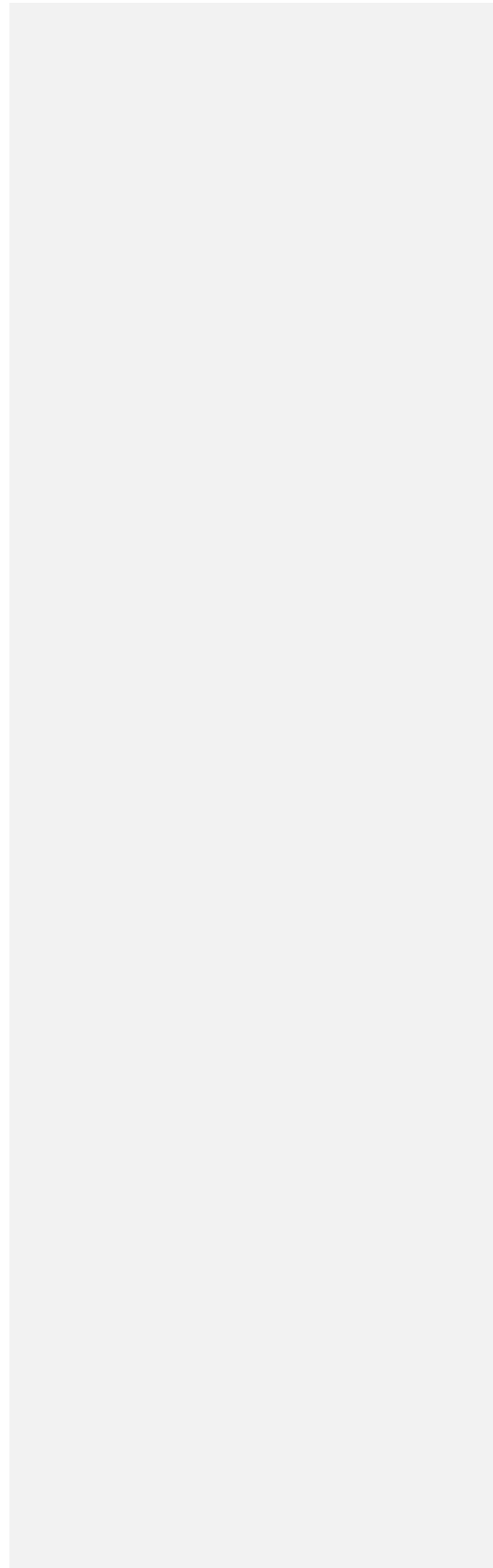




**OCS Mock 3**  
**OCS | February 2024**

Exam attempted on 2024-01-19 05:11:41  
Exam attempted by : \_\_\_\_\_  
Marked by Nicholas



**Explain the decision tree and how we should use it to select the most suitable entity**

**1. Explain decision tree**

The decision tree is a diagram showing the decisions we have to make. The circles show all the possible options and their respective expected values (EVs).

The three outcomes show "Very good", "Good" & "Poor".

The decimal numbers show the percentage chance of each outcome happening. For example for Aim Ltd, there is a 50% chance of a "Very Good" outcome.

EVs are the weighted average of each outcome weighed by the probability of each outcome.

The squares show the decision points that need to be made. So we first need to go to decision point A, and decide which one of Mane Inc's option is best, then we go to option B decide between Mane Inc and Aim Ltd.

**2. How we should use it to select the most suitable entity**

First we go to decision point A - between option 1 and option 2, the best outcome is option 2 as it has a higher EV.

Then between Mane and Aim, the highest EV is Aim so we go with AIM in this case.

**Explain the limitations of using decision trees. Also explain the non-financial factors to be considered, when making the decision.**

**1. Explain the limitations of using decision trees**

The first limitation is that the EV and expected sales and cash flow figures are all estimated, there's no guarantee that these will actualise. Furthermore, this is a one off decision that we haven't made before, so we don't have any previous data to see how accurate our past estimates were.

Also there is no guarantee that the AIM's advertisement campaign will boost the percentage of a "Very Good" outcome to 50%.

In addition to this, this decision tree does not feature any risk per dollar figures. So it is really only useful to decision makers who are not risk averse. A risk averse decision maker would prefer not to make a decision based on EV only, they would like to see the "risk per dollar" figures as well.

**2. Non-financial factors to be considered, when making the decision.**

We need to consider both companies track record in customer delivery of items. If the service is bad, we will receive many customer complaints which will reduce the value of our brand.

We also need to consider AIMs track record in marketing campaigns, we need to see proof of past performance with other companies to see if they can really run an effective media advertisement campaign.

We need to consider the track record in logistics and warehouse management, if stock takes are inaccurate, we could end up being out of stock, and our customers will not be able to buy our products.

We need to consider company ethics, anything our suppliers do, comes back to us, if they are involved in any scandals, it could hurt our brand.

**Suggest and justify three KPIs which can be used to assess the performance of the chosen entity.**

**1. Percentage of orders delivered on time:**  $\text{Orders delivered on time} / \text{Total orders} * 100$ :

This helps us see if our supplier is providing the required level of service to our paying customers

**2. Percentage of delivery related customer complaints:**  $\text{Delivery customer complaints} / \text{Total Customer Complaints} * 100$ :

This helps us see what percentage of customer complaints are delivery related. If this is high than maybe there is something we need to investigate. The delivery can be on time and customers can still complain, maybe the package was left in an inappropriate area of the property for example. This helps us track customer quality of life issues like this.

**3. Stock Check Variance:**  $\text{Stock value on supplier reports} - \text{stock value as per physical stock check}$ :

We can ask the supplier to do physical stock checks once a month and then we can compare what the system is showing and what is actually on the warehouse floor. If there's variances it means we could be out of stock on a product and not be aware until it's too late this helps us track this.

**Tutor's Note:** It's important to pay attention to formatting details. Please avoid numbering your headings and subheadings. Remember, headings should be in bold and underlined format, while subheadings should be in bold. Additionally, ensure you write a paragraph for each answer point and leave a line after each paragraph for better readability and organization.

**Commented [TCS1]:** Your response needs enhancement, especially considering the context of replying to an email from your superior. Rather than using the requirement as the main heading, it's important to craft a suitable and professional heading that aligns with the email's content. For guidance on appropriate formatting and structure, please refer to the suggested answer.

**Commented [TCS2]:** Refrain from numbering your subheadings. Further, the sub headings need to be in Bold format.

**Commented [TCS3]:** Accurate.

**Commented [TCS4]:** Appropriate sub heading. However, formatting needs to improve. So not number any heading or subheading. Also remember that headings should be in Bold & Underlined format and subheadings in Bold format.

**Commented [TCS5]:** Your answer is correct but lacks sufficient application. While you've correctly identified the appropriate decision, it's essential to elaborate on how you reached this conclusion. This involves referring to and analyzing the specific information presented in the scenario to justify your argument effectively. For a more detailed understanding of how to structure your response, please consult the suggested answer.

**Commented [TCS6]:** Refrain from mentioning the requirement within your answer. Instead, develop an appropriate heading.

**Commented [TCS7]:** The highlighted area depicts the Heading which you should have used.

**Commented [TCS8]:** Good!

**Commented [TCS9]:** Your response contains a contradiction. While you describe the decision-makers as not being risk-averse, implying they are risk-takers, the rationale you provide aligns more with the behavior of a risk-averse decision-maker. To resolve this inconsistency and better align your answer with the scenario's context, please consult the suggested answer and the answer plan.

**Commented [TCS10]:** Appropriate heading. Refrain from numbering each heading/ sub heading. Further, this should have been a subheading.

**Commented [TCS11]:** Good!

**Commented [TCS12]:** This should have been your heading.

**Commented [TCS13]:** This is a relevant KPI. The formula is accurate as well. However, the justification needs to improve. Please refer to the suggested answer or the answer plan.

**Commented [TCS14]:** Relevant KPI. However, the justification needs to improve.

**Commented [TCS15]:** This is a relevant KPI. However, the justification needs to improve significantly.

Answer for Section 2 | OCS Mock 3  
Elapsed Time 35:50

**How the expenditure relating to the blanching machines will be initially recorded in our statement of financial position**

This is relating to IAS 16 PPE. According to IAS 16 this asset needs to have future economic value and its value needs to be easily ascertained.

Because these machines have a service life of years and we can clearly see they have a value of 160k, which is the purchase price, we can see that they meet this criteria.

According to IAS 16 PPE, we should also include all expenditure that relates to getting the asset ready to be in use.

So we should include the 160k purchase price on the Statement of financial position/balance sheet, however we should also include 5k for the installation and 2k for the intergration as they are both relation to getting the asset ready for use.

The assets should be classified as "Tangible Non Current Assets" on the Statement of financial position/balance sheet.

**How we should depreciate the asset**

The blanching machines have a service life of 15 years so they should be depreciated for 15 years as that is their service life.

The blanching drums have a service life of 3 years so they should be depreciated for 3 years as that is their service life.

The depreciation should start from the date the assets are in use, not the purchase date.

**How the disposal of equipment will affect the tax charge for the year and our financial statements for the year ended 30th June 2024**

For this question we have two options, whether or not the disposal is done before or after year end.

**Option 1**

If the disposal is done after year end, then it may be relating to "IFRS 5 Disposals and Discontinued Operations"

The asset will need to be marked for sale if it meets the following criteria:

- Asset needs to be ready for immediate sale in its current condition
- Sales expected to take place in 12 months
- Active program to find buyer
- Asset is on sale at a realistic price
- Management are not going to change their mind about the sale in the future

If the asset meets this criteria then it can be marked as "Asset held for sale"

As this point it gets moved from "Non Current Assets" to "Current Assets" and no more depreciation can be done on this asset.

It's not sure if our asset meets this criteria as the carrying value is 140k but the company wants to sell for 600k, this is not a realistic price so I'm not sure if this meets IFRS 5 requirements.

**Option 2**

If the asset is sold before year end:

The profit/(Loss) on disposal account will show :  $600k - 140k = 460k$

The carrying value of 140k will be removed from statement of financial position as the asset is no longer owned by us.

The statement of cash flows will show 600k as the proceeds from the sale of the asset.

**Tutor's Note:** Your response overlooked an important aspect: the impact of the disposal on the tax charge.

**Identify and explain four KPIs that can be applied on our production function.**

**1. Actual production vs Expected Production Variance**

Actual Production minus Expected Production

This help us track if we are producing the expected amount of products, if not, we are not meeting budgeted output, and therefore we need to investigate and find the cause of these efficiencies.

**2. Defective Products vs Total Products %**

Defective products / Total Products \* 100

This helps us track what percentage of our output is defective. Although it is not fair to expect perfection from our production department, so we can tolerate some defects, however if this is unusually high, we know there is something that is wrong. Maybe a machine is broken, maybe the

Commented [TCS16]: Refrain from mentioning the requirement as the heading.

Commented [TCS17]: Accurate.

Commented [TCS18]: Accurate.

Commented [TCS19]: Accurate. Formatting needs to improve.

Commented [TCS20]: Accurate yet should improve. Should have mentioned that we need to separate the CV of the machine and the drums in order to depreciate considering the differing useful lives.

Commented [TCS21]: Accurate.

Commented [TCS22]: Appropriate heading.

Commented [TCS23]: The referenced accounting standard has been incorrectly named. Additionally, there seems to be a misunderstanding regarding the application of IFRS 5. This standard is applicable for assets that **remain unsold** at the end of the financial year, rather than for disposals occurring after the year-end.

Commented [TCS24]: The asset class should be more accurately phrased as "Assets Held for Sale."

Commented [TCS25]: Accurate.

Commented [TCS26]: Accurate. However, you should have also mentioned the valuation method to gain full marks. Refer to the answer plan.

Commented [TCS27]: Accurate.

Commented [TCS28]: The CV will depend on the depreciation policy of the company and thus, is not a good indication of the real value of assets. However, I have awarded marks, given that you have justified your argument.

Commented [TCS29]: Your answer is on the right track, but it needs more precise phrasing for clarity. Instead of the current wording, it would be more accurate to say: "The disposal results in a profit of 460k, which should be recognized in the Statement of Profit or Loss (SOPL)." Additionally, it's important to note that there is no specific account named "Profit or Loss of Disposal Account."

Commented [TCS30]: Accurate.

Commented [TCS31]: Accurate yet the phrasing need to improve. The proceeds should precisely appear within the SCF as "proceeds from the sale of PPE".

Commented [TCS32]: This should have been your heading.

Commented [TCS33]: Accurate yet the phrasing needs to improve. Shouldn't have used to term "variance". Also, "performance Percentage" is a better title for the same KPI.

Commented [TCS34]: Should have been "percentage of defects".

Commented [TCS35]: Accurate.

Commented [TCS36]: Inaccurate. The aim should be to achieve "zero defects".

ingredients we have sourced are not good, these are some possible causes for high defect rate, this is something we should keep an eye on in order to maintain efficiency.

### 3. Red flag safety incidents per week

#### Number of safety incidents / 7

This is important because the production floor is very busy, we have staff and machines all working together in a high pressure environment. If safety rules are not followed it could lead to important staff members being injured or an important machine breaking, both of these would lead to inefficiencies as the staff member recovers at home or time waiting for machines to get fixed. So we need to track safety incidents to make sure our production area is a safe place to work.

### 4. Machine Downtime hours vs Total Machine hours %

If a machine is down it means it's not working, which means we are not making the most of our production capacity, which is inefficient. We need to track this KPI to make sure it is as low as possible to maximise our efficiency.

**Commented [TCS37]:** The provided justification needs to improve significantly. Please refer to the answer plan.

**Commented [TCS38]:** Accurate.

**Commented [TCS39]:** Should have been "Machine Downtime".

**Commented [TCS40]:** Accurate.

**Commented [TCS41]:** Should've mentioned how efficiency can be maximised. Please refer to the answer plan.

Answer for Section 3 | OCS Mock 3  
Elapsed Time 24:44

**Explain what expected values, standard deviations and coefficient of variation mean**

Expected Values: Weighted average of each outcome weighed by probability of each outcome  
Standard Deviation: Variation to expected value. It's a unit of volatility, the higher the number, higher volatility and more risk  
Co-efficient of variation: EV divided by Standard Deviation. It's the relative risk, otherwise known as the "risk per \$"

**Different risk attitudes affect the choice of decision:**

Risk Happy - Someone who is risk happy will pick campaign 3, this is because it has the highest possible outcome of 1.9 million.  
Risk happy attitude is not concerned with the EV or the Co-Eff, they will just pick the campaign that has the highest possible upside, regardless if it is likely to occur or not.  
Risk Neutral - Someone who is risk neutral will pick campaign 2, this is because it has highest expected value of 520k.  
A risk neutral person is happy to take some sensible risk in order to get the highest possible outcome on average.  
Risk Averse - A risk averse person will pick campaign 1 this is because it has the lowest Co-Eff. Co-Eff is essentially risk per dollar or the relative risk. Campaign 1 is risking 0.77\$ per 1\$ invested, which is the lowest for this risk averse person will pick this one.

**Explain the limitations of basing our decision, solely depending on the provided information.**

The EV, Co-Eff, probabilities are all estimated, there is no guarantee these estimations are accurate. We have not ran any marketing campaigns in Meland before, this is new to us, so again we have no past estimate performance metrics to see how accurate our estimates are for this new market we are entering.

**Tutor's Note:** While marks were awarded for the point you highlighted, to achieve full marks for this section of the requirement, it was necessary to identify at least two additional points. Refer to the answer plan.

**Explain the principles of beyond budgeting, elaborating how we might apply these principles within Personal Best**

Beyond budgeting is when a company decides to do a rolling budget every month or quarter instead of using a yearly budget that is only prepared once.  
The advantage is that, it helps prevent planning variances, since you are constantly rebudgeting based on new information, it means you can react to changes quicker as you can change your budget in response to any external stimuli.  
Beyond budget also reviewing the performance of a business through many KPIs not just financial variances. For example an KPI you could use could be "Customer Satisfaction". This is helpful as you can mirror your KPIs to a competitors KPIs to see how you match up across relevant metrics.  
This also increases motivation within department heads as they feel they have more input in the budget setting process compared to a top down approach, this could lead to more realistic goal setting and higher motivation within teams.

**Explain how a feedforward control system differs from a feedback system, highlighting the benefits to be gained by switching to a feedforward system**

A feedforward system compares budget vs forecast, its a system that looks forward and is preventative in nature. A feedback system compares budget to actuals and looks backwards, it's corrective in nature. The benefits of switch to a feedforward system is, we can be pro-active instead of reactive. If the variance between forecast and budget is big, we can identify and start to corrective issues before the actual figures even come into play.  
Also a feedforward system is could for cash forecasting and cash flow management in general, if we are using too much of our cash reserves, our feedforward system will warn us before the money is even spent.

Commented [TCS42]: Refrain from mentioning the requirement as the heading.

Commented [TCS43]: While your definitions are accurate, they did not earn marks for application because they weren't tailored to the specifics of the scenario. Refer to the answer plan.

Commented [TCS44]: Should improve. Refer to the answer plan.

Commented [TCS45]: Should be "Risk Seeker".

Commented [TCS46]: Accurate.

Commented [TCS47]: Accurate.

Commented [TCS48]: Accurate.

Commented [TCS49]: This should have been the heading.

Commented [TCS50]: Accurate.

Commented [TCS51]: Refrain from mentioning the requirement as the heading.

Commented [TCS52]: Accurate.

Commented [TCS53]: Refrain from mentioning the requirement as the heading.

Commented [TCS54]: Accurate definitions.

Commented [TCS55]: Accurate.

Commented [TCS56]: Accurate.

Commented [TCS57]: The justification needs to improve significantly. Refer to the answer plan.

Answer for Section 4 | OCS Mock 3  
Elapsed Time 22:10

**Explain the revised profit figures in reference material 04:**

Assumption A:

Profit increased by 9%

Operating cost increased by 15% this is because sales increased by 15%, naturally cost of goods sold increased by 15% too.

Fixed cost remained the same however, fix cost per unit will have decreased as we produced more items for the same fixed costs.

Profit increased by 9%

Assumption B:

Profit increased by 13%

Operating cost increased by 30% this is because sales increased by 30%, naturally cost of goods sold increased by 30% too.

Fixed cost increases as volume increased by more than 20%

Overall assumption B is more profitable than assumption A

**Why what-if analysis is preferable to a sensitivity analysis**

Sensitivity analysis you can only change one variable at a time so it ignores the interdependencies between variables, however the what-if analysis, you can change more than one variable at a time so you can see the relationships between difference variables. For example: dropping the sales price, led to more revenue, but also led to an increase in operating costs.

**Describe the concept, 'principal budgeting factor'. Also explain the link between the principal budget factor and functional budgets.**

Principal budgeting factor is the first variable to determine before setting any other budgets. The

functional budgets are the individual department budgets, for example production, or marketing.

However the principle budgeting factor is the variable that limits everything else, for more businesses, the principal budgeting factor will be sales.

You will make your sales budget first, then based on that you will then move on to the functional budgets like marketing or production.

**Suggest three non-financial performance measures (KPIs), which can be used to measure the success of the expansion drive**

**1. Percentage of social media coverage**

Social media users were integral to PB's initial success, so now that we our entering a new country we should try and replicate that organic customer engagement that we had in our original market. This KPI could track how many organic users in Meland are talking about PB, which could help us optimise our marketing.

**2. Sales by Product SKU**

We are entering a new market, our best sellers in Celand may not be our best sellers in Celand, we should monitor which actual product flavours and types are preferred in our new market, that could help us measure how successful our offerings are compared to our domestic market.

**3. Staff Turnover rate in Meland:**

We should keep an eye on our turnover rate in our new market, if the staff working here keep quitting it could be a sign we are doing something wro.

**Commented [TCS58]:** Refrain from mentioning the requirement as the heading.

**Commented [TCS59]:** Should improve. This occurs due to the fact that OCs usually comprises of VCs.

**Commented [TCS60]:** Accurate.

**Commented [TCS61]:** Your response primarily restates information from the reference material without offering the necessary justifications for the increase in profit under each assumption. To strengthen your answer, please provide detailed explanations and align your justification with each specific assumption. Refer to the answer plan.

**Commented [TCS62]:** Appropriate sub heading. Formatting needs to change.

**Commented [TCS63]:** Accurate yet should improve. Should have explained interdependencies by mentioning at least a single example. Refer to the answer plan.

**Commented [TCS64]:** Accurate.

**Commented [TCS65]:** The justification needs to improve significantly. Refer to the answer plan.

**Commented [TCS66]:** Should improve.

**Commented [TCS67]:** Accurate. Could have gained full marks if you mentioned the steps involved in budget preparation.

**Commented [TCS68]:** This should have been the heading.

**Commented [TCS69]:** While the basic idea of this KPI is sound, the justification presented is rather basic and lacks practicality. Tracking every mention of PB on social media is not only impractical but also an inefficient use of resources. A more strategic approach would involve discussing how social media tracking can be utilized to optimize marketing efforts.

Instead, focusing on tracking the social media engagement rate would be more beneficial. This metric offers valuable insights for targeting activities more effectively, aligning better with marketing objectives.

**Commented [TCS70]:** Irrelevant to the requirement since this is a financial KPI.

**Commented [TCS71]:** Your response does not align with the scenario details. According to the mock exam scenarios, PB primarily operates in this market through a third-party distribution center, with its direct operations limited to conducting marketing campaigns from its head office in Ceeland. Therefore, the KPI you proposed conflicts with the established internal dynamics of PB and its operational structure as described within this mock.

## Marks Gained

Task	Allocated	Gained	Success %	
1	a	14	9	64%
	b	12.5	4.5	36%
	c	11	5.5	50%
2	a	9	7	78%
	b	13.5	7	52%
	c	15	9	60%
3	a	19	10	53%
	b	11	8	73%
	c	7.5	4.5	60%
4	a	16.5	5	30%
	b	7.5	5	67%
	c	13.5	0	0%
Total	150	74.5	50%	

**Pass Mark** 80  
**Marks Gained** 74.5  
**Grade** FAIL

## General Comments

Your use of the allotted time, particularly in tasks 3 and 4, appears to have been insufficient, contributing to your overall score. Fully utilizing the designated time for each task could enhance your performance and potentially lead to better marks.

In terms of formatting, there is substantial room for improvement. Avoid using the question or requirement as headings or subheadings. Further, ensure that headings are both Bold and Underlined, while subheadings should be in Bold. Additionally, please remember to leave a line after each paragraph for clarity and readability. Also, try to develop your answers beyond single-line sentences to provide more comprehensive and detailed responses.

A noticeable issue is the tendency to replicate answer plans, particularly apparent in tasks 1 and 3, where the structure closely mirrors our provided plans.

I recommend redeveloping your answer plans, especially focusing on those sub-tasks where your performance was not up to the mark (indicated in yellow). This targeted approach will help in refining your responses and developing a more original and effective answering strategy.