks).

Also the format of candidates' report were improved and many chose to follow the suggested report format, and this ensured that there was a separate paragraph near the start of the report in which the main issues were identified and prioritised. There is, however, still room for improvement, as detailed below under the Prioritisation heading. However, for the first time over the last few years it is pleasing that the majority of candidates did correctly identify and attempt to prioritise the key issues facing Domusco near to the start of the report. This has no doubt helped these candidates to prepare a much better report. Furthermore, many candidates had a separate report heading to discuss ethical issues, so ensuring that these are not omitted from their report. Generally, report format and presentation issues have greatly improved over the last few exam sittings.

High marks were earned by the majority of candidates under the criterion of Focus, as detailed below. It was apparent that the additional 20 minutes reading time had assisted many candidates, with very few scripts showing time management problems.

## **4.0 Areas that were not well attempted by candidates**

The two main areas that had not been well attempted were the display of Judgement and the recommendations made under Logic.

Judgement requires the clear demonstration of professional judgement to deal with the issues facing the company in the case. In the November 2005 exam, judgement should have been used to decide what Domusco should do to overcome the large cash shortfall that has been forecast. Carrying on

with the planned construction work was not an option, as this could lead to insolvency and corporate collapse. Many candidates handled this poorly by stating that the company should have a bank overdraft (very unlikely for Z\$2,500 million) or take out more short term loans. Other candidates simply stated "have a rights issue" and shareholders will generate the required cash. Many did not appreciate that most of Domusco's shareholders, who have already seen the value of their shares fall by 46% in the last few months are unlikely to want to invest a further Z\$2,500 million at this point in time. A further complication is that a rights issue would take some time to organize and to generate cash (assuming it was successful) and the forecast cash shortfall was happening now and forecast to continue for the next 6 months. Therefore, a right issue could not solve the problem in the required timescale. Many had not considered that the only solution would be to sell some of Domusco's assets (whether this is land or parts of the company) and that this would also take time. Therefore a combination of ways to generate and to save cash would be required including the scaling back of construction work, especially in Hadsi, and various other cost cuts.

Recommendations made under Logic were also weak. The candidates who correctly recommended that Domusco could sell land should have expanded the recommendation to state that land may need to be discounted for a quick sale or that land in Europe would be easier to sell than land in Zee. Furthermore, it should have been recommended that the sale of land, or parts of Domusco, would have an impact on the future profitability of Domusco, but that the need for cash now to ensure the very survival of Domusco was greater than the need to maintain future profitability levels. Overall, more detailed justified recommendations are required to earn higher marks.

## **5.0 Assessment matrix and areas for improvement**

### **5.1 Overview of the TOPCIMA Assessment matrix**

It is clear that the email that was sent to candidates before the November 2005 exam advising them to read the TOPCIMA guidance notes on the CIMA website has helped many candidates to earn better marks than perhaps they would otherwise have done. The three main areas of improvement that have been identified as being a direct outcome from the guidance notes, were:

- Improved report format (which also ensured that all nine criteria were covered)
- Better prioritisation of the key issues by a far larger number of candidates, together with the preparation of SWOT analysis by more candidates
- Ethical issues were discussed well by far more candidates than in the two previous TOPCIMA cases, in which a sizable minority hardly discussed ethical dilemmas at all.

The weighting of marks had been changed for the September and November 2005 exam, giving higher marks for Application and Judgement, which are now worth 15 marks each. This reflects the importance of demonstrating the application of technical knowledge to the case material and also the demonstration of professional and commercial judgement when considering alternative courses of action. Under Judgement, marks were awarded for identifying alternative ways of overcoming the forecast cash shortfall and for issues surrounding shareholder confidence. Generally, many candidates did **not** demonstrate good judgement, which is a very important aspect in the role of an ACMA. This is an area that unsuccessful candidates need to work on to improve.

### **5.2 Technical**

There were only 5 marks available for Technical in the updated assessment matrix weightings for the (September and) November 2005 exam, and it was disappointing that many candidates only earned 2 or 3 marks for the poor display of technical knowledge. However, some candidates, who demonstrated a good range of techniques, were awarded the full 5 marks. It must be noted that many overseas candidates displayed a sound understanding of several relevant techniques which they had also applied to the case material well. However, many overseas candidates failed this TOPCIMA exam due to low marks earned in several other assessment criteria including Focus, Judgement and Logic.

Candidates earned marks mainly for preparing SWOT analyses, ratio analysis (including gearing calculations that were relevant to the loan covenant) and for discussion on risk management techniques. Higher marks were available for a wider display of relevant technical knowledge, such as PEST analysis, Porter's Generic Strategies, Ansoff's growth vector matrix, Argenti's corporate failure model, the Balanced Scorecard technique or the BCG matrix, all of which could have been discussed in the context of this case. As candidates have already passed the Business Strategy exam, they should be familiar with these techniques and should be capable of earning all 5 marks.

### 5.3 Application

The Application criterion was now worth 15 marks for the (September and) November 2005 exam as the examiner considers that it is how the technical knowledge is applied to the case material that is important in the TOPCIMA exam. Whilst some 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 material. There were some good SWOT analyses, which incorporated many of the new issues introduced in the unseen material, although it was surprising that a significant number of SWOT analyses omitted key weaknesses, such as the loss of the Finance Director and the forecast cash shortage. It is very important that all of the new issues that have been introduced in the unseen material on the exam day are incorporated into a SWOT analysis. Again, it is repeated that while it is important to plan and practice before the exam, it is crucial that the new material given to you on the exam day is used in all of your answer, including technical analysis in your appendices, such as a SWOT analysis.

It is worth noting that a higher proportion of candidates did prepare a SWOT analysis than in previous TOPCIMA exam sittings, perhaps due to the reminder in the guidance notes sent out to all candidates shortly before the exam. So, well done if you did prepare a SWOT analysis for the first time – but in future, ensure that all of the key issues have been included in the relevant area of your SWOT. For example, an Opportunity could be to sell some of Domusco's land bank to alleviate the forecast cash shortfall.

A further area of concern was that a number of students prepared valuations of KLT and advised against acquiring the company. Clearly they had not read and understood the unseen material which stated that Domusco had already acquired KLT and that the decision to acquire or not had already been taken.

In order to gain high marks in the Application criterion, it is expected that candidates should prepare a SWOT and a PEST analysis and use at least one other technique, perhaps the Balanced Scorecard or the BCG matrix. Candidates should use these techniques, with data from the case, to demonstrate how these techniques could assist management. A further area that is always helpful in understanding the case material is ratio analysis, including revenues, profitability, liquidity and gearing. A particularly relevant ratio in this TOPCIMA case was the gearing calculation in relation to the loan covenant, which had been defined in the unseen material. It was surprising how few candidates calculated this correctly, and about half of those sitting this exam did not even attempt to calculate this critical ratio.

A further worrying area that the examiner identified was some candidates' inability to prepare an accurate cash flow forecast. There were many candidates who had correctly accumulated the cash data given in the unseen material to produce the forecast size of the cash shortfall facing Domusco, and they were awarded marks. However, a sizable minority of candidates did not understand what to do with the cash flow data and assumed that the quarterly movements were quarter end cash balances, which was incorrect. A further worrying aspect was that several candidates added the forecast profits for 2005 of Z\$535 million into the cash flow forecast. This was clearly incorrect and demonstrated a total lack of understanding of the differences between profits and cash generated. This should have been clearly understood at this stage of their CIMA studies. It cannot be stressed enough that candidates should improve their understanding of cash flow data and the importance of cash in a business, as this will be invaluable in their future careers as an ACMA. The subject of cash will be examined again as there was clear evidence of a lack of basic understanding of this key aspect of business management by many candidates.

## 5.4 Diversity

The assessment matrix weighting for Diversity has been reduced to only 5 marks for (September and) November 2005 and the marks are available for demonstrating a breadth of technical knowledge, business awareness and for demonstrating a wide range of views. It was surprising how few candidates (only around 20%) gave ANY examples of real life companies in the construction industry. This is an industry that appears in any National newspaper and it is very easy to identify companies who are experiencing similar problems to those faced by Domusco, in terms of working capital problems and risk management and cost overruns. Any candidate that had undertaken any research into this industry should have identified the importance of working capital and how quickly it can change with the economic conditions prevailing in each country. Therefore, it was especially disappointing that relevant examples from this industry were not cited by the majority of candidates.

In May 2005 there had been little evidence of industry research into the recycling industry, but candidates who sat the September 2005 pilot on Domusco seemed better prepared. This contrasted with that demonstrated by the candidates who sat the November 2005 exam. Therefore, it is recommended that candidates should read widely on the industry in which the case is set, to enable them to quote examples and to explain how real companies have overcome many of the problems facing the company in the case material. A few candidates quoted examples of building companies such as Taylor Woodrow, Laings, Westbury, and other relevant examples where cost overruns had occurred such as the Millennium stadium in Cardiff, the Channel Tunnel and Wembley stadium. Some candidates even quoted relevant examples of companies that had given profit warnings.

## 5.5 Focus

The 10 marks available for Focus are for discussion of the key issues. Overall, the majority of candidates earned high marks in this assessment criterion as they correctly discussed in a good amount of depth the key issues. Many candidates achieved a clear pass. Generally, this criterion was well attempted. To ensure high marks here it is necessary to identify the key issues in the case and to set up a “check list” of report headings, to ensure that all of the relevant issues have been discussed. The process of planning your answer, at the start of the exam, is to firstly identify the key issues, then prioritise them, and then discuss each of them in depth.

Good marks were awarded to many candidates for discussing the cash shortage that had been forecast for the next six months, the loan covenant restrictions and the ways in which cash could be generated, including boosting sales, reducing construction and other expenditure and selling some of Domusco’s land bank. Some candidates also discussed the need to recruit a new Finance Director following Martin Lite’s resignation, although some candidates mistakenly simply stated that Martin Lite should be invited back. When a main Board Director of a listed company resigns over a point of principle (the final straw being the lack of a profits warning) it is unlikely that he would want to return to the company. Also there were some good discussions on Domusco’s falling share price and the proposed organisation changes, which the majority of candidates agreed (correctly), were a low priority compared with the other urgent issues facing the company.

## 5.6 Prioritisation

Unlike the May and September 2005 exams, in which few candidates identified and prioritised the key issues, it is pleasing to report that the majority (over 90% of candidates) **did** prioritise the key issues facing Domusco. Most also got the prioritisation correct. Whilst there is no single correct answer, the two key priorities were to address the severe cash shortfall that had been forecast and to fill the Finance Director role.

Therefore, the majority of candidates earned pass marks for this criterion. It is hoped that the guidance notes sent out to candidates alerted them to the need to identify and prioritise the key issues facing the company, taking into account the issues raised in the unseen material presented to them on the exam day.

The examiner is very pleased with the significant improvement made in this assessment criterion, but there is still room for improvement. As well as preparing a position audit and a SWOT analysis, additional marks can be earned if the reasons for the choice of priority are explained and justified.

For example, a candidate could have identified that the forecast cash shortfall for Domusco is the top priority. Further marks would also have been awarded, if the answer had then explained that cash is crucial to the very survival of Domusco and that it could face liquidation, or a hostile take-over bid, if this is not addressed by a series of urgent actions. Therefore, the justification of why the candidate considers each of the issues to be the top, or a lesser, priority should be clearly stated. Perhaps, the candidate is even thinking of the reasons, which is how he/she has reached the conclusion of why a particular issue is the second or third priority for example, but unless the candidate actually writes down the reasoning, then the examiner cannot reward the thought process!

To summarise, it is vital to identify and place in priority order the issues facing the company in the question, taking account of the events given in the unseen material on the exam day. It is not necessary to give each and every issue a priority number, but candidates should identify and prioritise at least the top 3 or 5 key issues. Additional marks, up to the maximum of 10 marks, are available for the justification and reasoning behind your choice of priorities.

### **5.7 Judgement**

This is an important criterion, which now carries 15 marks, and is for the demonstration of alternative solutions and the display of professional judgement. It can also be considered as the “link” between the discussion of the issues and the recommendations. Marks are awarded on the basis of what professional judgement candidates have demonstrated in reaching and justifying their recommendations.

This criterion was poorly attempted by the majority of candidates and is an area that needs to be improved for the future.

A small minority of candidates did not discuss how the Z\$2,500 million forecast cash shortfall could be addressed. They simply stated that Domusco needs to generate more cash, or naïve comments like increase sales or to stop all construction expenditure. Whilst it is agreed that construction expenditure on unsold houses and offices in Zee (and especially the Hadsi site) should be stopped, it is simply not feasible for a company to stop doing what is its “raison d’etre” i.e. to build. Additionally, all of its employees would still need to be paid and there is a lead time in which construction work could be stopped and that is not immediate.

Many candidates were awarded marks for discussing that a rights issue would not be suitable at the present time due to low investor confidence and the low share price and that more loans would not be possible due to the loan covenants. A surprisingly high number of candidates who were trying hard to think how else cash could be generated at short notice went on to recommend that Domusco should get a bank overdraft. Domusco is a listed company which generated global profits of Z\$686.2 million in 2004, and would have access to a bank overdraft – but NOT to the level of Z\$2,500 million (almost Z\$2.5 billion!). Furthermore, the use of a bank overdraft, which could be called in at any time is risky and this type of recommendation earned no marks and further demonstrated candidates’ lack of commercial awareness.

Marks will only be awarded in the criterion of Judgement for recommendations and comments that are commercially viable and realistic. Another example was to sell the office building subsidiary. This is a viable recommendation but it is unrealistic that Domusco could get this agreed by the Board, find a buyer, do the legal work and receive the cash within the next six months that Domusco has forecast that it has a net cash shortfall. The divestment of part of a listed company can take years, and this further demonstrated a lack of professional judgement. However, a few well prepared candidates earned high marks for this criterion for thoroughly discussing all of the options available to Domusco, and how it should sell part of its land bank (especially land held in Europe and that acquired with KLT) to generate cash in the short term, together with a structured cutback of expenditure of unsold houses and offices and a delay to starting phase 2 in Hadsi. Some candidates

also suggested a number of widely used sales techniques that are used by house builders to sell completed housing stock, such as discounts and cash back incentives.

It was clear that overseas candidates generally earned low marks in judgement as they did not demonstrate their ability to discuss alternative solutions and the display of commercial and professional judgement was poor, resulting in the low pass rate in some overseas centres.

### **5.8 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 in November 2005 produced reports that were badly integrated and this resulted in low marks. Most candidates produced calculations (which were generally well presented and clear) in an appendix to their report, but then did not discuss the relevance of the figures in the body of their 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.

Candidates who did not discuss the severity of Domusco's cash situation did not earn pass marks in this criterion. In real life, if you employed a consultant to advise on the key issues of this case and stated that the company has forecast a cash shortfall of almost Z\$2,500 million, and low investor confidence and that the Finance Director had just resigned, you would expect these three key issues to be addressed. However, as many candidates did not discuss (let alone make realistic recommendations on) these three crucial issues, the examiner considered the reports not to be a comprehensive professional report and awarded low marks. This criterion is used to assess the entire report in a holistic way and to attain pass marks, the report needs to identify and discuss, in the correct degree of urgency, the key issues.

### **5.9 Logic**

The criteria of Logic carries the most marks in the assessment matrix and in November 2005 there were 20 marks available for candidates who prepared clear, justified, well argued recommendations and for the good presentation and communication skills demonstrated throughout the report.

All business reports, whether financial or non-financial reports, include recommendations of alternative courses of action, together with justification of why one, or more, courses of action are recommended. In your future role of an ACMA you will need to prepare reports for general management or for Board members. These senior managers will want to see a clearly laid out, well presented report that discusses all of the issues and then culminates in firm, clear, concise recommendations that show why the particular courses of action that you are recommending should be approved. Additionally, where appropriate, recommendations should also have a suggested timeframe in which the recommendations should be actioned, although these could be divided into short term (within the next year) and longer term recommendations.

Your report in the TOPCIMA exam should be prepared in the same way and should culminate with clear recommendations that follow through from discussion of alternative courses of action that were discussed within the main body of the report. Additionally there should be clear reasons why the recommended courses of action have been selected. Unfortunately, many candidates still end their report with a page (sometimes a half page) of short bullet points in a random fashion stating "do this, do that" with no justification as to why those courses of action have been recommended. The examiner cannot read your thoughts. No doubt when the recommendations are written by candidates, they know in their own minds why they are choosing a particular course of action – BUT unless you clearly state (i.e. justify) why you are choosing a particular course of action, you will be rewarded with lower marks than you would be if you had given all of the underlying reasons.



However, it must be stated that a growing number of candidates have prepared a set of very good, clear logical recommendations that clearly showed the short term recommendations that Domusco must undertake immediately to overcome the forecast short term cash shortfall. Then there were further recommendations that should be taken to improve Domusco's longer term profitability, risk management issues and growth in its share price.

Another comment is where in the report should recommendations be made? Should recommendations be put at the end each paragraph, within the main body of their report, or should the recommendations be made at the end of the report in a separate recommendations section. It should be stated that either is acceptable for full marks. However, it is generally better if all of the recommendations are made at the end of the report. This is because a recommendation cannot be assessed and justified until all of the other issues are discussed and assessed, as many are competing for the same scarce resources, manpower and finance.

Most TOPCIMA candidates attempted the recommendations section quite well with the majority earning pass marks. Almost all candidates earned high marks for a well presented report and there was far less evidence than in previous exams, of time pressure, presumably due to the additional 20 minutes reading time.

The 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 Domusco should sell some of its land bank to generate cash because...".
- Recommendations should be prepared covering all areas of the report. Each of the issues that has been identified and discussed elsewhere in the report should have clear justified recommendations.
- It may be that some of your recommendations need to be only a few lines long (certainly not only a few words) but should cover every issue discussed elsewhere in the report. As above, you should have a "check list" of issues to be discussed, (that you should prepare in your answer plan) and you should use this same "check list" to ensure that a clear justified recommendation has been made for each issue. Each issue should have a recommendation to either action it or not to proceed, with clear reason why that recommendation has been made. For example, in this case, it could be that Domusco should not obtain additional loan finance as the company's gearing is already close to the agreed 40% loan covenant agreed with its bankers, and it must not breach this limit as the bankers could withdraw the current loan facility.
- It is necessary to make recommendations on all facets of the company, such as changes to the Board (such as replacement for Tom Micol who is nearing retirement and the recruitment of a new Finance Director), use of IT, and other areas such as strengthening financial controls, to stop any further frauds occurring and ways to improve Domusco's strategic planning process, which is clearly very weak.

## **5.10 Ethics**

This new criterion was much better attempted in this exam sitting than in both previous TOPCIMA exam sittings, with many candidates earning pass marks. However, higher marks could have been awarded for more advice as to how Domusco could overcome the ethical dilemmas.

To earn good marks in this criterion, it was not sufficient to simply list issues such as the bribery payment to win the European stadium contract, the way employees and sub-contractors are dealt with as the level of construction is reduced in the short term (due to the cash shortage) and the lack of a profits warning to investors. What the examiner was looking for was for the candidate to identify each of the ethical issues (and there were many of them) and then to briefly justify why each issue was considered to have an ethical dimension. Higher marks were then awarded for candidates who

further offered realistic advice on how to resolve the ethical issues, such as the introduction of a code of conduct in contract negotiations, and a tightening of financial controls to stop unethical payments being made. It was disappointing that very few candidates offered advice on employee issues such as redundancy as a result of the recommendations that construction work in Zee should be severely reduced.

To summarise, in order to earn pass marks it is necessary to identify, justify and recommend advice on how to resolve several of the ethical dilemmas included in the case material.

## **6.0 The requirement**

Now this advice seems obvious - candidates are reminded to ensure that the answer that they write fully answers the requirement stated. The answer given should be focused to the actual requirement set, although the requirement is usually fairly open ended. It usually asks candidates to advise on the key issues. Therefore, in order to pass you need to identify what the key issues are. It is recommended that candidates prepare answer plans, or “check lists” to ensure that all areas are covered.

The most common reason for candidates failing in November 2005 was that many candidates did not recognise the severity of the forecast cash shortage and the potential impact on the company. Many reports stated “when the cash flow problems have been solved.... then Domusco should ...”. It must be stated that a company will NOT have a long term if it does not survive in the short term. It was quite clear that a forecast cash shortfall of Z\$2,500 million was very significant and urgent drastic action was required or corporate failure could occur. Candidates who discussed longer term issues without making clear recommendations as to how the cash shortage could be overcome could not pass.

However, some candidates did clearly identify the importance of the forecast cash shortage, but still failed as their only recommendations were “more loans” (which were not possible due to the loan covenant restriction) or “issue shares” (which was not commercially viable at this point in time and would also take too long anyway). Therefore, in order to pass the candidates needed to identify the main few key issues (cash, the need for a new Finance Director and the lack of investor confidence in Domusco) and to discuss these key issues and make realistic commercially viable, recommendations that displayed a good degree of professional judgment.

Additionally, candidates are reminded that they should ensure that their answer covers all nine criteria of the TOPCIMA assessment matrix, which is used to assess their answers. However, it must be stated that in this sitting of TOPCIMA there was far less evidence of candidates omitting areas of the assessment matrix (such as prioritisation and discussion of ethical issues) than in previous TOPCIMA exams.

Therefore, in summary, candidates are reminded to ensure that all aspects of the requirement have been discussed and that their recommendations do cover all of the key issues from the case material.

## **7.0 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. It is necessary for many candidates to revise the subjects contained in the 3 Strategic level papers, particularly Business Strategy, so that relevant technical knowledge and theories can be discussed in the context of the case material. There are two of the nine assessment criteria that relate primarily to the use and application of technical knowledge. Do not miss out on these marks.

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

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 as 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.

The other important advice, is to empower yourself with the required research and pre-prepared material, but be ready to “discard” some (or all) of this material if you find it is no longer relevant to the question or relevant to the new material in the unseen material on the exam day. In summary, do plenty of research, do prepare material for your report, plan the layout and lots of other preparation using the pre-seen material – but on the exam day, ensure that the relevant key issues raised in the un-seen material are discussed. This may (or may not) include some of your pre-prepared material – so, be prepared to write a relevant report that covers the new issues. The key word here is **relevant**.

Also, it may be helpful for candidates to use the following report format for their answers, which should provide a check that all areas have been covered, especially prioritisation and ethical issues. A recommended report format that could be used is:

- Contents page
- Introduction (brief 5 to 10 lines of background on the company)
- Terms of reference (brief 5 to 10 lines to set the scene of who you are – e.g. a consultant, and to state who the report was commissioned by, and who it is aimed at)
- Identify and prioritise the main issues facing the company, showing and justifying the top 5 items in priority order. This area of the report should also include discussion on your position audit or SWOT analysis.
- The main body of your report should discuss in depth all of the issues you have identified above and should be supported by numerical evaluation of the proposals, which should be shown in appendices. You should also incorporate real life examples that are relevant to the industry setting or the situation the company is facing. Also, remember that all of the key data and analysis given in appendices should be discussed within the body of the report.
- Separate section on Ethical issues, covering a number of ethical issues and offering advice on how these issues could be resolved.
- Recommendations. The most important part of the report. This area should make clear, fully justified recommendations on each of the issues discussed earlier in your report. Each recommendation should be clear and well justified as to why you are recommending a particular course of action. Do NOT recommend that more information needs to be collected before a recommendation can be made.
- Conclusion (brief 5 to 10 lines for closing comments)
- Appendices. Note: key data and analysis given in appendices should also be discussed within the body of your report.

## **8.0 Recommendations and conclusions**

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 five key tasks that will put you in a better position of passing TOPCIMA in the future are:

- Thoroughly research 3 past TOPCIMA cases. Then write your answer and compare it, and mark it, against the case writer's answer.
- Research thoroughly the business setting for the case that you are planning to sit and familiarise yourself totally with the pre-seen material.
- Learn and understand business strategies and techniques (which are detailed in the CIMA Study System) and learn how to apply them to the case material.
- On the day of the exam, you need to ensure that your report covers the relevant key issues raised in the unseen material and that your answer relates to the exact requirement of the question.
- 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 – do as much research and reading about the industry setting as you can, and use the internet to help with your research. Prepare yourself as much as possible for the exam, using the advice above – as this report gives details of where candidates have gone wrong in the past. But most important of all - on the day, ensure that you write a thorough, well reasoned answer that covers the relevant key issues raised in the unseen material and that your answer covers all aspects of the requirement. If you can do this, you will be successful.