

<p>Part (a) Prepare a report to the Imfundo board of directors in which you provide the following (ignore the effects of inflation and all forms of taxation):</p> <p>(i) A draft annual profit or loss statement related to offering the online courses (alternative 1).</p> <ul style="list-style-type: none"> • Use FY2019 as the base year for your calculations. • Briefly motivate any amounts omitted from your calculations. • With respect to the potential sale of the lecture venue building, ignore any profit or loss that may arise. 			Marks
REPORT			
To: XXX			
From: XXX			
Date: XXX			
Subject: Online courses – profit calculation and strategic considerations			
The report below outlines the key aspects that Imfundo should consider when looking at the decision pertaining to the online environment. Imfundo should consider a broad range of issues, over and above the financial impact of the decision.			
The provisional annual profit or loss from the online venture is calculated below to assist management with a review of their options:			
	Calc.	Amount	
Maintainable income		R'000	
Course fees	1	13 150	
Subsidies and grants	2	5 000	
Interest and dividends		600	0.5
Rental income – building to be sold		-	1
		18 750	
Invigilator cost – Not included as no longer necessary		-	1
Proctoring software	3	(236)	
Personnel		(6 750)	0.5
Personnel (R4 800 x 80%)		(3 840)	1
Finance costs		(100)	0.5
Head office building costs		(500)	0.5
Lecture venue building costs – Not included as course online		-	1
Amortisation – or may say would be more with new software		(50)	0.5
Other costs	4	(25)	
Expert – once-off cost (1 800 x R40)		(72)	1
Total		7 177	
Calc1 – Nested decision			
Option 1 – Tuition fees (R8 000*0,7*2000)		11 200	1
Option 2 – Tuition fees (R5 500 x 1 500) + (R5 000 x 900) + (R800 x 500)		13 150	2
Calc2 – Subsidy			
Option 1 R10 000 x 2 000/3 000		6 667	0.5
Option 2 R10 000 x 1 500/3 000		5 000	0.5

Conclusion on which fee structure should be selected			
Option 1: Income R11 200 (calc 1) + R 6 667		17 867	0.5C
Option 2: Income R13 150 (calc 1) + R 5 000		18 150	0.5C
It would be better to use the new proposed fee structure			1P
Calc3 – Proctoring software			
Student who will take assessment (1 500 + 500)		2 000	0.5
Cost = ((R68 x 1 000) + (R50 x 1 000)) x 2 hours per assessment		236 000	2
Calc4 – Material			
Current material cost = change from 3 000 students to 200 students changed the cost from R100 000 to R30 000.			0.5
R70 000 change over (3 000 – 200 = 2 800) = R25 per student.			0.5
Therefore, remaining other costs that will not change (R30 000 – (200 x R25))		25 000	0.5
<i>Students can use either 2019 or 2020 numbers</i>			
		Available	18
		Maximum	18
		Total for part (a)(i)	18

Part (a) Prepare a report to the Imfundo board of directors in which you address the following:		Marks
(ii) Any other eight key factors the board should consider prior to embarking on this new business model.		
1	Strategic considerations	
1.1	<ul style="list-style-type: none"> It is very important for Imfundo to note that, once they've made a decision to convert to an online offering, it will be very difficult to revert back to face-to-face lectures. Their customer base will be gone, the lecture venue will have been sold, etc. If the online alternative does not work, the company is most likely going to fail. Additionally, with the COVID-19 restrictions having been relaxed / abandoned, the decision to cease the live classes might not be suitable on an ongoing basis. 	2
1.2	<p>The multiple fee structure provides greater flexibility to a candidate that is not successful in the first attempt of the assessment. This candidate might have opted not to repeat the course due to the high fee cost but would now enrol to write the assessment alone.</p> <ul style="list-style-type: none"> This unique offering may give Imfundo a competitive advantage. It offers the company more revenue streams from which it can earn money. However, this may also potentially cannibalise Imfundo's current offerings – students who may have paid the full fee, will now elect to only take the assessment option (potential loss of R4 800). Students may be unhappy that each course only offers one assessment opportunity – this implies a delay before being able to sit the assessment again. 	2
1.3	<p>Imfundo has not factored in the demand relating to candidates outside South Africa. Because of the uncertainty around this option, it is probably best not to include any amounts in the P&L calculation, but management should be aware of this opportunity and the additional revenue that may be generated.</p>	2

	<ul style="list-style-type: none"> This also reduces Imfundo's operating risk as the company will be less geographically concentrated. However, additional risks from trading in a foreign country will be encountered, e.g. forex risks, different cultures, language barriers, etc. 	
1.4	<p>The online platform could attract more customers within South Africa that would traditionally not have been able to attend the training due to their geographical location.</p> <ul style="list-style-type: none"> Increased scalability, compared to classroom delivery that limits the number of candidates. Online offerings can accommodate significantly higher numbers. Depending on the duration of the courses, Imfundo may also want to consider more frequent commencement dates to create additional revenue opportunities (staggered starts) – but this could influence facilitator capacity. However, the online offering may also reduce Imfundo's client base. Not all students want an online offering. Many students, especially those who potentially struggle, will prefer the personal nature of a face-to-face class. 	2 2
1.5	<p>Will government continue to provide the subsidy in the on-line course environment? A decline in candidate throughputs (through less interaction with facilitators) could negatively affect the subsidy that the company is receiving. This could result in added financial pressure on the projected profits.</p>	2
1.6	<p>The proceeds from the sale of the building needs to be considered. For example, what will the cost of renting a building be? Will Imfundo still need physical premises? Alternatively, what are the costs of setting up the facilitators to work from home (laptops, cameras, generators, WiFi, etc.)</p>	2
1.7	<p>Website development costs have not been factored into the financial impact.</p> <ul style="list-style-type: none"> There is a risk that there may be delays in the site development which would delay the starting and revenue on the courses. Risk of the reliability of the site hosting, as well as well-designed and user friendly. 	2
1.8	<p>Consideration of an alternative business model where majority of the lectures are pre-recorded and therefore allowing for Imfundo to require the services of the facilitators on reduced basis, offering an opportunity for cost savings. This will make it easier for Imfundo to launch several courses during the year, without incurring additional costs / allow the facilitators to focus on assessments and generate more revenue with increased number of assessments.</p>	2
2	Development of the app:	
2.1	<p>Social impact of having an app, as this would allow Imfundo to capture a market that is younger/from poorer households.</p>	2
2.2	<p>Operational and fraud losses due to data breaches.</p> <ul style="list-style-type: none"> Hacking risks (marks, personal info, etc.) Loss of source material (lecture notes, exam papers) 	2
3	Staff related issues	
3.1	<p>The effect that salary reductions will have on staff morale and productivity needs to be understood.</p>	2
3.2	<p>Whether Imfundo will still require all of their admin staff Should be investigated, as may be able to save costs on the new model for admin functions not required with the online model.</p>	2
3.3	<p>Investigate whether additional staff will be required to deliver online courses. They may need to employ staff to track candidates' progress and monitor their queries and maintain its online platform.</p>	2

3.4	Will they be able to offer the same level of comfort to candidates? There is a possibility that the facilitators would not want to be a part of only an online offering due to less job satisfaction as facilitators experience true joy to stand in front of a class.	2
3.5	There may be issues relating to the job security of the facilitators, they may opt to leave the company for better security. If classes are recorded, could they be replaced / reduced over time.	2
4	Infrastructure to go online	
4.1	The reliability of the proctoring software should be investigated as this is a vital aspect of their service which would have huge repercussions if compromised. Any breaches would damage Imfundo's reputation and devalue its qualifications.	2
5	Skills and expertise	
5.1	The impact on costs should be considered: <ul style="list-style-type: none"> Costs to operationalise the app (costs to develop, maintain, etc.) have not been mentioned Additional IT costs to deliver online courses should be considered, such as more powerful laptops, or server capacity to facilitate content delivery to candidates. The cost of retrenchments is uncertain and therefore poses an additional risk of loss. It could take longer than envisaged to design new materials, resulting in cost overruns. What marketing efforts will be required, and what are the costs (no provision in the budgeted P&L). 	2
5.2	Reliance must be placed on the educational specialist / overreliance from the educational specialist: if they cannot deliver on time, this would impact Imfundo's ability to successfully launch the course / if the quality is not appropriate / if they share the company intellectual property in other ventures or competitors?	2
5.3	The product offering is highly technological, which creates risk around their "content exclusivity" (patent and copyright) of course material.	2
5.4	Imfundo has not designed its courses around the online environment and there is a risk that courses cannot be effectively switched to an online environment. They might underestimate the amount of work that needs to go in to keep candidates engaged in an online environment and they are then significantly understaffed. Or... The ability of facilitators to switch to online lecturing is as risk: it requires a different skillset and far more technical know-how.	2
6.	Macro considerations: <ul style="list-style-type: none"> The risk around load shedding / depressed economy / lack of network and how this will possibly impact on the delivery of the course. Economic outlook post Covid-19 and the impact on candidate numbers are a risk area. 	2 2
7.	Competition considerations	
7.1	The competitors pricing poses a risk as they may be lower than the prices envisioned by the company, which are merely determined by taking presented courses, and reducing for saved costs, rather than a proper market analysis. (The discount offered may be too high.)	2
7.2	Can Imfundo compete with global leaders in online courses? Competition used to be limited to RSA competitors but online brings much more competition from global players (e.g. Udemy). OR The company might not be able to attract the number of	2

	candidates anticipated and thus not break even on the planned switch due to other competitors in the market that are already established.	
7.3	Imfundo should consider whether the competitors have already adapted to presenting in an online medium, and whether they will be late entrants to the market, making it difficult to penetrate at this point. They will need to address how they differentiate themselves / obtain a competitive advantage.	2
8	The decision appears aligned to Imfundo's vision and mission to build sustainable education models that will contribute positively towards taking the country forward during the digital transformation brought about by the Fourth Industrial Revolution (4IR).	2
Available		54
Maximum		16
Total for part (a)(ii)		16
<i>Communication skills – layout and structure</i>		<i>1</i>
Total for part (a)		35

Part (b) Describe the key business risks and potential opportunities that arise from the initiative to start a platform business (alternative 2) that the Imfundo board of directors should consider in evaluating this potential business strategy.		Marks
1	Risk: Imfundo is new to the platform business and might not have the relevant expertise with regards to the selection of the appropriate infrastructure and continued maintenance to ensure that it can handle the anticipated users and content providers. This could lead to sub-optimal decisions being made due to lack of understanding by management, resulting in reputational damage and the demise of the platform.	1 1
2	Risk: Legal risks related to accreditations and educational reporting and increasing rules and regulations in the sector could pose a threat to the success of the business.	1
3	Risk: Increased risk around data privacy and security (POPIA) of the candidates and training providers.	1
4	Risk: Inappropriate pricing strategies around the use of the platform as well as content providers' pricing strategies. If Imfundo's pricing is excessive relative to competition, it could lead to few training providers signing up to the platform, which could lead to lower candidate enrolments.	1
5	Risk: Additionally, if the content providers load up their prices to cover the fees charged by Imfundo, this could discourage candidates from signing up directly with Imfundo and rather sign up with the content providers. This presents a further risk in that Imfundo might invest in the marketing of the content providers' programmes without seeing value.	1
6	Risk: It is stated that the majority of Imfundo's competitors transitioned to online courses during Covid-19 to remain profitable, Imfundo is therefore behind the	1

	competition making the business opportunity potentially less viable as the anticipated demand could be lower.	1
7	Risk: Imfundo is purely an intermediary, they do not own learning content (easily displaced with low barriers to entry).	1
	<ul style="list-style-type: none"> If training providers deliver inferior quality courses, it could affect Imfundo's reputation. 	1
	<ul style="list-style-type: none"> If training providers deliver inferior quality courses, depending on the agreement with candidates / content providers, Imfundo might be liable to refund the course fees which could have adverse liquidity impact on them. 	1
	<ul style="list-style-type: none"> Training providers could build up a database of the candidates and target them directly in future, bypassing Imfundo. 	1
	<ul style="list-style-type: none"> 	
	<ul style="list-style-type: none"> Training providers can provide their content on various platforms (no exclusivity). 	1
8	Opportunity: To leverage the large masses of under-served users (especially in South Africa) and data to build great products and services for candidates and training providers. For example: <ul style="list-style-type: none"> Could specifically target people stuck at home during lockdowns to 'upskill' themselves in their 'downtime'. 	1
9	Risk: Demand might not be appropriately estimated and there is a risk that training providers might not want to share their content with another provider (intellectual property considerations). Training providers would not make use of the platform as a result.	1
10	Risk: Imfundo may no longer be fulfilling its mission and vision as it will move away from its core function of being a training provider. Shareholders and creditors may not give their approval for the restructuring.	1
11	Risk: This move will most likely lead to job losses (retrenchments): how will this affect Imfundo's reputation?	1
12	Risk: If Imfundo decides to also be a training provider, then hosting other providers on their site/app would decrease Imfundo's potential revenues and profits. OR Opportunity: If Imfundo decides to also be a training provider, then additional revenues maybe generated and thereby increasing Imfundo's potential revenues and profits (e.g., Amazon hosts sellers on its marketplace but also sells directly to customers. The same is applicable for Microsoft's Game Pass platform).	1
13	Risk: This alternative would require a massive upfront investment in the form of platform development costs and its continued maintenance. Given Imfundo's current struggles, there is a risk that the company will not be able to acquire the funding necessary to implement this option.	1
14	Risk: The time taken to develop the platform is uncertain and may not be ready in time to meet the needs of the training providers.	1
15	Risk: The impact of load shedding on operations/costs is a risk with the whole operation being online. The impact will be felt on load shedding on the company	1

	operations, each of their students who needs to be online, and therefore may not be able to engage, and the providers who may not be able to present if loadshedded. The risk of loadshedding on assessment, and proctoring is also a huge issue, as electronic proctoring cannot take place with power outages in any of the students or company networks.	1
16	Risk: In education, copyright is a risk, and material can be duplicated. Consider whether there are any measures that can be put in place to minimise this risk. Consider an accredited certificate where the value lies in the certification rather than the content.	1
17	Opportunity	
	<ul style="list-style-type: none"> Collaborate exclusively with global leading training providers, providing better quality courses. 	1
	<ul style="list-style-type: none"> Offer related services could be considered as revenue streams, e.g., access to employment agencies who would want access to students in order to market them to prospective employers. 	1
Available		25
Maximum		8
<i>Communication skills – logical argument</i>		1
Total for part (b)		9

Part (c) Discuss, with regard to Imfundo’s decision to pursue the development of the computer-based learning course for the Law Society:		Marks
(i) Two ethical concerns and two business risks; and		
1	Good for self and for others It cannot be seen as ethical if Imfundo is using another provider’s work as its own <u>because</u> this is not good for the other party . (Loss in revenue, etc.) Taking off a logo and presenting the work as your own is plagiarism. Plagiarism is unethical as material is gained through dishonesty (without the knowledge of the other party) as the content is not Imfundo’s own creation.	1 1
2	Code of Professional Conduct As the CFO and a Senior CA of Imfundo is also a CA(SA) in business, part 1 and 2 of the SAICA CPC needs to be adhered to by her. <ul style="list-style-type: none"> However, the CFO’s statement to the team that it must happen by any means necessary, raises concerns about her integrity (professional behaviour) as she is implying that behaviour that is not straightforward and honest (plagiarism) is acceptable. By encouraging the use of any means necessary, knowing that plagiarism is both an illegal and unethical act, there is a threat to her <i>professional behaviour</i>. This kind of behavior can bring the CA (SA) <i>profession into disrepute</i>. 	1 1 1 1

	Furthermore, she is also not acting with integrity by encouraging the team to mislead the Law Society of South Africa by not being honest and straightforward with them and advising that they are not familiar with the specific area of work required.	1
3	Non-compliance with laws and regulations Imfundo is not complying with copyright legalisation if it is using the material as its own without approval / agreement.	1
4	Reputational damage to the brand of the company and consequently current/future candidates could lose trust/confidence in these and other courses and this will have a negative impact on future profits of Imfundo.	1 1
5	Governance and the implications <ul style="list-style-type: none"> • All of the above matters are not in the best interest of the company (not good for the company), and this can have the following implications for Imfundo: might be taken to court for the infringement of copyright by the provider and may be accused of corporate espionage. • Costly legal battles and restitution costs may require Imfundo to have funds to finance them. Aside from the training provider, the Law Society may also sue Imfundo for any damage caused to its reputation of a result of Imfundo's actions. • This would result in financial outflows for Imfundo as a result of successful lawsuits. This would worsen Imfundo's already difficult financial position. 	1 1 1 1
Available		14
Maximum		4
Total for part (c)(i)		4

Part (c) Discuss, with regard to Imfundo's decision to pursue the development of the computer-based learning course for the Law Society:		
(ii) Any actions Imfundo should take to mitigate any such concerns and risks.		
1	Imfundo should not use the material at all and develop its own material at their own cost.	1
2	Imfundo should consider approaching the provider and sign an agreement and negotiate a cost for the material rather than using the material without their permission. The terms and conditions should clearly state how the material can be used. <ul style="list-style-type: none"> • A quality controller must inspect the material issued to ensure it agrees to the terms and conditions. 	1 1
3	Imfundo could outsource the delivery of the programme to the other providers and make a margin from hosting the delivery on its platform.	1
4	Imfundo could alternatively partner / undertake a joint venture with the providers and agree a profit-sharing ratio .	1

5	Imfundo should develop policies around the engagement with providers' material to avoid this from occurring in the future.	1
6	The policy should also have a disciplinary process with regards to the senior official who contravene such policies as this could impact the sustainability of Imfundo.	1
7	The project should not be undertaken if the ethical risk could jeopardise the entire future of Imfundo for one client.	1
Available		8
Maximum		4
Total for part (c)(ii)		4
<i>Communication skills – clarity of expression</i>		<i>1</i>
Total for part (c)		9
Total for part I		53