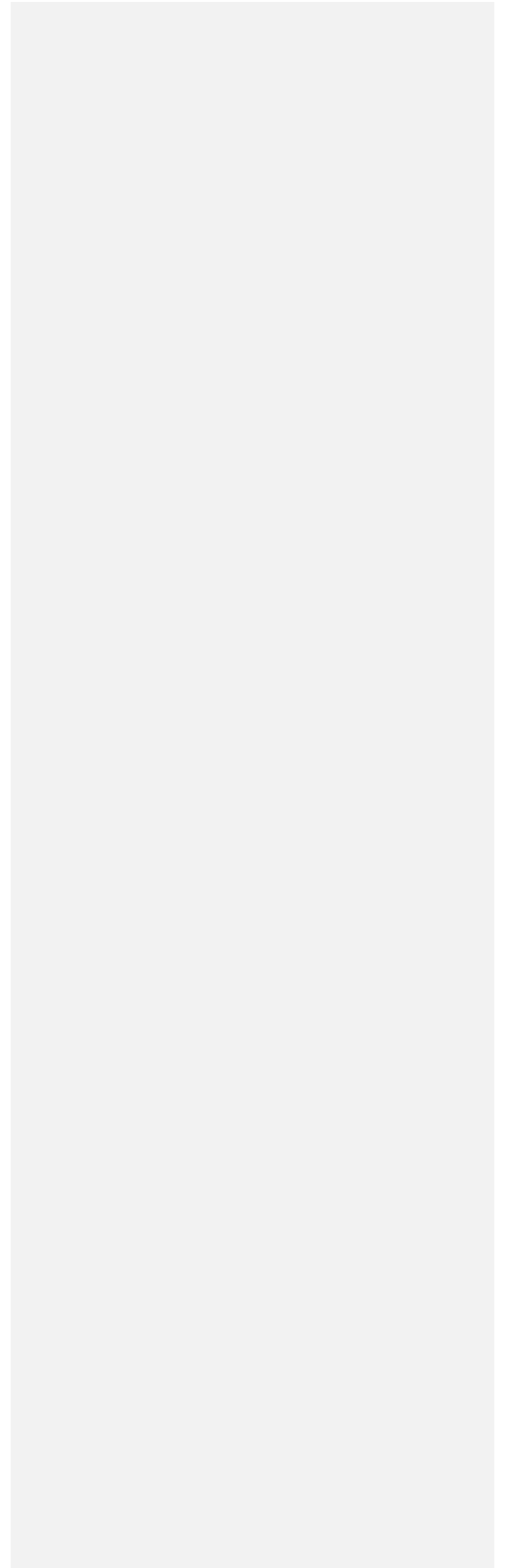




OCS Mock 3
OCS | May/Aug 2023

Exam attempted on 2023-04-29 17:50:17
Exam attempted by _____
Marked by Nicholas _____



Answer for Section 1 | OCS Mock 3 Task 1
Elapsed Time 45:00

Decision tree and how we should use it to select the most suitable dealer

Decision trees use expected values in a number of scenarios to see which has the greatest chance of earning the most money. Expected values use probability to see how likely something is to happen.

Decision trees are a tool which uses shapes to represent the flow of decisions of likely events which produce an outcome and how much expected value will come with each path. Squares represent decision points, the circles are opportunity points and the lines are the probability of each event occurring.

The first decision is whether to go with Mane Inc which is the line going upwards and the other option is to go with Aim Inc which is the line going down. If we follow the decision to go with Mane Inc then you can see that there is another decision to either go with option 1 or option 2 which are the 2 options Mane Inc gave us about the pricing for the monthly delivery fee.

If we go with Aim Inc then you can see that there is a note that there is a cost to incur of £1,500,000 which is for an advertisement campaign offered by Aim.

After this point, you can see for all 3 options there is a split into 3 lines all with different probabilities of this occurring and at the end of each of these lines is an expected value. You then calculate the overall expected value for each option by multiplying the probability by the expected value and adding them together.

As you can see, the greatest expected value comes from going with Aim as this is £10,779,000 which is higher than the other two expected values if you go with Mane. We do however have to take into account the £1,500,000 we would have to pay for the advertisement so this would be taken off the expected value and leaves us with a new expected value of £9,279,000 which is still higher than the other options so we should go with Aim.

Commented [TCS1]: Appropriate heading.

Limitations of using decision trees and the non-financial factors to be considered

Limitations of using decision trees are that they are based on probability and guesswork.

As they are based on expected values and probabilities, then the results are based on a potential outcome. These results occur if the event was to be tested lots of times then this is the most probable one to occur. But as we are only doing this event one time then it could be a range of outcomes.

The probabilities are also based on guesswork which if it is not based on reasonable assumptions then it could produce an outcome that is nothing like what was initially expected.

Commented [TCS2]: Great answer!

Commented [TCS3]: Appropriate heading.

Commented [TCS4]: Accurate.

Commented [TCS5]: Accurate.

Tutor's Note

Non-financial factors to be considered

One non-financial factor to be considered when choosing a supplier is the reputation of the company. We want to make sure they are good at what they do and people like working with them. If they are going to be working with us then we do not want to be affected by any issues they have at their company.

This also means that we want to make sure they work together with us so that we can both add value to each other by working together. If they are not good to work with then this could affect sales and overall profits for the company.

How the deals are with customers is another big factor. The company's culture may be off-putting to some customers which could lead to them not wanting to deal with the dealers and could reduce sales and engagement from customers.

Commented [TCS6]: Note that another limitation is that decision trees is that it suits risk neutral decision makers only. Please refer to the answer plan.

Commented [TCS7]: Appropriate heading.

Commented [TCS8]: Accurate.

Commented [TCS9]: I get the point which you are trying to highlight. However, should've explained better. A mark was allocated.

Commented [TCS10]: Accurate.

KPIs which can be used to assess the performance of the chosen dealer

One KPI that we could use for the dealers is the overall sales they make per month. Setting a target for number of sales made in the month is a good way to show financial performance for the month.

This is evaluated by setting a sales target and comparing the difference from what they achieved each month.

This will clearly show what we expect from them each month and is an easy KPI to manage. If this KPI was not met then it would clearly show that there is an issue with making sales.

Another KPI for the deals could be amount of conversions they get from potential customers to achieving the sale. This is a good KPI because we can see how effective they are at turning perspective

Commented [TCS11]: Appropriate heading.

Commented [TCS12]: Good!

customers into current customers. If there is a large interest in our tractors and we have a lot of people visiting the dealers but only a small percentage of them actually make purchases then we are missing out on a lot of potential revenue.

On the other hand, if there are less potential customers but they are converting a lot of them to sales, then it shows they are doing well with the offers they have had but shows that maybe we need to do some more advertising or that our products may not be desirable.

The last KPI for the dealers could be a customer review of the dealer's performance. This can include a scoring from 1 to 10 for an overall to show how happy the customer has been with the service. You would also ask for written feedback for more specific issues or positives the customer would like to see. This is an easy way of showing how the dealers are operating beyond a financial view.

Commented [TCS13]: The mentioned KPI is similar to the 1st one. Hence, no marks were allocated. Further, you should have worded the KPI as "Number of leads converted".

Commented [TCS14]: Good!

Hydraulic pressing machines in our statement of financial position

Tutor's Note

The expenditure of the hydraulic pressing machines will be put into the statement of financial position (SOFP) as an asset under the heading PPE which stands for property plant and equipment. The value of the asset is the cost of the asset to purchase plus any extra costs to get the asset in place and working in the way it needs to. This can include delivery of the asset and modifications to the surroundings to allow the asset to function in a desirable manner. The value of these machines are calculated by adding the purchase price of E\$160,000 to the installation and testing costs on both machines which is T\$5,000, giving a total of T\$165,000. There is another cost that can't be attributed to the asset value which is the E\$2,000 for the networking between the hydraulic pressing machines and our production system used within the production department. This can not be assigned to the pumps asset value as it does not fit the criteria for this to be included in the pumps price even though it does further increase efficiency in production. The machines will be depreciated over the useful life of the asset which is 15 years on a straight line method. This is calculated by dividing the total asset value less any expected carrying value at the end of its useful life and dividing this by its useful life which is T\$165,000 over 15 years which gives an annual depreciation value of T\$11,000.

How disposal of equipment will affect the tax charge at year end

The tax charge at the year end depends on a few different factors. The tax charge is how much tax we need to pay due to profits that we have made during the period. The assets that we are selling were initially bought for T\$350,000 but has since been depreciated and now has a carrying value of T\$140,000. The assets are to be sold for T\$600,000 which means that there will be a revaluation gain of (600,000 - 140,000) T\$460,000. This profit from this sale is more than the costs to buy the machines which is T\$165,000 which would leave T\$295,000 left. This is added profit which would then be taxed at 30% in line with Teeland's tax laws. However in Teeland there are tax depreciation allowances available on all items of plant and equipment (including computer equipment) at a rate of 25% per year on a reducing balance basis. This means that the tax on depreciation is reduced by 25% per year on a reducing balance basis so the depreciation is reduced by 25% each year but using the new total each time to be reduced.

KPIs that can be applied on our production function

KPIs are ways of effectively monitoring critical tasks to a business and see how effectively they are being carried out.

Maintaining quality

One KPI that can be used for the production function is monitoring how many quality issues there are per month. This can be calculated by taking the total quality issues and divide it by the total number of tractors produced and then times this by 100% to get a percentage. This KPI can show how many quality issues are arising when producing the tractors. A high percentage would show that there are lots of mistakes being made and the overall quality of the tractors are lower. This is an issue because it can lead to these issues having to be fixed before sending it out to customers, or it can even lead to customers complaining that the tractor is not what they expected. Both of these means that the company incurs more costs trying to fix these issues and it can also damage the reputation of the company.

Managing efficiency

A KPI that could help to monitor efficiency is the total number of tractors produced in the month. By setting an expected number of each type of tractor that should be produced in the month, it is easy to see any deviations from this expected figure both positively and negatively. This KPI can keep production staff on track as this can be monitored daily to see if they are on track to achieve the amount they need to in the month.

Driving down operational costs

Commented [TCS15]: Appropriate heading.

Commented [TCS16]: You should have started the answer by explaining the initial measurement criteria. Refer to the answer plan.

Commented [TCS17]: Accurate.

Commented [TCS18]: Accurate.

Commented [TCS19]: Inaccurate. Please refer to the answer plan.

Commented [TCS20]: The answer needs to improve significantly. Please refer to the answer plan.

Commented [TCS21]: Appropriate heading.

Commented [TCS22]: The answer needs to improve significantly. You have not described the accounting treatment related to the disposal accurately. The answer pertaining to taxation need to improve as well.

Commented [TCS23]: Appropriate heading.

Commented [TCS24]: Good!

Commented [TCS25]: You should have mentioned a KPI which helps measure efficiency, such as manufacturing cycle time. Refer to the answer plan.

A KPI for keeping costs down is to look at production costs per tractor. This is calculated by taking the total overheads for the production department and divide it by the total number of tractors that were produced in the period.

This can give a good overview of how efficient they are being and will show the costs that can be attributed to the tractor form time spent in production. This can motiaved production staff and managers to look into keeping costs down by either working more effciently or looking into staffing levels to help reduce production overheads occured per tractor they make.

Commented [TCS26]: Accurate.

Answer for Section 3 | OCS Mock 3 Task 3
Elapsed Time 45:00

Expected values, standard deviations and coefficient of variation

Expected values are a weighted average of all possible outcomes from a random variable. these can be used to estimate future cashflows, revenues or expenses.

standard deviation is a measure of spread or variability of a set of data. it indicates how much of the data deviates from the mean value.

coefficient of variation is the relative measure of that expresses the standard deviation as a percentage of the mean. This is calculated by dividing the standard deviation by the mean and multiplying by 100.

The higher the coefficient value, the greater the variability.

Risk attitudes

There are a few risk attitudes when looking at expected values of different options including Maximax, Maximin and MiniMax Regret.

Maximax is the risk taker. This person wants to achieve the maximum expected value and is not worried about the risk of the option.

This attitude would go for campaign 3 as this gives the potential for the highest expected value of 380,000 even though this only has a 20% change of occurring. There is a 40% change of the expected value of being 160,000 or -140,000 but the maximax would pick this as they do not care about the risks. The overall expected value is also 400,000 which is less than the other two options.

Maximin is risk averse. This attitude takes into account the risk and looks to maximise the expected value by looking at the maximum value of the minimum expected values.

This attitude would pick campaign 1 because out of all the options they would pick the largest of the minimum expected values which is 60,000 in options 1 whereas the values for campaign 2 and 3 are -20,000 and -140,000 respectively. This option limits the amount that they could lose by choosing the wrong campaign.

The Maximin regret is the sore loser. This attitude wants to reduce the potential amount they could lose (the regret)

This attitude will pick campaign 2 as this option leads to the least amount of regret.

Tutor's Note

Principles of beyond budgeting

Beyond budgeting goes beyond what is usually considered typical budgeting as it takes away the rigidity and inflexibility of standard budgeting. it relies on an openness within the business and relies on people being held responsible for these actions.

This allows different areas of the business to make decisions on real-time data and information to make better use of cash they have and not be held back by a strict budget. This leads to better decision making and will hopefully lead to better returns.

This would be a benefit for Tracs Europe because it would help with the issues of certain areas of the business that are not operating as efficiently as they should. It will allow these areas some freedom to do things the way they think would work best. This should help motivate managers and workers in this area as the top-down approach might be discouraging them.

The business will also be more agile in dealing with opportunities or threats to the business as managers are not held to strict budgets.

The whole process also frees up management accountants' time as they need to spend less time on budgeting as there is a better understanding of everyone in the business. This means they can focus on providing value to the business in other ways.

Tutor's Note

Feedforward control system compared to a feedback system

Feedforward control is a way of trying to anticipate risks and uncertainties within a company with the aim of trying to prevent them. This is not reactionary like a feedback control which looks to resolve issues after they occur rather than looking to put in safe guards and procedures to minimise these risks and uncertainties.

An example of feedforward control would be to put in checks to see if transactions in an accounting system had been achieved by putting in a control to manually check them. This offers an extra level of checking which means there is less likely to be issues with regards to posting items incorrectly which would lead to issues within our financial statements.

Commented [TCS27]: Appropriate heading.

Commented [TCS28]: Accurate.

Commented [TCS29]: Accurate.

Commented [TCS30]: Accurate.

Commented [TCS31]: Inaccurate. Note that a risk seeker will opt for the highest outcome, not the highest EV. The TVs are considered by risk neutral decision makers, not risk takers. Refer to the answer plan.

Commented [TCS32]: Although the mentioned points are accurate, you should have considered the CoV when providing an answer about risk averse decision making. Please refer to the answer plan.

Commented [TCS33]: Irrelevant to the requirement, since a regret table has not been provided in the question. Note that maximin regret criteria should only be considered when the question comes with a regret table.

Commented [TCS34]: Your answer needs to improve significantly. Note that you have not mentioned about the decision taken by a risk neutral decision maker.

Further, you have not mentioned the limitations.

Note that each decision maker looks at the following when arriving at a decision.

- * Risk seeker: Highest outcome
- * Risk neutral: Highest EV
- * Risk averse: Lowest CoV.

Please refer to the answer plan to gain an in-depth understanding in this area.

Commented [TCS35]: Appropriate heading.

Commented [TCS36]: Accurate.

Commented [TCS37]: Should have explained this point further to gain more marks. Refer to the answer plan.

Commented [TCS38]: Accurate yet need to improve. Refer to the answer plan.

Commented [TCS39]: Accurate.

Commented [TCS40]: Should have started the answer by defining rolling budgeting. Refer to the suggested answer.

Commented [TCS41]: Appropriate heading.

Commented [TCS42]: Good!

Commented [TCS43]: The provided example has nothing to do with feedforward controls.

One positive of this approach is that overall there will be less errors which leads to more accurate information which is important for things like budgeting as you want as reliable information to use.

Tutor's Note

Commented [TCS44]: Accurate.

Commented [TCS45]: The answer needs to improve significantly. Note that you have not mentioned the benefits of feedforward control, which carries the highest chunk of marks for this requirement. Refer to the answer plan.

Answer for Section 4 | OCS Mock 3 Task 4
Elapsed Time 44:54

What-if analysis vs sensitivity analysis

Revised profits

Assumption A: for assumption A it is assumed that a reduction of sales price by 5% will lead to an increase of 15% of sales volume.

This shows that by reducing the sales price by 5% there will be an increase of sales volume by 15%. This in turn pushes up the operational costs by 15% but also increases the revenue and contribution by 9% and 7% respectively. The fixed costs stay the same which in total increases the profit by T\$238.

Assumption B: A 10% reduction in sales price leads to a 30% increase in sales volume and a 5% increase in fixed costs

This assumption cases there to be an increase in revenue of 17%, operational costs of 30% and contribution of 11%. Overall this increases revenue by T\$360 which is greater than assumption A.

What if analysis

What if analysis is when you change a single factor and see what difference it makes to the outcome. Difference variables can be selected to change while keeping all the other the same to see its individually effect on the outcome. This can mean seeing what happens to sales when the sale price is dropped by a given amount.

Sensitivity analysis

Sensitivity analysis is similar to what if analysis but instead of just changing one variable, it changes multiple variables and see what the affect is on a financial outcomes. An example of this is changing both the sales price and the variable overheads and seeing the outcome to the sales.

What is analysis if preferable to sensitivity analysis because when one variable is changed you can see the direct influence this has on the outcome. When you select multiple variables to change, you are not sure which variable is contributing to the change in outcomes.

An example would be if you lowered the sales price and also spent more on advertising, there would be no way of seeing how much impact each of the variables had made by changing them. What if analysis allows the most sensitive variable to be found.

Principal budget factor and functional budgets

The principle budgeting factor is the factor that will limit the activities of an organisation for the budget period. This is the one thing that will prevent all other parts of the budgets so it is very important to identify before starting the budget process.

The principle budgeting factor needs to be identified at the start of the budgeting process as all other budgets will be effected by this. The factor is usually sales demand but it could be resources, skilled labour or period capacity.

this relates to the functional budgets because initially the sales budget needs to be made which is how many units need to be sold.

KPIs which can be used to measure the success of the expansion drive

It is important not to just focus on financial KPIs as there are other aspects to think about when deciding if the expansion drive has been successful.

One non financial KPI could be the number of new clients that have been gained since moving into the new country. It is important that we both gain and keep new clients for future of the company. A good client relationship will lead to more sales and more value created over the years of the relationship.

Another KPI would be customer satisfaction index. This is where we ask customers how happy they are with us by scoring us 1 - 10. They can also add comments to be more specific with issues or highlights they have with our performance. This is an easy way to see how well we are doing but also allows to develop relationships by asking customers opinions and working on improving it.

Commented [TCS46]: Appropriate heading.

Commented [TCS47]: Accurate yet need to improve. You have simply reiterated the information provided in the reference material, rather than explaining the reason for each % increases. Refer to the answer plan to gain an in-depth undertaking about the type of evaluation you should have carried out.

Commented [TCS48]: Inaccurate, since under SA, a single variable is changed and under WIA, multiple variables are changed. Refer to the answer plan.

Commented [TCS49]: Inaccurate.

Commented [TCS50]: Appropriate heading yet should have been in Bold and Underline format.

Commented [TCS51]: Accurate yet need to improve, since you have failed to explain the link between the principle budget factor and functional budgets. Refer to the answer plan.

Commented [TCS52]: Appropriate heading.

Commented [TCS53]: Accurate yet should have worded as "amount of sales generated", "market share" or "revenue generated".

Commented [TCS54]: Good!

Marks Gained

Task		Allocated	Gained	Success %
1	a	14	13	93%
	b	12.5	10	80%
	c	11	9	82%
2	a	9	3	33%
	b	13.5	1.5	11%
	c	15	6	40%
3	a	19	4.5	24%
	b	11	7	64%
	c	7.5	2.5	33%
4	a	16.5	4	24%
	b	7.5	2.5	33%
	c	13.5	6	44%
Total		150	69	46%

Pass Mark 80
Marks Gained 69
Grade FAIL

- Note that the areas highlighted in yellow depict the sub tasks in which you have exceeded the threshold success rate of 54%.

General Comments

Do not be demotivated by the marks gained, since this was your first real attempt of an exam standard mock exam. In fact, most first timers rarely go beyond 50 marks.

Further, it appears that you were finding it a tad difficult to manage your time, since I feel that the answers provided for subtasks 2(c), 3 (c) & 4 (c) were rushed and thus incomplete. This is normal since you are practicing the answering technique for the 1st time. You will get a hang of it when you attempt more mocks. Overall, I feel that you have managed your time appropriately.

Appropriate formatting.

Refer to the Answer Plan of Mock 3 to gather an in-depth insight about the expected quality of answers. Please watch the recorded versions of the 4 masterclasses as well.