

ACA MASTERS

Case Study Proforma Report: July 2021

TITLE PAGE

A report on House Pride Limited

To: House Pride Limited Board of Directors

From: Amanda Ellis (Finance Director)

Date: 21 July 2021

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Executive Summary

Review of Financial Performance for year ended

Conclusions (number and reason)

3x most significant **trend/further analysis** points, consider:

- growing (declining) division/channel/branch
- average branch revenue per month
- profit margins
- loss-making division/branch
- cash
- additional analysis issue

Recommendations

3x most important recommendations (including one on additional analysis and one on ethics)

Financial Evaluation of X proposal

Conclusions

3x most significant points not included in conclusions, consider:

- financial analysis
- assumption
- ethics
- strategic/operational issue

Recommendations

3x most important recommendations (including one on ethics)

Strategic Evaluation of X

Conclusions

3x most significant points not included in conclusions, consider:

- financial analysis
- ethics
- strategic/operational issue

Recommendations

3x most important recommendations (including one on ethics)

Review of Financial Performance for Year Ended 30 June 2021

REVENUE (per requirement)

Overall revenue has increased (decreased) impressively (disappointingly) by £k (x%) to £2021 which is a good (poor) performance in *market environment comment*. The rate of growth is increasing (decreasing) (2020: 6.5%), *comment that 2020 was impacted by temporary factors*. Revenue is now higher than (still below) the 30 June 2020 target of £30m. Both divisions and both channels have grown and benefited by £x from new inventory management system (if provided). There were more (fewer) refunds due to x% of deliveries being on time and the target of 95% has (not) been met (if provided).

RH revenue has increased (decreased) impressively (disappointingly) by £k (x%) to £2021 due to **reason** (reason from exam scenario). Online revenue has increased by x% due to **reason** (reason from exam scenario) and branch revenue by x% due to **reason** (reason from exam scenario). Comment on the **trend** (continuing shift to online: 2021 mix v 32.9%). **Further analysis** of numbers (specific customer or branch causing increase or decrease) / trend / future impact (temporary factors causing growth). Context point.

BCT revenue has increased (decreased) impressively (disappointingly) by £k (x%) to £2021 due to **reason** (reason from exam scenario). Online revenue has increased by x% due to **reason** (reason from exam scenario) and branch revenue by x% due to **reason** (reason from exam scenario). Comment on the **trend** (continuing shift to online: 2021 mix v 22.6%). **Further analysis** of numbers (specific customer or branch causing increase or decrease) / trend / future impact (temporary factors causing growth). COVID-19 has caused people to spend more on housing improvements due to more time being spent at home.

RH now accounts for x% (2020: 78.4%) of HP revenue with BCT accounting for x% (2020: 21.6%), showing the increasing importance of RH/BCT. Online sales now account for x% of revenue (2020: 30.7%) due to (despite) £x of revenue being lost due to online system issues (if provided).

Average branch revenue per month increased (decreased) by % to £k from £238.1k. Identify whether due to branch revenue change or number of months open. The growth rate is increasing/slowing (2020: 2.3%).

X (branch) revenue has increased (decreased) impressively (disappointingly) by £k (x%) due to **reason** (reason from exam scenario).

Y was the best performing branch. Z now accounts for the largest shares of revenue (x%). The refurbishment programme appears to be a success (not a success) as performance appears to improve (not improve) after refurbishment. All branches have seen an increase/decrease in revenue.

COS / GROSS PROFIT / OPERATING PROFIT (per requirement)

Goods and materials increased (decreased) by £k (x%) due to **reason** (reason from exam scenario). Goods and materials are now x% (2020: 66.9%) of revenue. This is above (below) the typical industry figure of 70% and is increasing (decreasing). The CMPIs increased in most of the last five years and prices were expected to increase in 2020/21.

Wages increased (decreased) by £k (x%) due to **reason** (reason from exam scenario/online sales incur less staff costs). Wages are now x% (2020: 14.0%) of revenue and above (below) the typical industry figure of 15.0%. This is because online sales incur less staff costs.

RH GP increased (decreased) impressively (disappointingly) by £k (%), with a GPM increase (decrease) to x% from 15.9%, due to a revenue mix shift towards higher margin online sales (lower margin branch sales) / cost of sales increasing slower (faster) than revenue.

BCT GP increased (decreased) impressively (disappointingly) by £k (%), with a GPM increase (decrease) to x% from 31.1%, due to a revenue mix shift towards higher margin online sales (lower margin branch sales) / cost of sales increasing slower (faster) than revenue.

Overall GP increased impressively (disappointingly) by £k (%) to £2021, with a GPM increase (decrease) to x% from 19.1% due to a revenue mix shift towards the higher margin BCT (lower margin RH) division. BCT has a higher GPM due to less favourable customer discounts (5%) compared with RH (10%).

Distribution costs increased (decreased) by £k (%) due to **reason** (reason from exam scenario/online sales). They now account for x% (2020: 7.0%) of revenue which is in line (not in line with) the goal to reduce this ratio.

Admin costs increased (decreased) by £k (%) due to increased (decreased) **reason** (admin cost causing change/reason from exam scenario/costs well controlled). They now account for x% (2020: 11.3%) of revenue which is in line (not in line with) the goal to reduce this ratio.

OP has increased impressively (disappointingly) by £k (%) to £2021, with a OPM increase (decrease) to x% (2020: 0.9%), which is similar to years prior to the unusual 2020. It is now above (still below) 2019 (2.2%).

ADDITIONAL ANALYSIS (per requirement)

Calculate numbers requested

Significance; impact on accounts; business impact; scepticism
recommendations (under recommendations heading)

ETHICS (if required)

For each issue:

- describe ethical issue, why it may be unethical and potential impact
- consider whether it may not be unethical
- recommendations (under recommendations heading)

CONCLUSIONS

Conclude on every section: copy key point(s) from each section - **number** and **reason** only

RECOMMENDATIONS

Obvious action points on issues raised in each section

Further analysis of each division/branch/profit analysis by branch

Focus on growth division / investigate declining division/branch

Further analysis of product costs

Reassess changes in policy: pricing, discounts, returns, delivery etc.

Continue refurbishment programme to increase branch revenue

Join buying group to mitigate price increases

Investigate reasons for GPM decline

Increase delivery charge

PLEASE NOTE

This proforma assumes that requirement 1 will ask you to analyse the performance (revenue and profit) of the whole business. Whilst this is the most likely scenario, the requirement could ask you to focus on a particular division/sales channel/cash.

Please remember that you should always tailor your report headings (and subsequent points) to the **exact requirement wording** and **use the exam paper information** for your reasons as to why numbers have increased/decreased.

You should focus on numbers which are the most significant in total, have seen a significant increase (decrease) during the year and/or have a reason given in the exam paper as to why they have increased (decreased).

If you struggle with time on requirement 1, then you should exclude the channel analysis by division if there is no reason in the exam paper as to why it has increased/decreased by division. This is **highlighted grey** in the proforma above. You should still include the total channel mix in your revenue mix paragraph.

If the exam paper provides a significant amount of information on revenue and there is no one-off piece of analysis (additional analysis), revenue could be 4 boxes on the mark scheme. Therefore, you would need to have more than the standard 4/5 mini-paragraphs in your revenue section by including more branch analysis. You should also include the channel analysis by division. Please refer to the model answer to mock exam 2 to see how to do this.

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Financial Evaluation of X

CONTEXT

Existing knowledge of parties involved / basics of opportunity

Link to strategic goals/risks in AI

How COVID-19 may impact proposal

RESULTS AND FINANCIAL ANALYSIS

Numbers per requirement request

Revenue:

- compare the different options
- compare to existing revenue (R1) and comment if significant
- consider recent (R1) performance (e.g. will help reverse declining performance/division/IT issues)
- potential new revenue streams/markets

Costs:

- compare the different options
- economies of scale
- opportunity cost of undertaking project
- fixed v variable costs (operating gearing)

GPM/OPM:

- compare different options and compare to existing GPM/OPM (R1)

Cash:

- compare different options
- outflow or inflow – consider timings of cash flows
- consider in context of R1 cash position (R1)

See table (next page) for list of other financial points

ASSUMPTIONS

Calculation is based on various assumptions and the result will change if the assumptions change

State each assumption and critique it (compare with AI/exam paper information/R1)

Bias in source of information; missing information; missing costs; forecast period too short; timeframes challenging; flaws in methodology of calculation

Consider performing sensitivity analysis by quickly changing a key assumption

STRATEGIC AND OPERATIONAL ISSUES / BENEFITS AND RISKS / FACTORS TO CONSIDER (per requirement)

6x most obvious points from exam paper information

Be brief and aim for lots of different points rather than going into depth on each one

See table for list of other points – only include points which are very relevant to the specific scenario

ETHICS (if required)

For each issue:

- describe ethical issue, why it may be unethical and potential impact
- consider whether it may not be unethical
- recommendations (under heading)

CONCLUSIONS

Conclude on every section (copy key point from each section)

Clearly state how to proceed

RECOMMENDATIONS

Obvious action points on issues raised in each section

Negotiate

Due diligence

Market research

Contact affected stakeholders (suppliers, staff, customers)

STRATEGIC	OPERATIONAL	FINANCIAL
Industry: <ul style="list-style-type: none"> Growth potential Barriers to entry (capex, brand) Supplier/customer power Substitute products/services Competitor rivalry Exit costs External factors (PESTEL) Industry life cycle Experience/resources/competencies 	Supplier: <ul style="list-style-type: none"> Capacity Consistency/reliability Lead times/delivery Quality/Expertise Technology Integration/collaboration Flexibility Inventory (Just In Time) Dependency/relationship Overseas (risk, regulation, tariffs, culture) 	Revenue <ul style="list-style-type: none"> Other streams / potential new streams Seasonality Future changes
Company strategy: <ul style="list-style-type: none"> Cost leader/differentiator Market position/benchmarking Competitive advantage First-mover advantage Brand Reputation Product life cycle Product portfolio 	Production: <ul style="list-style-type: none"> Capacity Utilisation Quality Flexibility Efficiency Inventory Technology Innovation 	Costs <ul style="list-style-type: none"> Economies of scale/scope Fixed v variable (operating gearing) Future changes Opportunity cost
Growth opportunities: <ul style="list-style-type: none"> New products/services New markets/customers Diversification (synergies, risk) Focus on core business Overseas (risk, regulation, tariffs, culture) Standardised product v local adaption 	Staff: <ul style="list-style-type: none"> Recruitment/Training Capacity/Management time Motivation/Reward Key staff/Succession planning Technology Performance measurement 	Profit <ul style="list-style-type: none"> Margins (GPM/OPM)
Control: <ul style="list-style-type: none"> Central control v Local presence Inhouse production v Outsource Ownership v Minority stake 	Distribution: <ul style="list-style-type: none"> Lead times Flexibility Channels Technology 	Cash <ul style="list-style-type: none"> Receivables, payables, inventory Capex Future changes
Customer: <ul style="list-style-type: none"> Data analytics to identify trends, behaviour, key customers Marketing: Pricing, Promotion, Product, Place, Segmentation, CRM, Market research Demand elastic (price sensitive) Customer service Feedback 	Technology: <ul style="list-style-type: none"> Data analytics Automation/Robots/AI Cyber security System failure Data protection (GDPR) CRM systems 	Financing <ul style="list-style-type: none"> Equity v Debt (gearing) Surplus cash available Short-term investors v Long-term (patient) investors
Risk: <ul style="list-style-type: none"> Third party involvement / dependency Diversification Severity and frequency/likelihood Transfer, Avoid, Reduce, Accept 		Risk <ul style="list-style-type: none"> Foreign exchange Interest rate Commodity price
Proposal: <ul style="list-style-type: none"> Strength of negotiating position Timing/Timeframes (un)achievable Flexibility Uncertainty of forecasts/assumptions Exit strategy 		
Legal/Regulation		
Corporate Social Responsibility / Sustainability		

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See table for list of other financial points

Calculation is based on various assumptions and the result will change if the assumptions change

Briefly question key assumptions and numbers which are uncertain/missing

STRATEGIC / BENEFITS / OPTION 1

6x most obvious points from exam paper information

Be brief and aim for lots of different points rather than going into depth on each one

See table for list of other points – only include points which are very relevant to the specific scenario

OPERATIONAL / RISKS / OPTION 2

6x most obvious points from exam paper information

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