

Finntutors

Pre-Seen Analysis

May 2024 – Aug 2024

Management/Gateway

Case Study Exam



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Context of this Pre-seen

CIMA is aware that there has been, and remains, a significant amount of change globally.

This pre-seen, and its associated exams (while aiming to reflect real life), are set in a context where current and on-going global issues have not had an impact. (Specifically, Covid-19 and the Russia-Ukraine war)

Remember, marks in the exam will be awarded for valid arguments that are relevant to the question asked. Answers that make relevant references to current affairs will, of course, be marked on their merits.

Introduction

Flatthall is a **quoted company** that **owns and operates 174 residential buildings** that are **located in towns and cities in its home country of Towland**.

We are a listed company. We must discuss the benefits and limitations of being a listed company.

Advantages:

- a) Access to Capital for Growth.
- b) Enhanced Visibility
- c) Liquidity
- d) Transparency and efficiency

Disadvantages:

- a) Enhanced reporting requirements and if they are not met then a subsequent increase liabilities/penalties is a possibility.
- b) Loss of management control

Currently, we are operating in one country only. Possibility of expansion and hence different currencies could come into the picture. This has been seen in the industry analysis as well.

So, your F2 concepts relating to foreign currency transaction become relevant here.

Because we operate 174 residential buildings you can image the size of the company and already F2 related topics such as **long-term finance and cost of capital** start coming to mind.


F2 Syllabus

These buildings are **subdivided into flats** that are **rented to full-time students** in nearby colleges and universities.

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5 things any purpose built student accommodation business must get right:

1. Location;
2. Facilities;
3. quality of service;
4. Living environment;
5. security and
6. (6) Price.

This is true for our company Flatthall as well!

Towland's currency **is the T\$.**

Towlandian company law requires companies to prepare their financial statements in **accordance with International Financial Reporting Standards (IFRS).**

F2 Syllabus

You are a **financial manager** at Flatthall's Head Office.

Your role as a finance Manager includes:

- Medium term decision making (**P2 Syllabus**)
- Investment appraisal analysis (**P2 Syllabus**)
- Costing related decision support (**P2 Syllabus**)
- Project management and risk focus (**E2 and P2 Syllabus**)
- Long term financing (**F2 Syllabus**)
- Advanced financial reporting (**F2 Syllabus**)
- Advising top management (**E2 P2 and F2 Syllabus**)
- Stakeholder management (**E2 Syllabus**)

If you look at the above points you will see that all of them correspond to the **blue print areas** set out by CIMA and eventually are **part of the E2 P2 and F2 syllabus.**

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Your primary responsibilities are associated with **management accounting**, and you report to Susanna Leong, **Senior Financial Manager**, who reports directly to the **Finance Director**.

P2 Syllabus

Post-school education in Towland

Towland has a **well-developed higher education system**, with 215 colleges and universities (“institutions”) that **provide three-year courses** leading to undergraduate degrees.

From this we understand:

- Towland is a developed economy which means people have the interest and the money to spend on education and innovative courses.
- We also know that an economy that has 215 colleges and universities will have thousands of national and international students who will need accommodation.
- So, the trend and culture will be such that people will be used to these kind of services/systems as we have seen in our industry analysis.

Segmentation and external market analysis will be important here.

Flatthall is located in a developed economy (goes hand in hand with a well developed education system) so it opens up advantages such as better infrastructure, highly skilled workforce and customers having the spending power.

Here, we need to also take into consideration the higher regulation and high factors of productions costs.

P2 Syllabus

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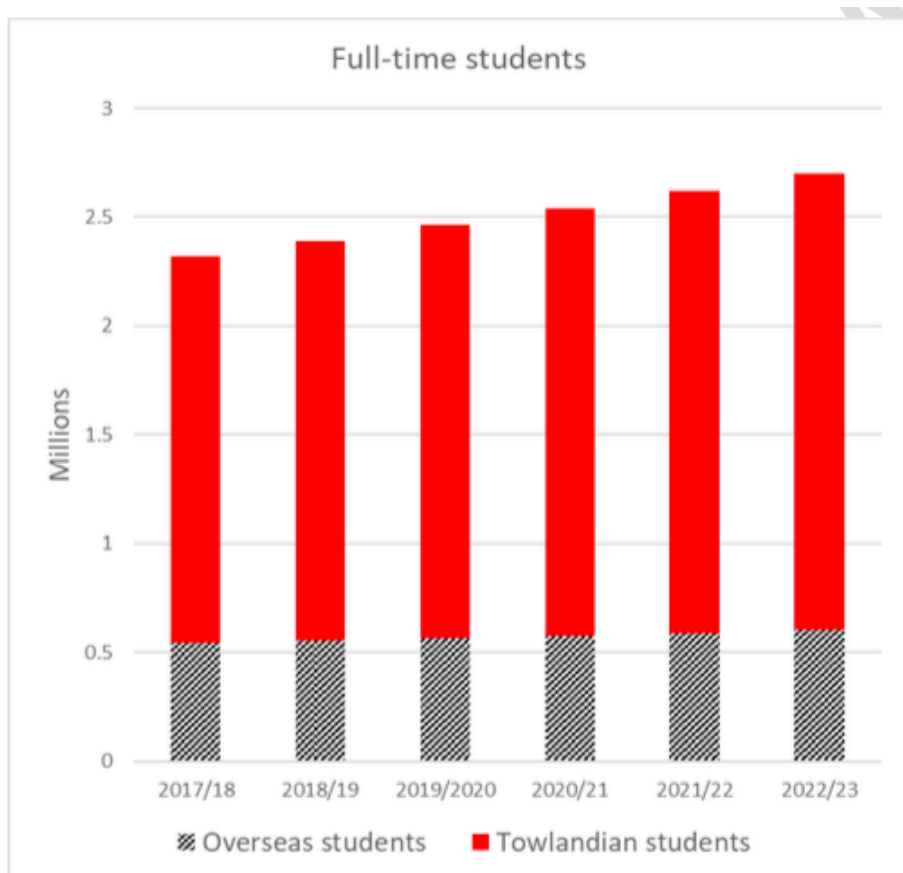
There is a healthy demand for places at these institutions:

- **A large proportion of Towlandians** complete a college or university qualification after leaving school. The Towlandian Government **subsidises course fees** and full-time students can apply for financial **support in the form of student loans** that need not be repaid until after graduation.

Good universities, government institutions and banks become an important stakeholder for our organization and because these will be key players they will have high power. Keeping them satisfied is key. This brings in our **stakeholder management and relationship management** topics to the fore.

E2 Syllabus

- Towland has a **strong international reputation** for further and higher education. The country **attracts large numbers of overseas students,** who believe that they will benefit from studying at a Towlandian university.



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In the academic year 2022/23, **Towland had 2.1 million** home students and a further **0.6 million overseas students.**

Institutions are keen to fill all available spaces:

- *Towland's Government subsidises places for home students.* Institutions receive student fees and government subsidies, totalling T\$8,000 each year, in respect of each home student. The Government sets the **maximum number of subsidised student places** for each institution. Institutions face an **opportunity cost** if any of those places are left unfilled.

Your relevant costing topic comes into the picture here.

- Institutions can accept **as many overseas students as they wish.** They are free to **charge as much as they wish** for overseas student fees. Overseas student fees vary from T\$12,000 to T\$30,000 each year, depending on demand for places. Applicant numbers vary according to the **reputation of different institutions** and also the **popularity of different subjects.**



Institutions are keen to attract **overseas students because of their high fees** and because overseas admissions do not count towards the Government allocation of places. Most institutions have **sufficient capacity to accept all suitably qualified overseas applicants.**

International student influx is hugely dependent on external factors so understanding PESTEL, Porter's five forces and changes in external ecosystem is important to understand.

E2 Syllabus

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Towland's academic year is structured as follows:

September to December 1 st semester	January to April 2 nd semester	May to August summer vacation
<ul style="list-style-type: none">• Induction for new students• Tuition for 1st semester classes• 1st semester examinations	<ul style="list-style-type: none">• Tuition for 2nd semester classes• 2nd semester examinations	<ul style="list-style-type: none">• Graduation for final year students• Resit examinations (if applicable)• Processing applications for new students

Towland's academic year starts in September and ends in May. Students who successfully complete all assessments, including exams and coursework, are free to take a break from their studies during the summer vacation.

Institutions promote themselves to potential students throughout the academic year. Applications for admission during the following academic year are **processed during the second semester and the summer vacation**.

If students get accepted into the course, they will look for accommodation- which is where we come on. Here we will look at differentiating ourselves from our competitors by offering unique accommodation facilities, unique pricing, and better service overall.

Keep in mind innovative marketing techniques here.

For any business, benchmarking can be key to understand your shortcomings.

E2 Syllabus

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Successful applicants who accept a place must pay their first year's tuition fee before joining their course.

You are a service organization. So, keep this in mind and topics that are service related from your E2, P2 and F2 syllabus become more important.

We will be discussing them throughout the pre-seen analysis.

Student accommodation

Institutions are usually located in towns or cities, some close to a town or city centre and others on the outskirts. Students must attend classes and so require accommodation that **is within easy commuting distance.**

Approximately **40% of home students continue to live** in their parental homes for the duration of their studies. The **remainder seek alternative accommodation**, at least during the 1st and 2nd semesters of each academic year of their courses, when they are required to attend classes and sit examinations.

Some home students accept places at institutions that are too far from home for them to travel on a daily basis. Others choose not to live in their family home because **they wish to live independently.**

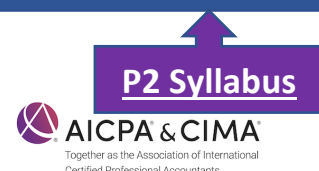
Overseas students must arrange suitable accommodation for the duration of the 1st and 2nd semesters of each academic year of their course.

Most students who require accommodation do so by **renting suitable accommodation** for the academic year, taking residence in September before classes start and leaving after their examinations in April. Many home students return to their family homes for the summer vacation, or they take the opportunity to travel. Most overseas students return to their home countries to spend the summer vacation with their families.

The use of data will be key here. And if we do not have the past data of the times of booking and student capacity, how will we forecast and make rooms/service timelines available accurately?

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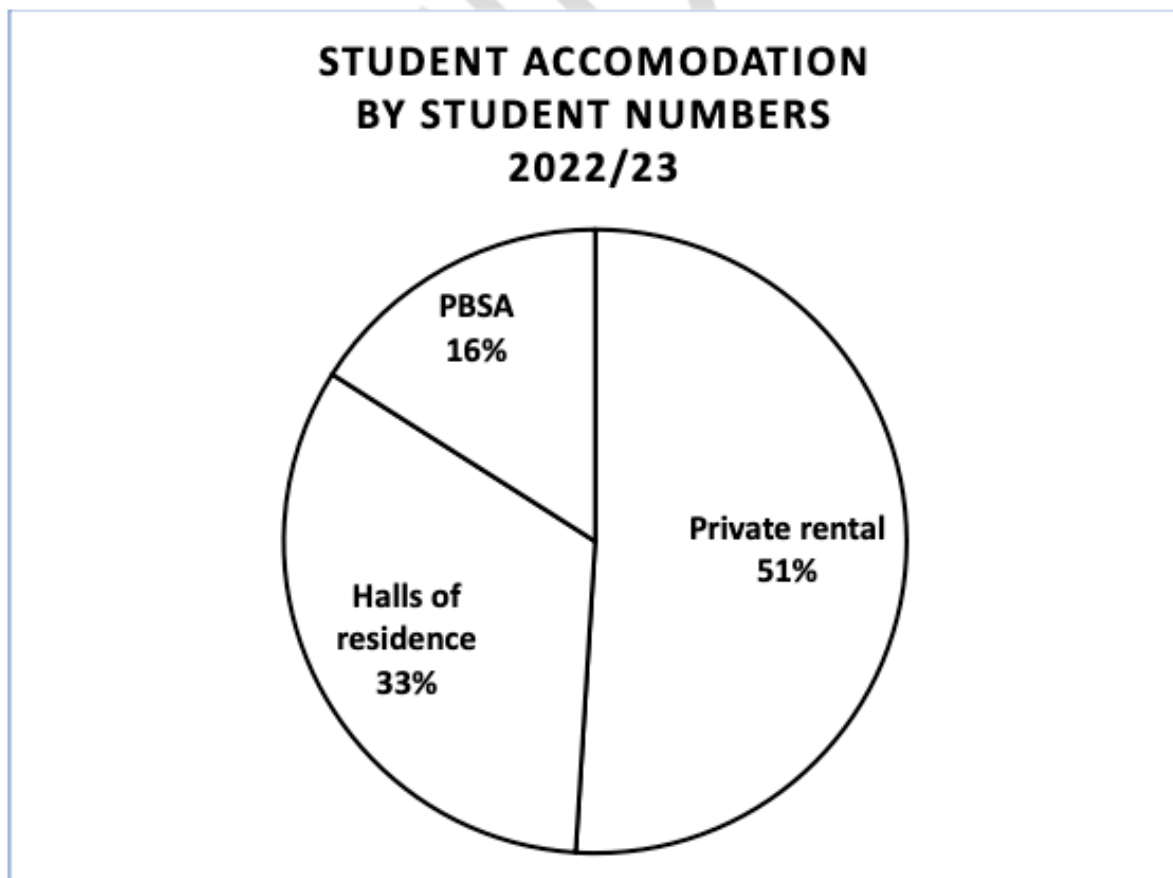
Student **rental agreements usually terminate** at the end of the 2nd semester. Students who wish to remain close to their institutions during the summer vacation will often have to **move to alternative accommodation** for that period.

Since strict criteria is laid out, if you do not meet the same then there could be possibilities of penalties and hence provisions/contingent liabilities.

F2 Syllabus

Student accommodation can take a number of forms:

- Halls of residence
- Private rentals
- PBSA (purpose-built student accommodation)



Showcases the nature of the competition in this industry. High-fragmented. It will be a large market affected by external factors. So, the external market analysis/outlook will be important.

F2 Syllabus

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A trend in this market has been to choose the online mode for understanding the market and segmenting the market. How is our company focusing on growth segments will be looked at deeper in the pre-seen.

Since we are speaking about using technology and data your topics relating to big data, data analysis and data mining become important considerations here.

E2 Syllabus

Halls of residence:

Most institutions have their own student accommodation that is available for rent. This is often situated on campus, or it may be on a separate site that is **within convenient travelling distance.**

Students staying in halls are usually provided with a single, furnished room, with a bed, a desk and storage space. Students share bathrooms and kitchens.



The accommodation is basic,

but students are **reassured by the fact** that they are renting from their college or university. Demand for places in halls usually exceeds the number of available places. Many institutions give first-year students priority in booking places in halls.

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Private rentals: Most large towns and cities have several colleges and universities and so there is a **constant demand for student accommodation.**



Some landlords specialise in the student rental market, preferring to rent flats to students rather than to more permanent tenants. Many cities have **“student areas”** that comprise residential areas that have a substantial student population during the academic year.

Private rentals usually consist of flats with up to three furnished bedrooms. Those flats are typically occupied by several students at once, with each contributing a share of the rent.

These students may be friends who set out to rent a flat together, or they may simply have agreed to rent a flat as a group. Students will have their own rooms and will share the flat’s kitchen, bathroom and living room.

Most **institutions offer a student accommodation** service that can assist students to find private accommodation. Landlords can publicise the availability of their private rental properties and students can advertise for flatmates who wish to share the rent of a flat.

Accommodation services also **advise students on practical matters**, such as checking the terms in a rental agreement and assist with legal matters such as managing disputes with landlords.

Towland has very strict **health and safety laws** in place in relation to private rentals, particularly when properties are rented by more than two tenants. **Gas and water supplies** must be checked regularly and fire alarms and other safety devices must be present and operational. **Safety checks** are also required for any portable electrical equipment, such as fridges.

Brings up the risk topics here.

- Price risk is arising out of adverse movements in external market
- Political risk.
- Health and safety risk.

Your P2 topics relating to Risk management.

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Risk management and risk mapping will be key for our industry.

Private rentals are often more expensive than places in halls of residence, but they usually offer **larger rooms than are available in halls**. They are also more likely to be located in areas where students socialise.

PBSA (purpose-built student accommodation):

PBSA is a relatively **recent development** in the market for student accommodation.

This market is in its growth stage. So important that we look at growth opportunity and be first movers when the chance arises.

Managing our capital to ensure we have the available funds when needed is key!

F2 Syllabus

Commercial organisations **construct buildings that are specifically designed** for the student market. Typically, most of the floors in each building are subdivided into a large number of flats. Each flat consists of a **communal living space and 6-8 single bedrooms**.

Capital management and cost of raising new capital should be kept in mind here.

When raising finance, we can also keep in mind the scenario of IAS 33: Effects of rights issues and convertible bonds on EPS.

The effect of bonus issues.

F2 Syllabus

Since we are speaking about capital also important to mention WACC and the effect on WACC.

What if more debt is taken on? What if more equity is taken on? You should be able to explain the effect

F2 Syllabus

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The communal spaces are equipped for students to cook and eat their meals and to socialise. The bedrooms provide private spaces where students can sleep and study.

PBSA operators are independent of the institutions whose students they wish to attract. They do, however, **have complementary activities.** PBSA operators seek to attract students from institutions close to their buildings. Institutions use the **availability of nearby accommodation** to attract students to their courses.

Managing this relationship will be very important to maintain our profitability and margins.

The topics of sensitivity analysis comes into the picture here. What happens to our profits/margins if one variable changes. This can be an exam scenario. For example, if university relations get spoilt and they recommend our competitors to students for accommodation?

Pay-off tables and pay-off decisions can also be tested around this aspect.


P2 Syllabus

Overseas students are particularly interested in the availability of suitable accommodation because they will be moving to a foreign city that they might not visit until the start of their courses.

Institutions' websites often refer to the availability of good quality accommodation close to campus and may **provide links to the websites of PBSAs** in the vicinity. **PBSAs' websites may list the institutions** that are within, say, a 20-minute walk from each of their buildings.

Good and easy to navigate websites could be a competitive advantage here. Website management, student sales data, demand prediction is key for any modern business and adds to your competitive advantage.

This brings consideration of E2 topics:

-App management, Data management, Big Data, Data Analysis

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PBSA buildings are generally as secure as halls of residence and are likely to be **more secure than private rentals**. Entrances are staffed by concierges working in shifts on a 24/7 basis. The **concierges check the credentials** of everyone who enters their buildings.

They also monitor feeds from security cameras and safety systems, such as fire alarms.

PBSAs **employ cleaning staff to keep the public areas** of their buildings clean and tidy. They also **employ local contractors to maintain their buildings**, both public spaces and the flats.

PBSA buildings offer facilities that make them attractive to students. All offer **high-speed internet access**, with strong Wi-Fi signals throughout their buildings. That is vital because students must be able to **access social media, course materials and emails**. Buildings can also offer amenities such as media rooms in which groups of residents can watch movies or sports events on a large screen with high-quality sound.

We will need to manage our relationship with:

- Security proving agencies
- Cleaning agencies
- Local contractors
- Internet providers
- And many more.

So, relationship management and having good administrative employees in place to manage day to day of the PBSA's is very important.

Negotiation skills along with influence and persuasion skills are vital for this market.

When dealing with customers conflicts will be natural. So, types of conflicts and how they would be managed can be considered here.


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There will have to be a communication process and flow of information between different stakeholder groups we have identified.

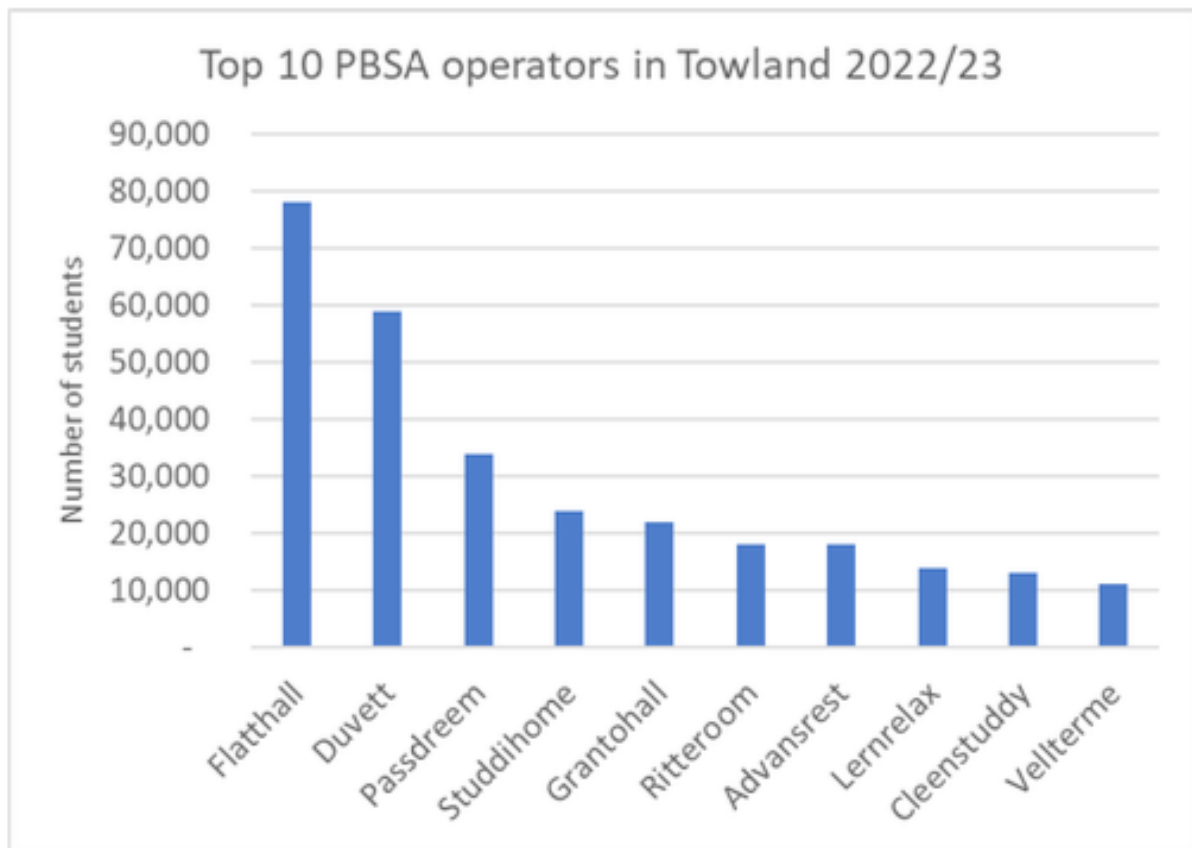
E2 Syllabus

Government planning regulations restrict rentals of rooms in PBSA buildings to students. Operators are **not permitted to rent rooms** in PBSA buildings to **non-students**. PBSA buildings are generally **built within easy walking distance** of at least one institution and possibly several. Some cities have a number of institutions located in and around their centres and so there may be several PBSA buildings within a relatively small area of any given town or city, with **operators competing for tenants**.

Some institutions are on the outskirts of towns and cities and may be served by **PBSA buildings that are effectively dedicated to those institutions**.

PBSA buildings in town and city centres are generally high-rise. These are attractive to operators because they can **accommodate a large number of tenants within a given footprint**.

Flatthall built Towland's **first PBSA building in 1995**. There are now **ten major PBSA operators** in Towland:



Some details on market leaders:

To be and stay as leaders businesses need to:

1. Differentiate
2. Expand Market Share
3. Prioritize Customers
4. Develop Strategic Business Partnerships
5. Continuous Innovation

The advantages of being a market leader:

1. Higher Profitability
2. Competitive Barriers
3. Attracting The Top batch of customers
4. Financial Capacity

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These **companies collectively provide accommodation for 16%** of those students who do not live with their parents during the 1st and 2nd semesters of the academic year.

It can be difficult to compare halls of residence, private rentals and PBSAs since:

- Rents charged for halls of residence and PBSAs usually include utilities such as electricity and internet connections. Private rentals usually require students to pay separately for these utilities.
- Halls of residence are cheaper than private rentals and PBSA. Places in halls are generally filled long before the start of the academic year. Students are attracted by the convenience of living on or close to campus. Halls of residence are also generally safe and secure, with security wardens on site.
- PBSA is more expensive than halls of residence or private rentals, even after taking the cost of utilities into account. The buildings are usually more modern and better equipped than halls of residence. They are usually located close to campus. PBSA buildings are also safe and secure spaces. PBSA operators usually work to maintain good relationships with institutions' student accommodation services and that can prove reassuring in the event of a dispute with an operator because students can threaten to involve their institutions.
- Private rentals vary significantly in quality. Properties may be old and may have been converted from family homes into living spaces for occupation by small groups of students. Some landlords are greedy and unwilling to invest in maintaining their properties. Towlandian law requires landlords to meet basic safety regulations, but private rental properties are unlikely ever to be as safe and secure as halls of residence or PBSA buildings.

In this industry there are many groups of stakeholders.

Stakeholder management and understanding the risk management cycle and risk categories is key for our business.

P2 Syllabus

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- Students generally arrange accommodation for the forthcoming academic year during the summer vacation. Places in halls of residence and PBSA are usually taken first. Many students are forced to take places in private rentals because all alternatives are taken, although some students prefer private rentals because they wish to share with friends, or they may have jobs to fund their studies and wish to live close to work.

Short term decision making and risk related decision making again comes into the picture because of the seasonal variations.


P2 Syllabus

Overall, we know that this market is going to be intensely competitive because of the nature and availability of the service.

Price, marketing innovations, product catalogues and customer service will be the key differentiators here.

Flatthall

Flatthall was founded in **1994 by a property developer** who commissioned the design and construction of Towland's first PBSA block on a **site close to Central City Metropolitan University.**

We have been in the market for about 30 Years!

Which means we have definitely garnered some goodwill and some resistance ability that we have been able to thrive and grow during this period.

Every market goes through stages of booms and recessions in 30 years and if we have survived the same and grown during this phase, it says a lot about the company.

The goodwill related topics in financial accounting are important.


F2 Syllabus

The building was ready for occupation in time for the start of the 1995/96 academic year and **every room was taken within days** of the commencement of trading.

Flatthall **built five further properties in Central City over the next year** and demand for places increased even further. Feedback indicated that students enjoyed the **quality of the accommodation** that was being offered. Flatthall's buildings were **newly built and freshly decorated**, making them more attractive than typical institutional halls of residence or private rental properties.

Quality is a part of our culture and we must stay true to the same.

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