



MCS Mock 4

MCS | May 2023

Exam attempted on 2023-07-24 21:35:06

Exam attempted by:

Marked by Jared

Please find the tutor comments in the comment section and in red coloured text.

Answer for Section 1 | MCS Mock 4

Elapsed Time 45:4

TO : Irina

From : FM

Subject: Evaluation of financial and other information for companies and recommend on the idea potential subsidiary

Following your email with request to evaluate the financial and other information of the companies provided , and recommending on the ideal subsidiary ,please see my evaluation and recommendation below:

Poven Pick

The gearing ratio for Proven Pick has reduced from previous year mainly because it did not borrow any loan which therefore shows the opportunity of the company for future borrowings. This will help Happywell with opportunities to borrow and invest in the business if it decides to acquire the company as its subsidiary. The net profit margin of proven pick has slightly improved mainly due to control of costs of revenue and probably other overhead costs, the the revenue has reduced.. Revenue has decreased from prior year which shows that the company's sales are not growing hence also affecting the profit margin of the company.

Langri Sha

The gearing ration for Langri Sha has increased from prior year mainly because it could have borrowed some funds to sustain the business hence less future borrowing oppoertunites. There is an increase on the net profit margin for Langri Sha which shows that the the company is managing to control its revenue and costs, which is a good sign for Happywell to look into when making decisions to acquire a subsidiary ,as it also shows in the information provided that the company has grown because of acquisitions so there is potential for growth .

Roma adventures

Gearing ratio for Roma has a significant increase mainly because it borrowed in order to sustain the business, but this will lower the opportunities for future borrowings hence Happywell might have a challenge sustainng the business in the future if it considers acquiring the company as a subsidiary. There is however a slight increase in revenue and this could be mainly because of the variety of products the company offers but looking at the time the company has been in the industry as compared to the change in revenue, I would not recommend Happywell to acquire it considering that it has already have a higher gearing ratio.

Recomendation

Comment [TCS1]: It is not necessary to type these

Comment [TCS2]: "Probably"
Remember gearing can also reduce due to increase in equity.

Comment [TCS3]: No. It's the "growth rate" which has reduced YOU. Not the growth.

Comment [TCS4]: Incorrect as explained in the above comment.

I would recommend Happywell to acquire Proven Pick because it has a low gearing ratio hence there is more opportunities for future borrowings , the company has not expanded its presence for the past 3 years hence if Happywell acquires it as a subsidiary it can come up with staretegies to improve value for the company and efficeince.Proven pick has more growth potential considering the percentage changes in the profit margin and revenue which shows that if good strategies are applied there are high chances of growth hence I recommend Happywell to acquire Proven pick.

The requirement reads *“taking into consideration the financials and other information”* which means you should have also focused on the non-financial information. Unfortunately, you have not sufficiently discussed the non-financial information.

However, when considering the discussion on financial factors, it is a good answer! Well-done!

Task b

Consideration for a team to carryout the given assignment effectively

Happywell should consider the skills gap within the team of the new company acquired and Happywell and fill it up by putting skilled people of crucial positions for example managerial positions so that the team can work effectively and efficiently. Happywell should also consult with the management already in the team and find out areas which needs inprovement then set experienced personnel in those roles to help the team which is already there.

Happywell should consider engaging professionals in the industry in which the company they have acquired is to train the whole tean from both happywell and the new company so that they are all competet enough t oexecute their duties.It should also invest more on inhouse trainings maybe on weekly on monthly basis s othat all the employees are equipped to perform productively.

Happywell's team should consists of all levels, from top to lower levels so that all levels within the company are well represented and with skillful people who are able to execute their duties productively. Happywell's team should also be gender and race balanced as this also have impact to the perfomance of employees as well as other clients may be skeptical on those issues especially if there from different races.

Happywell should also consider putting the team whose perfomance is high and those who understands the vision of the company so that they may help the new team to understand the operations of the company.

It appears though you have not understood the key requirement here – “make-up or composition” of the team. Please watch the mock 4 Master Class to get a clear picture.

Comment [TCS5]: These points do not specifically address the requirement “make-up of the team”

Comment [TCS6]: Correct

Task a

How we can use target costing to help determine if the fee offered by Trendy is acceptable

Target costing includes the life cycle of the product, this is calculated by subtracting the profit margin from the selling price. Happywell is committed to meet the set target cost once it has been set as this occurs at the inception of the process and it focuses mainly on cost reduction. Happywell should follow some steps which are involved in target costing in order for it to determine if the fee offered by Trendy is acceptable or not.

Happywell should determine the selling price for the product, in this case the target selling price for the conference is W\$75,000 which is set for accommodation, food and conference rooms. Happywell should also determine what the profit or markup would be which will help us see if we are making any profits out of the project or not.

Happywell should also compare estimated costs with the target cost to ensure that the project is worth going for or not. This will also help determine if there is any target cost gap which is the excess of actuals over the targeted cost and Happywell will be able to find ways to close that target cost gap identified. This will then help Happywell to cut costs by closing the target cost gap but this should not affect the quality of the services being offered.

Target costing will help Happywell determine if the fee offered by Trendy is acceptable because by following the steps I mentioned above, this will help Happywell determine whether they will make profit or loss from the project, as this is done during the inception of the process, this will help Happywell to make quick decisions on whether they are on the right track or not. By using target costing, this helps Happywell to commit itself to meet that target cost which has been set, this helps on identifying areas of focus and ways to minimise the cost for the project to be efficient and effective.

There are some technical inaccuracies in the explanation of the concept. The information in the reference material should have been used to provide some illustrations. Please refer to the suggested answers to gain a comprehensive understanding.

Task b

Evaluation of the use balance score card to measure the performance of our subsidiaries suggested by Thomas.

The balance scorecard is used to measure the financial and non financial factors to measure performance looking at the vision and strategy of the company whether it is being understood and adhered to. By using the balance scorecard we will be focusing on how we look to our shareholders and also how the customers see us as well as looking at ways to create value and improve.

Happywell should identify specific targets the subsidiaries should use so that it will be able to measure and see if they are being met. This is being done by setting up goals which could be financial, operational or customer oriented goals. This will help Happywell measure the set goals to see if there are measurable, specific, realistic and also considering the time to be taken to achieve the goals.

Comment [TCS7]: Target costing and life-cycle costing, although related, are distinct concepts. Hence, this would not be an appropriate way to start explaining the concept of target costing.

Comment [TCS8]: Market selling price

Comment [TCS9]: There is no term as "target selling price" – it is "market price"

Comment [TCS10]: You could have illustrated this using examples from the reference material – refer to the suggested answers.

Comment [TCS11]: Good start!

The use of balance score card will help Happywell measure the performance of its subsidiary because once goals are set, and these goals should align with the vision of Happywell on how customers sees us and what strategies can we impliment to create more value for the company which will help improve productive and efficiency within the company . This will also help the Management of the subsidiary to find out ways to work towards achieving their goals .

By using balance scorecards , this will help improve innovation for the company through skills development and coming up with strategies to diversify the services and products being offered inorder to improve efficiency within Happywell.

In conclusion, the use of using balance scorecards on subsidiaries is very crucial as this will help Happywell to measure their performance and also help Happywell in making decision of continuity and identify areas of improvement on the subsidiary. However, Happywel may also use other performance evaluation methods like benchmarking to evaluate the performance of its subsidiaries.

The requirement is worded "evaluate", hence you should discuss points in favour and against the suggestion to use BSC to measure performance.

Comment [TCS12]: Both these paras deal with one point – setting goals and achieving them. You should have kept it to one para and discussed a different point.

Task a

Issues to consider when setting transfer prices for the waiters, from Happywell Roma ,Happywell Bach and the group's perspective

Transfer pricing is recognised when Happywell Roma trade with Happywell Beach and Happywell beach will be expecting to earn money out of the trading, thus transfer pricing. Both Happywell Roma and Happywell Beach should consider whether there will be a price set for the transaction which needs to happen and they should also benefit from the transaction for example, Happywell Roma will benefit waiters since it has a shortage and Happywell Beach will earn money from giving HAPPYWELL Roma extra staff since it is on off peak season.

Comment [TCS13]: Incorrect to say "trading" as it is a service which being tranferred

The transfer price should be discussed by both companies and decided centrally and this should be within the stipulated company policy and everyone must adhere to the policy. Happywell Beach should prefer to sell to Happywell Roma and also Happywell Roma should also be willing to buy the service (waiters) offered. This is done inorder to minimize tax issues and alos it is easier to record the transaction internally within the group financials and subsidiaries books.

Comment [TCS14]: This is a decentralized (negotiation) based approach

Comment [TCS15]: This is the opposite of what you have mentioned before and hence it's a conflicting view.

All parties involved should also make sure the trading is done at an opportunity cost for fairness and transparency sake amongst the companies. By setting up transfer pricing and agrees on the transaction, this will discourage Happywell from engagig into other businesses with its competitors and also this will help Happwell as a group to minimize tax charges.

There are points in the answer which are rewardable. However, the answer is not comprehensive enough and is not structured properly in line with the task requirement – pls refer to the suggested answer and watch the Master Class.

Task b

Key risks involved by using external provider for the team building and migitary measures

Risk involved

Quality of services offered may tanish our reputation

There may be risk that the third party may offer services of poor quality hence affecting our publicity and reputation as we are known for quality .To mitigate this risk, Happywell should do quality checks before hiring the third party and also make sure that if checks on the reviews given by other companies who have done business with the company before to make sure they know the quality they offer .

Comment [TCS16]: Correct!

Compliance with healthy and safety regulatories

Happywell may be exposed to healthy and safety compliance risk by hiring an external service provider as the external company may not have adequate equipment required which meets the standards of the healthy and safety regulatories hence affecting Happwell if anything negative happens to the clients.

To mitigate this risk , Happywell should request compliance certificate from the service provider and do quality checks to see if its valid and authentic. Happywell should also check the qualifications and CVs for the employees who will be working with our clients to check if there are experienced enough to in the areas they will be working on.

Comment [TCS17]: Correct

Operational risk

Since Happy does not offer the same activities as the external provider offers, there may be risk that the activities offered may not align with the company vision or business model hence affecting its operations and also the fact that Happywell have no exposure to the operations offered which means the management has no knowledge on how to manage and control such operations hence affecting the business model of the company as the service offered may not create value to the company which will impact us from our reputation.

Comment [TCS18]: Obviously, we are both different companies. And we are just engaging them for a **one-off service**. Hence, this is not an appropriate risk.

To mitigate this risk, Happywell should discuss with the external provider and asks them to offer training to our management so that they have an understanding of the activities for them to be able to monitor and control the service provider to suit to our requirements.

Risk of loosing cusotmers to a competitor

If the external provider offers other activities which are similar to ours, there may be risk that if its given the opportunity to interact with our customers they may end up taking advantage of the opprtunity and snatching our customers or referring them to other competitiots which offer the same services as ours hence Happwell end up losing customers.

Comment [TCS19]: Our customer as per the scenario is a company which is hosting a conference for its staff. Outbound training is just one event of the conference. If at all the company is happy with the outbound training provider, they may request us to book the same outbound training provider. Customer won't change the hotel because of the outbound training provider.

To mitigate this risk, Happywell must make sure that the selling of the activities is done by its employees and the service provider only focus on offering the services and not involved in the process of interacting with our customers on payment .

The first two risks you have identified are appropriate but the last two aren't.

Answer for Section 4 | MCS Mock 4

Elapsed Time 44:40

Task a

How the decision to host conferences would impact Happywell's KPIs.

Happywell Roma has received negative feedback of dissatisfaction from customers over the issues of poor amenities, and it has also financial implications due to the fact that they were operating in off peak season so if they want to offer conference activities, the decision may impact the KPIs.

Comment [TCS20]: You are required to state whether it will impact positively or negatively

Happywell Roma's occupancy rate is not favourable considering that the actual percentage is lower than the budgeted one which shows that it did not meet the budgeted target they have targetted so this can impact their decision as they are not sure whether they will be able to meet the target budgeted.

The average length of actual stay is lower than the one they were expecting customers would stay and this affects their decision of hosting conferences and there is no certainty that the length of stay will increase in future, hence its risk to decide at this moment.

Comment [TCS21]: It is likely to reduce due to shorter duration of conferences

Happywell Roma had budgeted operating profit of 9.5% but it managed to get 8.7% which is below their expectations and this also affects their decision of hosting conferences as already they had a loss from what they expected previously and there is no guarantee that the profit margin will increase even if they improve the services.

Comment [TCS22]: Appropriate

Happywell Roma had employed more capital in the initial project and by borrowing more money might affect their gearing ratio as the company and their chances of them making profit are not certain hence making the decision of hosting a conference may be impacted.

Comment [TCS23]: Again, you have to specifically say whether it will increase or decrease than being vague.

Also the ratings given by guests who visited the hotels before had a great impact on Happywell Roma because customers review the ratings when making decisions so there are chances that Happywell Roma may not find customers because of the low rating issued by customers.

This was a relatively straight forward requirement. But your approach to the answer fails to specifically address the requirement.

Task b

Considerations to consider deciding to use charter flights as suggested by the Marketing Director and also my opinion on the matter.

Happywell should consider customer preferences on the use of charter flights whether they would like them or they would consider opting for other competitors offering the same services using aircrafts as they may not be interested in using the charter flights.

Comment [TCS24]: Please refer to the pre-seen on how charter flights operate. Your response indicates a lack of understanding of the pre-seen information.

Happywell should consider the state of the charter flights if they are in a good condition and if they meet the standards of the aviation as these charter flights may be old or may need maintenance before getting on board as this may affect the quality of their services.

Comment [TCS25]: Acceptable

Happwell should also consider the costs of using the charter flights whether its efficient considering that the charter flights size is too big and they might not be more customers going that route hence using charter flight might not be efficient if it does not get full.

Happywell should also consider the costs of maintaining the charter flight and other administrative costs involved if there are worthy using the charter flight. By using charter flights we would consider having new skilled staff with knowledge of operating the charter flights as well as a different cabin crew which is different from the one for airfracts so its efficient to use one model of flights that using different models as its expensive to maintain as well.

My opinion is that Happwell should consider acquiring more aircrafts to avoid compromising its business model of valuecreation and enhancing quality. I understand that we are financially constrained but we don't need to compromise our quality which will cost us more but rather look for funding so that we can acquire one or more aircrafts of good quality than going for something which may impact our operating standards.

I also suggest that we sell some of our retail shops siche we have more and focs on online selling, and use the proceeds from the sale to acquire more aircrafts as these are on demand which we are rest assured that if we sell retails shops and acquire more aircrafts the return on that investment will be positive in the long run.

Comment [TCS26]: Correct. This will be considered as one consideration though - cost

Comment [TCS27]: Appropriate

Comment [TCS28]: While this is a good suggestion, it is not a requirement of the task and hence the marking scheme would not award marks for this.

Overall comments

You have good writing skills and it is good note that you have made the necessary adjustments to your answering technique based on the feedback from the previous mock.

Unfortunately, your overall attempt at this mock is not satisfactory.

They key issue in this attempt is you have:

- Not read the task requirement correctly or
- Not understood the specific task requirement or
- Deflected from the requirement while writing the answer

You need to reflect back and see where you have gone wrong.

Furthermore, (in case you still haven't), it is vital that you read through the answer plan and suggested answers for each mock carefully and watch the master classes for each mock in full. Before attempting the final mock, please ensure that you complete all this. It is vital that you give a better attempt at the next mock and you should work on necessary areas before attempting the final mock.

Mark breakdown can be found in the next page.

	Task	Allocated	Gained	Success %
1	(a)	22.5	14	62%
	(b)	15	4	27%
2	(a)	22.5	9	40%
	(b)	15	6	40%
3	(a)	21	8	38%
	(b)	16.5	8	48%
4	(a)	17.5	8	46%
	(b)	20	11	55%
Total		150	68	45%

Pass Mark: 80

*Note that the areas highlighted in yellow depict the sub tasks in which you have NOT exceeded the threshold success rate of 54%.