

May /August 2020 CIMA Management and Gateway Case Study

2019 CIMA Professional Qualification

Full post exam support materials

Below is the full post-exam supporting material for the Management/Gateway case study exam.

Pre-seen material

May/August 2020 Management/Gateway case study pre-seen can be found [here](#)

Examiners report

The May/August 2020 examiners report can be found [here](#)

Exam variants

- Variant 1 can be accessed [here](#)
- Variant 2 can be accessed [here](#)
- Variant 3 can be accessed [here](#)
- Variant 4 can be accessed [here](#)
- Variant 5 can be accessed [here](#)
- Variant 6 can be accessed [here](#)

Suggested solutions

- Suggested solutions for variant 1 can be accessed [here](#)
- Suggested solutions for variant 2 can be accessed [here](#)
- Suggested solutions for variant 3 can be accessed [here](#)
- Suggested solutions for variant 4 can be accessed [here](#)
- Suggested solutions for variant 5 can be accessed [here](#)
- Suggested solutions for variant 6 can be accessed [here](#)

Marking Guidance

- Marking guidance for variant 1 can be accessed [here](#)
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- Marking guidance for variant 4 can be accessed [here](#)
- Marking guidance for variant 5 can be accessed [here](#)
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May-August 2020 Management / Gateway Case Study
Examination Pre-seen material



Alpaca Hotel Group

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Introduction

Alpaca Hotel Group (“Alpaca”) is a quoted company that owns and operates 50 luxury hotels in the country of Maylandia. Alpaca’s head office is located in Mayburgh, Maylandia’s capital city.

Maylandia is a developed country that has a high standard of living. It has a thriving economy.

Maylandia’s currency is the M\$. Companies are required to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS).

You are a financial manager in Alpaca’s head office. You report to Liz Petrov, a Senior Financial Manager and she reports to Zoe Diaz, Alpaca’s Finance Director. Your primary duties are associated with management accounting, but you are often asked to gather information on other matters for your superiors.

The Hotel Industry (General Information)

Hotels provide overnight accommodation for their guests, which can vary in length from a single night's stay to extended stays lasting for months. Most guests use hotels for either business or leisure purposes. Business guests require a base from which to attend meetings with colleagues, customers or suppliers. Leisure customers are generally tourists on short trips, or on one-week or two-week vacations.

Hotels vary in the range and standard of the services that they provide:

Basic hotels	<p>At their most basic, hotels offer simple accommodation in small bedrooms, usually with ensuite bath or shower rooms.</p> <p>Guests would expect their rooms to be clean, with fresh sheets and towels on arrival. Rooms would be cleaned and tidied by housekeeping on a daily basis and sheets and towels changed as required during the guest's stay.</p> <p>Basic hotels may not offer any additional services. They may not, for example, serve food.</p>
Mid-range hotels	<p>Mid-range hotels generally offer larger rooms that are furnished to a higher standard than those offered by more basic hotels. The hotel's housekeeping service would normally visit each room on a daily basis, at the guest's convenience, to make the bed and clean the room.</p> <p>Mid-range hotels generally offer a more extensive range of services, including restaurants and coffee shops that permit guests to take meals in the hotel if they so wish. Hotels generally make their dining facilities open to anyone who wishes to pay to eat there, so they provide a further stream of revenue.</p> <p>Mid-range hotels may also offer business facilities, such as meeting rooms that are equipped for audio-visual presentations and teleconferences.</p> <p>Leisure facilities may also be offered, including gyms and swimming pools.</p>
Luxury hotels	<p>Luxury hotels offer still larger and better-furnished rooms, or possibly suites of rooms that enable a guest's family or business associates to stay in a shared space, with individual bedrooms opening onto a shared sitting room.</p> <p>The housekeeping service would normally be expected to visit twice daily, turning down the bed cover in the evening and closing the curtains and switching on the lights.</p> <p>Luxury hotels generally offer a wider range of dining options, with two or more restaurants that give a choice of menu and also of price point. The restaurants in luxury hotels are generally of a sufficiently</p>

	<p>high standard to attract significant numbers of non-residents to eat there.</p> <p>Luxury hotels offer business facilities, that may include larger meeting rooms that could be used to host conferences or major social events such as corporate dinners.</p> <p>The leisure facilities offered by luxury hotels are generally extensive and of a high quality. In addition to gyms and swimming pools, they may offer beauty spas, saunas and other services.</p>
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Some hotels operate independently, as business entities in their own rights, and others are parts of chains. Guests might be attracted to chain hotels when they are travelling to a new destination because chains generally offer a very consistent standard of service and so guests will know what to expect from staying there. Some independent hotels are popular because they offer their own unique style of service that is appreciated by guests who are looking for something more unusual.

The hotel industry is very competitive, although some compete on the basis of quality of service and others more on price:

- Business travellers will have their bills settled by their employers and so the cost may be almost irrelevant. In some cases, the higher cost associated with a luxury hotel will be justified by the fact that the better facilities make it easier to work during the stay. Being based at a luxury hotel may also enhance a guest's credibility when meeting with clients or other business contacts.

Some companies impose upper limits on the cost of accommodation booked for business purposes, which may force some travellers to select a more basic hotel.

- Individual travellers will select hotels on the basis of their willingness to pay for a given standard of service. Some will stay at basic hotels because they are cheaper, while others will be prepared to pay more for mid-range or luxury hotels.

Some individuals buy their hotel accommodation as part of a package deal provided by a travel company, which includes flights, hotel accommodation and possibly car hire. The price of the package will be influenced by the cost of the accommodation to the travel company, but the company will undoubtedly be able to negotiate a discount, some of which could be passed onto the guest in order to encourage bookings.

Pricing

Hotels vary their rates to take account of seasonal factors and local demand. For example, a hotel located in a seaside resort will charge more per night during the busy summer season and less in winter, when the resort is quieter. Similarly, a city centre hotel that caters mainly for business guests might charge less for a weekend stay because many business travellers will go home at the end of the working week.

Many guests will book their accommodation through travel agents, who generally receive a commission of 10% to 20% from the hotel. Travel agents often pass some of that commission onto guests in order to obtain their business.

Online price comparison sites are web-based businesses that enable travellers to input a destination and dates for arrival and departure. This generates a list of the hotels that are available on those dates and their respective prices for the stay. Guests can book their choice of hotel through the site, making an online payment. The hotels generally pay the site a commission on each booking made in order to be listed on this site, some of which may be passed on to the guest if the site's operators so wish. Hotels often discount their rates in order to obtain bookings for rooms that might otherwise be at risk of remaining empty and so these sites can offer considerable savings compared to making a direct booking with the hotel itself.

Staffing

Labour is generally the single most expensive cost associated with running a hotel. Even a basic hotel requires cleaning staff to prepare rooms for arriving guests, reception staff and security staff. Better quality hotels offer more services and generally require more people in order to provide them.

Mid-range and luxury hotels generally have a number of roles that require skilled staff:

Reception staff	<p>Receptionists staff the reception desk in the hotel lobby. Their duties are primarily associated with assisting guests when they arrive and depart.</p> <p>The reception staff assist arriving guests by checking the details of their bookings, confirming pricing and issuing keys.</p> <p>Departing guests check out of their rooms at the reception desk. That usually involves ensuring that any outstanding payments are made before the guest leaves the premises.</p>
Concierges	<p>Some mid-range and most luxury hotels employ concierges to assist guests. Their duties can include helping guests with their luggage when they arrive and depart, arranging for taxis, providing guests with directions and recommending nearby restaurants. Some experienced concierges in luxury hotels have extensive contacts which enable them to assist with requests, such as obtaining tickets for “sold out” shows, or bookings at exclusive restaurants.</p> <p>The concierge staff also provide a layer of security by being aware of the people passing through the lobby and discouraging potential thieves.</p>
Management team	<p>Mid-range and luxury hotels usually have a small management team. The general manager is in overall charge of the hotel and is responsible for ensuring that all head office policies are complied with.</p> <p>Larger hotels frequently have managers to take responsibility for housekeeping operations such as cleaning and reception.</p>

	<p>There may be a food and beverage manager who is responsible for the restaurants and bars.</p> <p>Larger hotels might have an events manager, who would liaise with customers who were interested in booking the hotel ballroom for an event such as a wedding, a business conference or a product launch.</p> <p>Members of the management team are often graduates and may have studied a topic such as tourism or hospitality management as their degree specialism.</p>
Chefs	<p>Mid-range and luxury hotels generally have at least one restaurant. Chefs are responsible for setting the menu, for skilled cooking operations and for the supervision of unskilled kitchen assistants in the cooking and preparation of meals.</p> <p>Some more upmarket restaurants have an executive chef who takes responsibility for developing the menu. That may not be a fulltime role and the executive chef may be recruited on the basis of being a well-known restaurateur.</p>

Skilled staff are often well paid and valued by their employers. For example, the management team could have a significant role to play in ensuring that guests are happy or that revenue sources such as the function suites are kept busy.

Basic hotels will generally have fewer skilled staff. Some budget-price hotel chains offer credit card checking machines that permit guests to check themselves in, identifying themselves with their credit cards and pin numbers. The machine then issues a room key. If there is a staffed reception desk, then the receptionist may also be the hotel manager. Basic hotels do not have concierges or extensive management teams. If they serve food, then they will probably offer a simple menu that does not require skilled chefs.

There are employment agencies that can provide skilled staff on a temporary basis to cover shortfalls in cover. These agencies offer convenience and flexibility, although their hourly rates are generally about three times the rate that would normally be paid to a skilled worker who was employed directly by the hotel.

All hotels require unskilled staff to engage in duties such as room cleaning, assisting with food preparation and dish washing in the kitchen and security. If the hotel has a restaurant that offers table service, then it will also require waiting staff. The hotel industry is generally seasonal and so its needs for unskilled staff will vary according to the time of year and the number of occupied rooms. Hotels frequently recruit staff on short-term contracts to enable them to maintain an optimal staffing level at quiet times. It is common practice to employ college students as cleaners or waiting staff for the duration of their summer vacations, which ensures that the busy summer season is well staffed, with an automatic reduction in staffing at the end of the busy season.

Hotels generally pay their unskilled staff poorly and often ask them to work unsociable hours. Waiting staff and kitchen assistants may have to arrive at work in time to serve breakfast or work until late in the evening if serving dinner. Sometimes staff are asked to

work split shifts, which would involve arriving early in the morning to prepare or to serve breakfast and then going home but returning in the evening for the dinner service. Staff turnover amongst unskilled staff is high, although it is usually relatively straightforward to recruit replacements.

Maylandia has a statutory minimum wage which sets the lowest hourly rate that can be paid. Many hotel companies pay their unskilled staff at that minimum rate.

Hotel's star ratings

Hotel rooms may be furnished to different standards depending on the type of guest the hotel is trying to attract. The price of the hotel rooms will vary depending on these standards. In Maylandia, a star-rating system is used.

	5	4	3	2	1
Open all year	√	√	√	√	√
24-hour reception	√	√			
Guests have 24-hour access	√	√	√	√	√
Restaurant	√	√	√		
Licensed bar	√	√	√		
Standard of cleanliness guaranteed	√	√	√	√	
Wi-Fi in public areas	√	√	√	√	√
Wi-Fi in room	√	√	√		
Ensuite shower and toilet guaranteed	√	√	√		
Ensuite bath, shower and toilet guaranteed	√	√			
Internal telephone service	√	√			
Higher staffing levels	√	√			
Mini bar	√	√			
Valet parking, concierge and luggage assistance	√	√			
Proactive customer service	√				
Room service for drinks and snacks	√	√	√		
Room service for dinner, lunch and breakfast	√	√			

Review sites

Review sites are part of social media. Visitadvisor is Maylandia's most popular site for dealing with the hotel industry.

Guests can use the Visitadvisor site to leave reviews of hotels that they have visited. The site enables them to search for their hotel. They can then give the hotel a rating from one to five on the basis of each of:

- cleanliness ♦♦♦♦♦
- quality of service ♦♦♦♦♦
- location ♦♦♦♦♦
- quality of facilities ♦♦♦♦♦
- value for money ♦♦♦♦♦

The site then calculates an average score for each of these factors and an average overall score across all factors.

If they wish, they can then add a narrative review of their experience.

Prospective visitors can then search for ratings using a location or the name of a particular hotel. If they search by location then they see the scores of all of the hotels in that town or city and they can click on any that interest them. They can then read each previous guest's ratings and review comments.

There are concerns that these review sites might prove misleading. It is, for example, difficult to prove that a review was even written by a guest. Hotel owners and their staff can leave positive reviews for their own establishments, using assumed names. Similarly, competitors can leave negative reviews if they so wish.

Negative reviews can also remain on the site long after the problem has been rectified. A guest's complaint about a badly cooked meal might discourage future bookings, even after the hotel has investigated the complaint and retrained staff to prevent a recurrence.

Hospitality industry in Maylandia

Maylandian Tourist Board (MTB)

The MTB is responsible for marketing Maylandia as a tourist destination. MTB runs advertising campaigns and advises the Maylandian Government on policies which impact the tourism industry.

MTB awards ratings for hotels on a star system. Basic hotels are given one-star, mid-range hotels are given two or three stars and luxury hotels are given four or five stars.

The rating is based on an annual round of hotel inspections, with hotel inspectors arriving unannounced and staying at the hotel without identifying themselves. At the end of their stay, they request a meeting with the hotel manager to discuss their findings. If they raise concerns that could lead to a hotel's rating being downgraded then the hotel may be given an opportunity to rectify matters prior to a re-inspection.

Star ratings are based on a combination of objective factors, such as whether the hotel has a restaurant or whether the reception desk is staffed on a 24-hour basis, as well as more subjective factors such as cleanliness and quality of service. The objective factors can set the upper limit for a star rating. For example, a hotel that does not have a restaurant cannot be awarded more than two stars, even if the hotel is luxurious and well regarded by guests in every other respect.

Maylandian Health and Safety Administration (MHSA)

The MHSA protects the wellbeing of hotel staff and guests by ensuring that all statutory health and safety procedures are fully complied with. For example, the law requires regular checks on a number of areas, including:

- Heating and ventilation systems must be checked to ensure that they do not harbour dangerous bacteria

- Portable electrical equipment must be checked to ensure that it is correctly wired
- Fire safety equipment must be readily available and serviced to ensure that, say, fire extinguishers are fully charged.

All of the above, and more, must be certified at least annually by independent experts and the hotel manager must display up to date certificates to MHSA on request, or the hotel could face immediate closure.

The MHSA also conducts unannounced inspections of kitchens and dining rooms to ensure that food is stored, cooked and served in hygienic conditions.

Alpaca background and group structure

Alpaca was founded by the Scrivens family, who opened their first hotel, The Mayburgh Principal, in 1930. Since then, the company has grown steadily through the acquisition of hotels as going concerns and also through the construction of hotels. The Scrivens family sold their interest in the company when it was quoted on the Maylandia Stock Exchange in 2000. Alpaca now owns 50 hotels.

Alpaca operates at the luxury end of the hotel market, with 44 of its hotels having four stars and the remainder having five stars. Alpaca aims to offer a high standard of service and guest comfort at all of its hotels, while remaining within the reach of the travel budgets of business guests and the personal wealth of individuals.

Alpaca owns approximately 10% of the luxury hotel rooms available in Maylandia, measured in terms of the number of rooms in the four to five-star category.

The various hotels all display the Alpaca brand and that is reflected in many ways, including hotel signage, the uniforms worn by reception and concierge staff and so on. Alpaca also strives to ensure that each hotel has its own unique character. For example, the lobby of the Alpaca Mayburgh Principal is still decorated with the same solid oak panelling that was installed when the hotel was first constructed. The hotel's meeting room, which is available for guests to hire, is also oak lined, despite having since been equipped with the latest audio-visual and telecommunications equipment. The nearby Alpaca Mayburgh Techno's public spaces are decorated in light woods and feature concealed lighting in the public spaces to create a much more modern style.

All of Alpaca's hotels have bars and restaurants that are open to both residents and non-residents.

Alpaca has 50 hotels, which are organised into three divisions:

	Hotels	Rooms	
Alpaca City Central ("Central")	12	2,400	<p>All of Central's hotels are located in city centres, covering all of Maylandia's major cities.</p> <p>These hotels are used by business travellers and also by individuals, who are generally tourists enjoying city breaks.</p> <p>These hotels cater for business travellers by offering facilities such as meeting rooms that can be used to host face-to-face meetings, incorporating video conferencing if necessary.</p> <p>The hotels also cater for individuals by offering leisure facilities such as indoor swimming pools, beauty spas and gyms.</p> <p>All of Central's hotels have at least one large indoor space that can be hired to host a major function such as a wedding or a conference.</p>

Alpaca Southern Resorts (“South”)	20	4,400	<p>Maylandia’s southern coast is a popular destination for tourists seeking summer beach holidays. All of South’s hotels are located in tourist resorts and all overlook sandy beaches and offer sea views.</p> <p>These hotels are designed mainly for leisure. Most guests are tourists, many of whom booked a package holiday with a travel company and were prepared to pay a premium price in order to stay at a good-quality hotel.</p> <p>South hotels usually have several bars and restaurants so that guests on a two-week vacation can have some choice. Some feature a choice between indoor and outdoor dining.</p> <p>These hotels also offer extensive leisure facilities, including outdoor swimming pools, beauty therapies and so on.</p>
Alpaca Northern Slopes (“North”)	18	2,200	<p>Maylandia has a mountainous region in its North. That offers scope for adventure holidays, with activities such as skiing and snowboarding available in the winter and hiking and pony trekking in the summer.</p> <p>Alpaca’s North hotels are often converted castles or former mansions that has been extended and adapted to offer guests an atmospheric venue for their vacations.</p> <p>The hotels tend to be designed to offer bases for guests. They provide comfortable and attractive bedrooms and public spaces. Their restaurants offer high quality dining experiences. There is generally little need for leisure facilities within the hotel itself because guests are usually keen to spend much of their stay outdoors, enjoying the scenery and nearby sporting activities.</p>
Total	50	9,000	

Map of Maylandia.



Extract from the investors' page of Alpaca's website

Mission statement

At Alpaca, our mission is to provide authentic hospitality by making a difference to our guests and the environment in which we live.

Aims

Alpaca's aims are to increase market share until it is the largest luxury hotel operator, by revenue and by room capacity, in Maylandia.

Objectives

Alpaca's objectives are:

- To increase occupancy rates and deliver high guest satisfaction in the process.
- To acquire at least one new hotel every three years, ensuring that Alpaca delivers excellent value for money to its shareholders in the process.

Our values

Integrity – we promote honesty and respect towards our colleagues, guests, owners and the wider environment.

Attention to detail – we believe that a hotel is only as good as the service it provides.

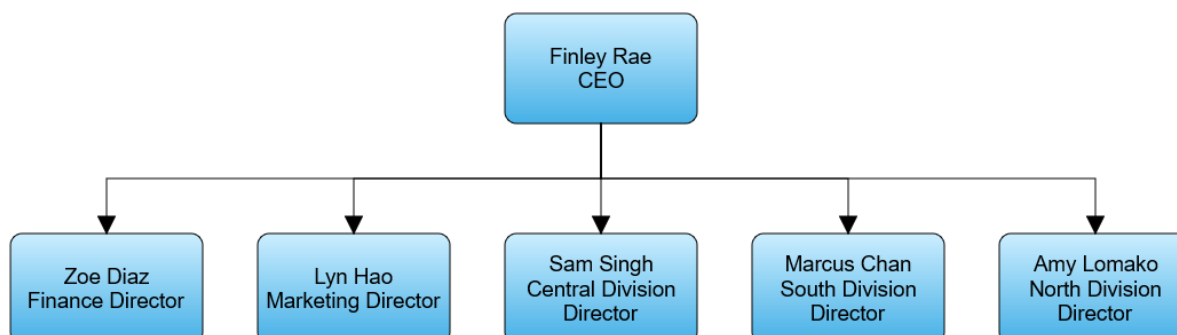
Excellence – we train our employees to the highest standard in the hospitality trade.

Enthusiasm – we serve our guests with a unique creativity.

Teamwork – we work together to exceed expectations.

Management structure and roles

Alpaca has a divisional structure, with a director for each of the three divisions.



The Finance Director and Marketing Director are responsible for the overall strategic management of their respective areas for Alpaca as a whole. For example, Zoe Diaz is responsible for major strategic finance issues such as corporate finance and the design of the overall budgetary control system across the Group. Lyn Hao is responsible for strategic marketing initiatives, such as developing advertising campaigns and the overall design of the Group website.

The divisional directors are responsible for the strategic oversight of operations across their respective divisions. Each divisional director is supported by a divisional management team that is responsible for:

Operations	<p>Supervision of quality at individual hotels.</p> <p>Monitoring of compliance with formal policies and procedures.</p> <p>Procurement of ingredients and materials that are sourced at divisional level, such as branded bedsheets and towels, brochures and non-perishable food and beverages.</p> <p>Management of local advertising and sponsorship.</p> <p>Monitoring of occupancy levels and room rates.</p>
Finance	<p>Preparation of divisional budgets.</p> <p>Review of monthly and quarterly performance reports on individual hotels in the division.</p> <p>Review of room rates and predicted occupancy.</p>
Human resources	<p>Monitoring of compliance with Group HR policies and with Maylandian employment legislation.</p> <p>Establishing appropriate wage rates, taking account of local variations in the employment market.</p> <p>Agreeing staffing levels with hotel general managers.</p>

The divisional management teams are all based at Alpaca's Head Office in Mayburgh. They stay in close contact with their respective hotel managers. Each hotel is managed by a general manager, who liaises with their divisional director as appropriate. Each hotel manager has a small team comprising a food and beverage manager, an operations manager and, in North and Central, an events manager.

Hotel management teams are responsible for the daily operation of their hotels, dealing with guests needs and responding to any complaints. Hotel managers also interview staff to fill vacancies.

Hotels require a wide range of goods and products, ranging from cleaning materials to foodstuffs used in the restaurants. Procurement for most items is managed by the operations team at divisional level, with suppliers delivering goods directly to the hotels that require replenishment. Each hotel's food and beverage manager is responsible for ordering perishable foodstuffs, such as fruit, meat and fish. That makes it easier to manage inventories of perishable items and minimise waste. It also enables each hotel's head chef to ensure that the hotel has the necessary ingredients for each day's menu.

The divisional procurement teams coordinate some orders. For example, Alpaca issues its staff with uniforms that are embroidered with the company name. It also uses the same style of towels in all of its hotels, again embroidered with the Alpaca brand. Quantity discounts mean that it is more cost-effective for the three divisions to maintain a central inventory of such items and to place a single large order as and when necessary when stocks of any given item are running low. There are too few such items to make it worth creating a formal system for such collaborative purchases. There is a storage facility in the grounds of Head Office and operations staff can draw from inventory as and when required by any of their respective hotels. Any such items are treated as being sourced by the division for budget purposes.

The divisions are investment centres for reporting purposes and each hotel is viewed as a profit centre.

Guest booking options and pricing

Most guest bookings are made through these channels:

1. Alpaca website
2. Travel Agents
3. Online comparison sites

1. Alpaca website

Guests can book directly with Alpaca through the website. Payment is made electronically and a booking confirmation is emailed immediately to the guest.

2. Travel Agents

Travel agents arrange hotel accommodation with Alpaca on behalf of their clients. These clients are Alpaca's guests. Alpaca pays a commission to the travel agent, calculated as a percentage of the total booking value. Commissions are negotiated with each agent and range from 10% to 20%.

Maylandia Travel, for example, has worked with Alpaca for many years and receive 20% commission. Maylandia Travel specialises in organising hotel accommodation for couples who are prepared to pay a little more to enjoy exceptional service and quieter hotels. Alpaca's hotels are Maylandia Travel's preferred choice. 60% of bookings for Alpaca South's hotels are made through this agent.

3. Online comparison sites

Online comparison sites are websites that provide guests with a selection of hotel accommodation available in their preferred locations on set dates. Alpaca pay 15% commission on the room bookings received through these sites. Alpaca find this useful when they have spare capacity and like to fill empty rooms by offering special last- minute deals.

Pricing and billing

Alpaca has a centralised IT system that is located at Head Office. That system gathers details from individual hotels and other channels on a real time basis and feeds this into Alpaca's internal reporting system.

The IT system includes a software package called APAS, which uses an algorithm to set rates for each hotel in real time. APAS takes account of:

- Rates offered online by competitors
- The number of unsold rooms available for the period of the booking and the until that period commences
- The time of year, allowing for the extent to which the specific hotel is affected by seasonal variations

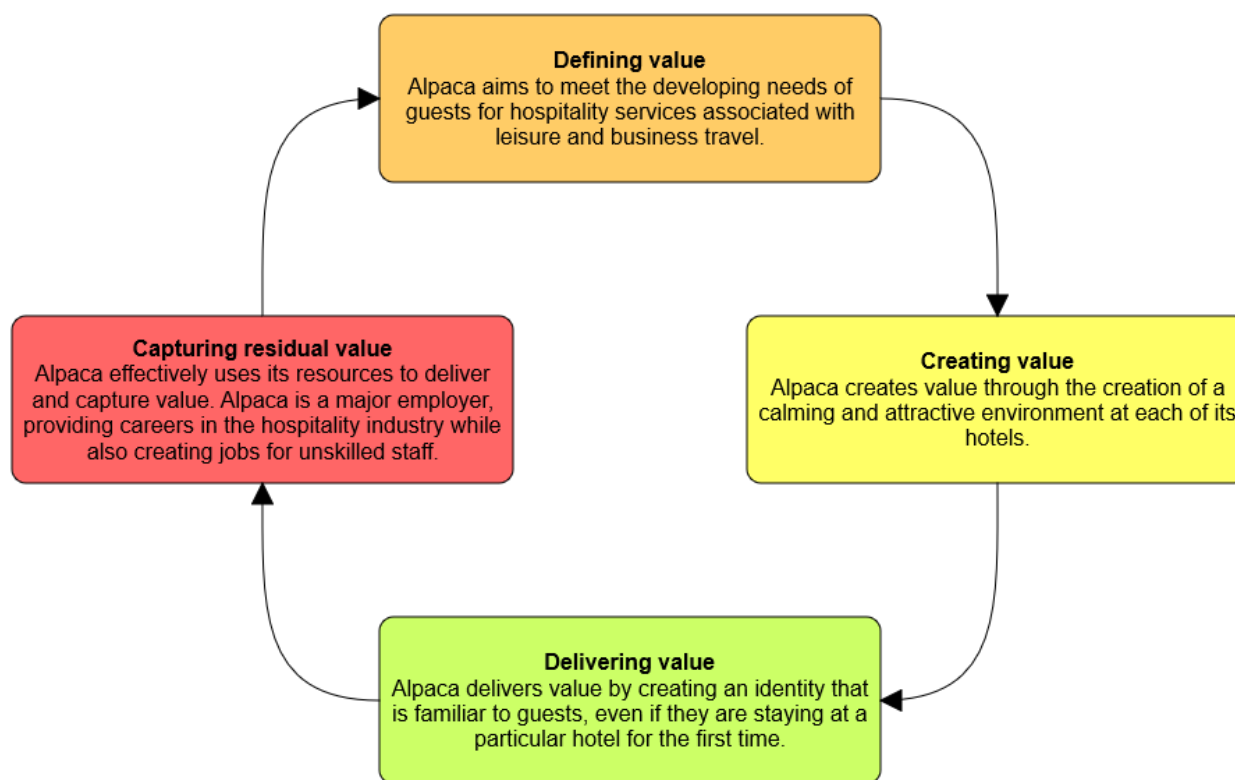
The rate is updated and subject to the usual commission or discount offered to bookings made through that route.

Pricing is also affected by the meal service chosen by the guest at the time of booking.

Guests can charge services to their room accounts. For example, all of Alpaca's hotels offer a room service menu that enables guests to order snacks or meals to be brought to their rooms at their convenience. Extra charges are usually paid on departure.

Alpaca has a policy of asking all guests to supply a valid credit card on arrival. If the guest leaves without paying for any outstanding accommodation or other charges, then the hotel uses the card details to take payment.

Alpaca business model



Internal reporting

Monthly management accounts are prepared by the central finance function and are distributed to each hotel manager at the end of the month, the hotel managers are required to add commentary and then submit this report to their regional manager within three days.

The individual hotel reports are consolidated on a divisional basis by the divisional management teams. These consolidated reports are discussed by the Board.

Budgeting process

Each Regional Director prepares a draft budget for each hotel within their geographical area. They consult with the hotel managers to determine the budgeted costs. Budgeted revenue is estimated from information gathered on the online booking system, previous trends and knowledge of events that could impact on the demand for rooms e.g. the build up to the “Year of Culture”.

Costs incurred by the holding company for support services are recharged to the subsidiaries on a monthly basis and described as ‘management recharges’ for reporting purposes.

Summary budget for 2020

Alpaca Hotel Group					
Budget for the year ended 31 December 2020					
		Alpaca Central	Alpaca North	Alpaca South	Total
		M\$000	M\$000	M\$000	M\$000
Available rooms per day		2,400	2,200	4,400	9,000
Occupancy rate		78.90%	85.00%	83.00%	82.40%
Revenue		169,061	156,304	247,744	573,108
Direct costs					
Direct goods		35,529	32,026	53,374	120,929
Staff costs		69,349	64,150	108,587	242,086
		104,878	96,176	161,961	363,015
Gross profit		64,183	60,128	85,783	210,093
Gross profit margin		37.96%	38.47%	34.63%	36.66%
Indirect costs					
Property costs (note 1)		29,479	32,407	45,946	107,832
Administration expenses		12,328	12,872	11,122	36,322
		41,807	45,279	57,068	144,154
Operating profit (pre recharges)		22,376	14,849	28,715	65,939
Operating profit margin (pre recharges)		13.24%	9.50%	11.59%	11.51%
Management recharges (note 2)		8,453	7,815	12,387	28,655
Operating profit (post recharges)		13,923	7,034	16,328	37,284
Operating profit margin (post recharges)		8.24%	4.50%	6.59%	6.51%
Note 1					
Includes depreciation					
Note 2					
Comprises recharge for central functions					

Alpaca Central management accounts March 2020

An extract from the management accounts of Alpaca Central for March 2020 is shown below:

Alpaca Central									
Management Information for March and Quarter 1 (January - March) 2020									
	March Actual	March Budget	March Variance	March Variance	YTD Actual	YTD Budget	YTD Variance	YTD Variance	
	M\$000	M\$000	M\$000	%	Jan - Mar M\$000	Jan - Mar M\$000	M\$000	%	
Available rooms in period	74,400	74,400			218,400	218,400			
Occupancy rate	73.10%	78.90%			73.15%	78.90%			
Revenue	17,105	18,179	(1,074)	(5.91%)	52,299	54,536	(2,237)	(4.10%)	
Direct costs									
Direct goods	3,761	3,774	13	0.34%	10,857	11,459	602	5.25%	
Staff costs	8,201	7,817	(384)	(4.91%)	25,331	23,419	(1,912)	(8.16%)	
	11,962	11,591	(371)	(3.20%)	36,188	34,878	(1,310)	(3.76%)	
Gross profit	5,143	6,588	(1,445)	(21.93%)	16,111	19,658	(3,547)	(18.04%)	
Indirect costs									
Property costs (note 1)	2,897	3,169	272	8.58%	8,511	9,197	686	7.46%	
Administration expenses	993	1,027	34	3.31%	3,140	3,082	(58)	(1.88%)	
	3,890	4,196	306	7.29%	11,651	12,279	628	5.11%	
Operating profit (pre recharges)	1,253	2,392	(1,139)	(47.62%)	4,460	7,379	(2,919)	(39.56%)	
Operating profit margin	7.33%	13.16%			8.53%	13.53%			
Management recharges (note 2)	855	909	54	5.91%	2,615	2,727	(112)	(4.10%)	
Operating profit (post recharges)	398	1,483	(1,085)	(73.18%)	1,845	4,652	(2,807)	(60.34%)	
Visitadvisor average rating	3.8	4.5			4.0	4.5			
Note 1									
Includes depreciation									
Note 2									
Comprises recharge for central functions									

Alpaca Hotel Group consolidated financial statements

Consolidated Statement of Financial Position as at 31 December 2019

	2019	2018
	M\$m	M\$m
Non- current assets		
Property, plant and equipment	1,985	2,067
Goodwill	6	6
	1,991	2,073
Current assets		
Inventory	3	2
Trade and other receivables	47	39
Cash and cash equivalents	188	98
	238	139
Total assets	2,229	2,212
Issued share capital	700	700
Share premium	100	100
Revaluation surplus	209	206
Retained Earnings	518	501
Total equity	1,527	1,507
Non-current liabilities		
Interest bearing borrowings	395	398
Deferred tax liabilities	86	94
	481	492
Current liabilities		
Bank overdraft	103	99
Trade and other payables	110	104
Provisions	2	2
Income tax payable	6	8
	221	213
Total equity and liabilities	2,229	2,212

Alpaca Hotel Group - Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019

	2019	2018
	M\$m	M\$m
Revenue	499	504
Cost of sales	(302)	(302)
Gross profit	197	202
Administration expenses	(79)	(76)
Distribution costs	(20)	(17)
Other operating expenses	(42)	(31)
Operating profit	56	78
Finance cost	(15)	(16)
Profit before tax	41	62
Income tax	(7)	(8)
Profit for the year	34	54
Other comprehensive income		
Gains on revaluation of property	3	2
Total comprehensive income	37	56

Alpaca Hotel Group - Consolidated statement of cash flows as at 31 December 2019

	M\$m	M\$m
Cash flows from operating activities		
Profit before tax	41	
Adjustments for		
Depreciation	26	
Loss on disposal	29	
Finance costs	15	
Increase in inventory	(1)	
Increase in receivables	(8)	
Increase in payables	6	
Cash generated from operations		
Interest paid	(15)	
Taxation paid	(17)	
Net cash from operating activities		76
Cash from investing activities		
Sale proceeds on the disposal of property, plant and equipment	86	
Purchase of property plant and equipment	(56)	
Net cash from investing activities		30
Cash flows from financing activities		
Loans repaid	(3)	
Dividends paid	(17)	
Net cash from financing activities		(20)
Increase in cash and cash equivalents		86
Opening cash and cash equivalents		(1)
Closing cash and cash equivalents		85

Additional information

News reports

Maylandia Daily News

Portent Hotels signs Jonjo Dwyre



Celebrity fitness expert Jonjo Dwyre has agreed to become Portent Hotels' Executive Trainer. This role will involve him taking charge of the redesign of the fitness centres at each of Portent's 60 hotels. He will also record a series of exercise videos that will be played on big screen monitors to encourage hotel guests to exercise properly.

Jonjo Dwyre became famous for his association with major film stars. He was recently credited with preparing Montrose Helm to play the part of a heavyweight champion boxer.

The fitness centres will be rebranded "Dwyre Fitness" after their conversion. They will be open to guests and so will be open to non-guests to take out a gym membership with their local Portent Hotel.

It is unlikely that you will bump into Jonjo at your local Portent Hotel, even if you do use its gym regularly. His role as "Executive" Trainer is to ensure that the design of the rooms and the associated fitness equipment meets his standards and also to design fitness programmes for gym users.

Maylandia Business Daily

Hospitality industry celebrates economic recovery



Hoteliers and restaurateurs generally have fond memories of the 1990s and early 2000s because they were generally associated with excess in terms of business travel and entertaining. Corporate entertaining was often lavish and expensive.

The Credit Crunch brought that to a very sudden end. The costs of travel and entertainment were an easy target for senior managers who were concerned about declining revenues.

The recent period of economic stability has encouraged businesses to take a more optimistic view of the economy and there is evidence that corporate expense accounts are less restricted than they were in the recent past. It is becoming more difficult to book tables at expensive restaurants, partly because there are more executives who are keen to impress potential clients by treating them to a nice meal.

Maylandia Daily News

Pie maker crumbles



Very few tourists visiting Southtown on Maylandia's South Coast would leave without making at least one visit to Joe's Pies. The shop was established in 1921 and has been owned by members of the Smith family ever since. Sadly, the shop is due to close next month, despite the best efforts of the town's residents to persuade the owner to carry on.

Magda Smith, manager of Joe's Pies and great-great-granddaughter of the shop's founder, told the Daily News that the shop was closing because of two words: "all inclusive". She said that most of the large hotels in the town had started to offer their guests all-inclusive deals. These mean that their accommodation charge includes the cost of any and all meals, snacks and drinks that they consume on hotel premises.

"Tourists used to eat breakfast and then leave their hotel for a day on the beach. When they got hungry, they would often come to our shop for one of our pies to keep them going under dinner time. Now they either sit at the hotel pool all day or they go back to the hotel for lunch or a snack. Why wouldn't they? It doesn't cost them anything to eat in the hotel."

Many of the catering establishments in Southtown have either closed or have reduced staff for the same reason. All-inclusive deals generally include a whole range of traditional treats, including ice cream and soft drinks.

Maylandia Business Daily

Accommodation become scarce in run up to Year of Culture



The Maylandian Ministry of Culture has warned those wishing to visit the forthcoming Year of Culture 2021 that they may find it difficult to secure accommodation.

Companies who wish to secure space to present their products may already have left it too late.

The Year of Culture will comprise a programme of events that will take place throughout 2021 across the country, celebrating Maylandian music, dance, poetry, art, theatre and crafts. The year will also include a major corporate "Global Pavilion" that will showcase the latest technology from Maylandia and elsewhere.

A spokesperson for the Ministry of Culture warned that many hotels were fully booked for the whole of 2021. Indeed, visitor numbers had increased in 2020 because of preparatory visits by event organisers, corporate sponsors and exhibitors.

Visitadvisor webpage reviews for Alpaca Mayburgh Principal Hotel

cleanliness	3.5
quality of service	3.2
location	4.1
quality of facilities	4.4
value for money	4.0
Average	3.8

Guest comments

Mark Long

Another great stay at the Principal. The concierge is fantastic – he can always get me a table at any “fully booked” restaurant in town.

Javier Fernandez, leisure traveller

I was really annoyed to be asked to leave the swimming pool on my first evening because there was no lifeguard on duty.

Erika Sorensen, business traveller

The hotel is in a great location. Close to the business district, but not too far from the West End when I want to party. I always tell my secretary to book me in there.

This document should be read in conjunction with the examiner's suggested answers and marking guidance.

General comments

The Management case study (MCS) and CIMA Gateway (GCS) examinations for May and August 2020 were based on a pre-seen scenario which described Alpaca Hotel Group (Alpaca), a company that owns 50 hotels organised into three divisions. The scenario was made available in advance with each variant presenting additional scenario-based information and setting four tasks to be completed. Each task was split into either two or three specific requirements.

The hotel industry is diverse, with revenues from business travel, tourism and other sources. Candidates should be able to identify with the industry: the hotel industry is highly visible and is frequently featured in business news stories. The pre-seen material highlighted the particular types of accommodation and services that Alpaca had to offer and so candidates should have entered the exam feeling familiar with the company. Many answers demonstrated an understanding of the background information provided in the pre-seen.

A total of six variants were set on Alpaca. The focus for each variant was as follows:

- Variant 1: Alpaca will make an overseas investment in a holiday hotel.
- Variant 2: Alpaca will collaborate with a celebrity chef to create an upmarket restaurant in one of its hotels.
- Variant 3: Alpaca will introduce all-inclusive packages to the hotels.
- Variant 4: Alpaca has acquired a foreign subsidiary.
- Variant 5: The leisure facilities in Alpaca's hotels are being opened to non-residents.
- Variant 6: One of Alpaca's hotels is to offer the provision of corporate conferences as a new product.

All six variants complied with the published blueprint and covered the core activities in the prescribed weightings. Each variant consisted of four tasks and each task was further subdivided into separate requirements. The weighting attached to each requirement was stated and candidates were advised to allocate the time available for each requirement on the basis of those weightings. Markers were instructed to adopt a holistic approach to marking, which meant that the answer to each requirement was read and judged on its merits. Markers were provided with specific guidance as to the characteristics of level 1, level 2 and level 3 answers for each separate requirement.

As always, the key to achieving a passing mark or better is to answer the question as set. Higher marks are awarded to fuller answers that are relevant and correct.

To achieve a level 3 in most traits it was expected that a candidate would demonstrate good technical understanding of the topic being tested through clear and comprehensive discussion, and where asked, justify their answer, the answer should of course be applied to Alpaca and the particular scenario within the task. If a candidate scored at a level 1 on a trait it is likely that they did one or all of the following:

- Failed to answer the question that was asked.
- Demonstrated limited technical ability, possibly with gaps in knowledge or understanding.
- Provided insufficient justification for arguments.
- Failed to reflect the scenario or the specifics of Alpaca in their answer.

Variant 1

Task 1

This task provided calculations to support the appraisal of the pool and gym refurbishment proposals, together with some notes on the assumptions made. The candidate was informed that this was a capital rationing situation. The two proposals were to refurbish the swimming pool in order to attract more guests and to modernise the gym, allowing non-residents to buy memberships.

The first requirement asked for briefing notes for an appraisal of the projects, considering both financial and non-financial factors.

A level 3 response would have recognised that capital rationing might mean that Alpaca might have to reject one or both projects. A level 3 response would discuss the financial and non-financial factors in the context of the proposed projects. For example, recognising that the NPV figures for the pool and gym were both very similar, but the gym requires a much higher investment, leading to the PI being an appropriate measure to consider. Level 2 responses recognised the relevant factors and discussed the theory behind them but did not fully relate their discussion to the specific information provided in the case study, for example explaining how NPV is calculated but not discussing the NPV of the two proposals.

Exploration of non-financial factors was often scant in level 2 responses. Level 1 responses were brief and incomplete, often ignoring non-financial issues and making no use of the numbers provided to support their discussion.

The second requirement asked for notes for a training session, including an explanation of why sensitivity analysis would be useful in presenting these projects to the Board, and also whether sensitivity analysis or scenario planning would be better to use in this situation. Percentages for the sensitivity of three key variables were provided for the gym project.

A level 3 response would explain the use of sensitivity analysis and how it would help the Board to understand the impact of changes in the key variables, using the numbers provided to illustrate the points made. It would also show understanding of scenario planning and the differences between the two techniques, again in the context of this project.

A level 2 answer demonstrated understanding of both techniques but tended to be less well tailored to the specifics of the scenario and provided a theoretical comparison rather than making full use of the information presented in the scenario.

Level 1 responses were often very brief and many only discussed sensitivity analysis and completely ignored scenario planning.

Task 2

This task deals with problems with the management team at the Golden Sands Hotel, where Joe a new manager, has been appointed. Joe and the other managers are not working as an effective team, and the Board need to address this conflict.

The first requirement asked how to make the hotel's managers understand the importance of working as a team.

A level 3 response would include practical suggestions to achieve this, such as communicating to the managers how important it is that they operate as an effective team, reminding them that their performance indicators depend on effective teamwork, and possibly holding team building activities. Level two responses often did not answer the question posed, but instead discussed why it is important that the managers work together. Such answers might include relevant points but were not correctly focussed on the question asked. Level 1 responses were often very brief, with some applying less relevant models such as Tuckman's stages of group development.

The second requirement asked how to decide whether Joe's leadership style is creating the conflict between him and the other managers. A level 3 response would include suggestions such as reviewing Joe's history with Alpaca to see if he has previously demonstrated sound leadership or if there have been complaints or disputes in other hotels. They also included discussion of how to investigate the business culture in Boravia to see if differences in working culture could be causing problems, and suggested reviewing the background of other managers in case they might have expected to be promoted to hotel manager and resent Joe's appointment. Again, level 2 responses often did not answer the question posed, instead assuming that Joe's leadership style created conflict and exploring how to solve this. Level 1 answers provided very limited discussion.

The third requirement asked how the conflict between Joe and the other managers at Golden Sands could be resolved. This task was often completed well. A level 3 response clearly explained approaches such as working towards conflict reduction, using examples from the case study scenario such as staff scheduling.

Level 2 responses demonstrated knowledge of conflict resolution but were not well developed. The points made were often more general, discussing how to resolve conflict but not referring to the specific situation described in the case study. Level 1 responses were often very brief and made limited suggestions.

Task 3

This task focussed on performance measurement. A new manager, Ted, was appointed at Golden Sands who had not previously worked in a divisional structure. He provided information on the performance indicators he was accustomed to using and asked how these would fit within the structure of Alpaca. He also identified three issues which would give rise to risks.

The first requirement asked how the five performance measures set out by Ted would operate within the structure of Alpaca and their relevance to Ted's role if Golden Sands becomes part of the Alpaca South division.

Level 3 responses to this discussed each of the measures, explaining what the measure shows, whether or not it can be controlled or influenced by Ted and whether or not it is relevant to him. This section was often well answered with responses providing a full explanation. Level 2 responses were less comprehensive, often showing an understanding of the measures, but not explaining them in the context of the scenario and Ted's responsibilities. Level 1 answers merely described the performance measures.

The second requirement asked the candidates to explain how any risks arising from three issues could be managed, the issues being the opening of a new hotel, local government imposing restrictions on bars and restaurants due to noise and disruption, and the government imposing a visitor tax to be paid by all hotels.

Level 3 answers gave clear and relevant responses to all three of the risks, including justification and explanation of their advice. Level 2 responses gave appropriate advice regarding some but not all of the risks. Level 1 answers were often very brief and did not show understanding of the risks presented by the issues, or offer practical solutions to their management, for example, some candidates suggested that the risk arising from the visitor tax could best be managed by hiding it in guests' hotel bills.

Task 4

Task 4 deals with the consolidation of Golden Sands into Alpaca's financial statements for this reporting period. The first requirement asked candidates to discuss and conclude on whether the functional currency of Golden Sands is the B\$ or the M\$. Information on which currency is used for different categories of transactions was provided to support this discussion.

Level 3 responses correctly identified the B\$ as the functional currency and provided a clear explanation of why this is the case, using the information from the scenario. Some level 2 answers came to the correct conclusion but did not explain logically why this is the case or make links to the main accounting issues. Level 1 answers were often unclear, sometimes confusing functional and reporting currency and demonstrating limited technical knowledge in this subject area.

The second requirement provided the candidates with three pieces of information relating to fair value, prepared by a firm of independent accountants. These related to the carrying value of fixtures and fittings, a training course arranged for guest-facing staff and a legal claim by a guest suffering from food poisoning. Candidates were asked to explain with reasons the impact these will have on Alpaca's financial statements, both the computation of goodwill on the acquisition and the post-acquisition profits.

Level 3 responses provided correct advice on the treatment of each of the pieces of information, explaining their advice and providing logical justification. Level 2 answers provided less justification or did not treat all three requirements correctly. The treatment of the training costs was often incorrect. Level 1 answers identified some of the issues but did not demonstrate sufficient technical knowledge.

Variant 2

Task 1

This focussed on the performance of Alpaca's HR managers. That concern was illustrated by an exhibit that listed three KPIs that are used to report the performance of Alpaca's HR managers and three risks that are allegedly not being managed properly.

The first requirement asked for an evaluation of the three KPIs listed in the exhibit. These were generic measures that are frequently used in practice but it should be borne in mind that Alpaca's staff requirements are different from the norm.

A level 3 response to this requirement would have focussed on the fact that Alpaca's staffing needs are seasonal and also that hotel operations require a mixture of skilled staff whose loyalty and experience are crucial to providing an adequate service and unskilled staff whose work can be closely monitored and so experience is less important. Candidates' responses varied in terms of their ability to address the circumstances raised by this requirement, but there was evidence of level 3 thinking, with suggestions that KPIs should be applied to categories of staff. For example, key staff such as chefs and concierges should be retained and so employee turnover would be relevant because suitable replacements would be difficult and expensive to recruit. Unskilled staff may be expected to leave at the end of their seasonal employment terms and so turnover would be a matter of irrelevance.

The second requirement asked about risks associated with staffing. Three risks were listed and each was to be evaluated separately.

A level 3 response to this requirement should have addressed the risks in the context of the business and the likelihood and impact of each risk when evaluated in that context. There was limited evidence of level 3 thinking in this case. Many candidates exaggerated the likelihood and impact of the risks, with unrealistic arguments such as guests being traumatised by staff accidents in the hotel kitchen, which ignored the fact that it was highly unlikely that any such accident would be witnessed by guests.

Task 2

The second task explained that Alpaca's Board is considering a collaborative arrangement with Harper Lane, a famous chef. The arrangement would involve the creation of an upmarket restaurant that would bear Harper Lane's name and would also be branded in his house style and would serve a menu that he had designed.

The first requirement asked about the key issues that would have to be decided when creating a team from Alpaca to engage with Harper Lane's representatives.

A level 3 response to this requirement would involve identifying the range of issues to be decided in order to ensure that the team is viable. The team members will have to be selected to ensure that there is sufficient expertise in all of the areas for the team to be effective. There are specific matters that are particularly relevant to this decision, such as the appropriate level of seniority so that the

team can negotiate on Alpaca's behalf and deal directly with the counterpart team from Harper Lane. There were some very disappointing answers that described team management in very general terms and that paid little or no attention to the issues raised in the scenario.

The second requirement asked for a recommendation concerning pricing the meals sold in the restaurant.

A level 3 response to this requirement would reflect the nature of the product being sold. This is an upmarket restaurant in which the premium nature of the product implies that customers would be prepared to pay handsomely for good quality. That would be particularly true in the case of business customers who were entertaining clients and therefore wished to make a good impression. Pricing questions are often answered with a very generic description of every available pricing approach with no real application to the scenario. Such answers often struggle to get beyond a level 1. In this case, the extreme nature of the scenario led to candidates considering setting high selling prices in order to distinguish the restaurant from lower-quality competitors. Some level 3 answers made that point but offered a realistic word of caution against overpricing where individuals could not afford to eat in the restaurant and corporate customers might regard it as uneconomic to eat there.

Task 3

The third task started with an explanation that the restaurant was now open. Unfortunately, the restaurant staff are struggling to source many of the ingredients required for the menus that were designed by Harper Lane and so guests are being offered substitute dishes instead. That effectively puts Alpaca in breach of its contract and Harper Lane is threatening legal action for damage caused to his reputation through the provision of unauthorised meals.

The first requirement asked for a recommendation as to how the potential conflict might be managed.

A level 3 response would allow for the fact that simplistic answers, such as sticking to the agreed menu, would hardly be practical. The problem has arisen because some of the meals on the original menu cannot be made using ingredients that are readily available. It would be far more realistic to clarify the problem and to recommend how that might then be overcome. For example, Harper Lane could be informed of the issues that affect the availability of ingredients and so redesign the menu to address those problems. There was some evidence of level 3 thinking in this case, with good answers focussing on a realistic response to the conflict. There were some level 1 answers that simply offered jargon for aspects of conflict management.

The second requirement asked for an explanation of the accounting issues associated with Harper Lane's threatened claim for compensation.

A level 3 answer would explore the accounting issues, with relevant explanation of the requirements of accounting standards. Most candidates were aware of the regulatory issues and answered on this basis. Such answers also reflected the facts as they were stated in the scenario. There is, for example, no certainty as to whether Harper Lane will in fact seek damages.

Task 4

The final task described an industrial robot that has the ability to create some of the complicated and labour-intensive dishes that are on Harper Lane's menu. (The dispute with Harper Lane appears to have been resolved.)

The first requirement asked about the difficulties associated with determining the NPV of investing in the robot.

A level 3 answer would have identified both the need to predict cash flows with reasonable certainty and the need to discount those at an appropriate cost of capital. There was evidence of clear thinking along those lines.

The second requirement asked for a recommendation of debt v equity for funding this investment. This tested core activity B.

A level 3 answer would discuss the issues associated with raising this amount of finance for this purpose. It would also consider the company's present position. Many candidates identified the present gearing ratio and built that into their responses.

The third requirement asked for a discussion of the implications of replacing some of the skilled work in the kitchens with robots.

A level 3 response would consider the motivational issues arising from the replacement of staff with mechanisation. That could impact on both job security and on the extent to which staff found their existing jobs interesting. Many candidates failed to achieve level 3 because they confused the skilled chefs whose jobs might be affected with the unskilled and seasonal staff whose jobs would not.

Variant 3

Task 1

The first task provided an extract from the spring season performance report for the Alpaca Sandsea Majestic Hotel, together with a commentary provided by the hotel manager. The manager clearly did not fully explain the results and focussed on factors out of his control.

The first requirement asked to what extent the manager was justified in his comments, and also asked for recommendations of three additional measures which would offer a more realistic insight into the manager's performance.

A level 3 response to this requirement would have recognised that the manager will wish to protect their own position and that of their staff. It is therefore understandable that they would wish to deflect discussion by focussing on factors which they cannot control. A level 3 response considered each of the indicators provided and explained whether or not the manager's report identified what could have caused the actual results to be worse than the previous years. Level 2 responses provided a reasonable discussion of the hotel's performance and linked this to the manager's comments. Some level 1 responses were extremely brief. Some provided a very weak discussion of the results, merely stating that one figure was higher or lower than the other, without linking this to the manager's commentary or adding any further analysis.

Candidates were also asked to recommend, with reasons, three additional performance measures which would offer a more realistic insight into the performance of hotel managers. Level 3 answers made sensible suggestions which linked to their commentary on the results and manager's report. They also provided justification for their proposed measures. One such measure would be staff turnover, as this would indicate whether the hotel manager has difficulty retaining staff. Unhappy staff might well impact on the guest experience. Level 2 answers often suggested appropriate measures but did not fully justify them or link their suggestions to their discussion of the manager's report and actual results. Level 1 responses often merely listed suggested measures or provided generic explanations of them without any links to the information provided in the scenario.

The second requirement suggested a proposal to merge the divisional procurement teams in order to form a centralised procurement team which would operate as a profit centre. They would recharge purchases to hotels at cost plus 15%. Candidates were asked to explain how this proposal could impact on the behaviours of the purchasing managers and the hotel managers, as well as how any problems could be overcome.

Level 3 answers explained the potential impacts, both positive and negative, on the behaviour of both the hotel managers and the purchasing managers. Purchasing managers might have less motivation to negotiate low prices for goods, and hotel managers could feel that their autonomy has been reduced. Level 3 answers also made suggestions to overcome these, for example by allowing hotel managers to purchase externally where there is a good reason for doing so.

Level 2 answers tended to be less well tailored to the specifics of the scenario and instead gave general advice on different ways of arriving at a transfer price for goods. Level 1 answers were again often very brief and did not justify their suggestions.

Task 2

This second task deals with a proposal to improve occupancy rates at Alpaca South hotels by offering all-inclusive holiday packages. These would be pre-booked using the Alpaca website; guests would be free to eat and drink throughout their stay with no further charge.

The first requirement of this question asked for three sources of data which could be used to help forecast demand for the new holiday packages. Candidates were asked to justify their choices.

A level 3 response would recognise the difficulties in forecasting demand and explain three appropriate sources of information with justification. For example, Alpaca could look at the financial statements of competitors together with their marketing material. Social media would also be a useful source of information.

Level 2 responses often suggested appropriate information sources but did not explain the reasons for their selection. Level 1 answers were often very brief and did not directly answer the question, for example explaining how Big Data is used in very general terms, without relating their discussion to the scenario.

The second requirement concerned a proposal by Marcus that revenue for the all-inclusive holidays should be recognised when the booking is made or final balance paid, rather than at the conclusion of the guest's stay as is currently the case.

Level 3 answers gave a very clear explanation of the rules relating to revenue recognition and were clear that Marcus is incorrect. IFRS 15 sets out a five-stage process which has to be followed. In this case the performance obligation is not satisfied until the guest stays in the hotel, so the revenue for a two-week holiday could be recognised over the two weeks or when the guest leaves, but not at the time the booking is made, as Marcus wishes.

Level 2 answers often recognised that Marcus' proposed treatment would be incorrect but were unclear as to why this is the case or gave very scant and incomplete explanation.

Level 1 answers gave very limited discussion, with some incorrectly concluding that Marcus' proposed treatment is acceptable.

In this requirement candidates were also asked to explain the impact on the financial statements of Marcus' proposed revenue recognition policy.

Level 3 answers clearly explained that the impact would be one of timing, that revenue would be recognised earlier and therefore improve the results of an earlier year. Level 2 responses offered some explanation but with less detail. Level 1 answers were very brief and did not provide sufficient discussion.

Task 3

This task deals with the work needed to implement the all-inclusive proposal. Alpaca South's hotels would need remodelling to extend the restaurants, a major advertising campaign and the IT systems would need to be upgraded. Alpaca has no experience of managing a large project like this and many parties would be involved, including hotel staff, construction companies and IT consultants. The timing of the work would also be crucial so that the project is completed for the guests who have booked the new packages.

The first requirement asked what key matters the project planning must achieve. Level 3 responses recognised the circumstances surrounding this project and used the information provided to discuss issues such as the need to coordinate the work of a large team so that everyone knows what input is needed, and the need for the project to be completed in a timely fashion. Level 2 answers recognised some of the issues but were often more generic, setting out what is important in project planning in general terms. Level 1 responses were often scant and gave a very limited discussion of the aims of project planning.

The second requirement asked what approach should be taken to the management of the project. Level 3 responses linked this well to the first requirement, making recommendations such as the appointment of an experienced project manager, ideally with experience of hotel refurbishment projects, who would be able to facilitate communication between the different professionals working on the project. Another key point raised was the need for appropriate project management software so that those working on the project can become familiar with the tools and reports which will be used for the renovation of each of the hotels.

Level 2 answers recognised the importance of coordination and communication but did not provide a full explanation. Points made were often more general, discussing what is needed to manage a project without reference to the specific situation described in the case study.

Level 1 responses were often scant and only made general points about how project management should be approached.

The third and final requirement deals with Alpaca's relationship with the local authority. Candidates are asked to recommend how Alpaca might negotiate a favourable response. Level 3 responses gave a clear explanation of the reasons why the local authority would not want hotels to switch to an all-inclusive model, and set out sensible advice on how to negotiate, including the potential need to compromise.

Level 2 answers were again more general, explaining how negotiations should be undertaken but not recognising the specific concerns of the local authority, such as the loss of business for local restaurants and bars or the power the local authority has to withdraw the licence for a hotel to operate. Level 1 answers provided very limited discussion and did not make use of the information provided.

Task 4

The final task deals with the pricing of Alpaca's all-inclusive holidays, and the need to maintain quality standards when the new package is implemented. Estimated costs for a two-week holiday in one of Alpaca's hotels were provided, together with the price charged by a nearby competitor. The first requirement asked how this information would help to set an appropriate price.

Level 3 responses explored both market-based and cost-based approaches and used the costing information provided in the question to discuss the possible use of target costing. They recognised the practical issues, such as the problem that a cost-based approach could arrive at a price in excess of what guests are prepared to pay, and that determining a cost for a holiday package could be difficult as it will fluctuate according to the number of guests.

Level 2 answers were less fully developed but did consider both market-based and cost-based approaches and used the information provided to illustrate their points.

Level 1 responses provided a limited and general discussion of how prices should be set.

The second requirement asked candidates to recommend and justify three quality management techniques which could be used to ensure that the quality of guests' experience is not reduced by adopting the all-inclusive model.

Level 3 answers gave a clear explanation of the aims of quality management in the context of the introduction of an all-inclusive holiday model. They considered issues such as food quality and staff behaviour. They also made clear and appropriate recommendations, such as the use of quality circles, reports generated by the management accounting system and considering the cost of quality.

Level 2 answers were more general and made less use of the information provided in the case study but did make appropriate recommendations for quality management techniques. Level 1 responses were often very brief and gave limited explanations and little supporting explanation.

Variant 4**Task 1**

The first task described a letter from the CEO of Flyshift airlines with a package holiday proposal using one of Alpaca's hotels, The Grand Hotel.

The first requirement was to explain the product, reputation and operational risks that would be associated with the deal and how Alpaca could mitigate these risks.

The unseen material gave details of the terms that Flyshift were proposing and most candidates were capable of using these as the basis for their discussion of the risks involved.

A level 3 response explaining the risks would have given a wide range of product, reputation and operational risks associated with the deal and provided depth and clarity to the explanations. Many candidates used the headings product risk, reputation risk and operational risk to ensure that a wide range of risks were included.

Level 1 answers only identified the risks and provided no additional detail. These candidates did not provide details of how the risk might impact Alpaca, especially in a financial way.

A level 3 response to the mitigations would have discussed a wide range of methods to mitigate the risks with application to The Grand Hotel. Many candidates, having identified the risks, then provided a mitigation for each risk, writing each mitigation with the risk to ensure that they were all covered.

Level 1 answers often provided few mitigations and so didn't address all of the risks identified, with some ignoring the requirement altogether. Some level 1 answers gave a single mitigation (turn down the deal) to more than one of the risks when a broader range of mitigations was needed.

The second requirement asked candidates to explain the challenges associated with communicating with Maylandia Travel if the deal with Flyshift was agreed and to suggest a response.

A level 3 answer would have provided a range of challenges of communication with particular reference to Alpaca and Maylandia Travel along with clear explanations. Many candidates discussed more generic barriers to communications or the reaction of Maylandia Travel to the proposed deal instead of the challenges, this led to level 2 and level 1 answers.

For the suggested response to the challenges a level 3 answer would have offered a variety of options with reference to Alpaca. Many candidates considered that Maylandia Travel would be unhappy with the arrangement with Flyshift but discussed responses in terms of trying to appease Maylandia Travel with offers of increased commissions or reassuring them of continued dealings rather than responding directly to the challenges of communication.

Task 2

This task provided candidates with a selection of Flyshift's accounting ratios together with industry averages for comparison.

The first requirement was to use the schedule of ratios to evaluate Flyshift's suitability as a major customer for Alpaca.

A level 3 response provided an analysis and evaluation on all the performance ratios with a clear conclusion on the suitability of Flyshift as a major customer with a discussion on the possibility that Flyshift was overtrading. Where many candidates did analyse and evaluate all the provided ratios, few discussed the possibility that Flyshift may be overtrading. As a result, many candidates achieved a level 2. Some candidates showed very good evaluation of Flyshift's ratios by explaining how, as it was a new company, their operating profit could be affected by costs such as additional marketing spend or that the initial high level of spending on airplanes would affect ROCE and gearing.

The most common reason for a level 1 mark was when candidates provided no evaluation of the figures, instead they just quoted the figures provided and said whether they were higher or lower than the industry figures.

The second requirement asked candidates to discuss the implications of the new Flyshift proposal on Alpaca's business model. This gave candidates the opportunity to show familiarity with the pre-seen data and to show that they could adapt it for the unseen data.

To achieve a level 3 answer candidates needed to cover all four values in the business model and clearly discuss the implications on each. Where many candidates did use the pre-seen they found it very difficult to adapt it and they often focussed on just one issue, such as having younger guests, and tried to apply it to each of the values. This often meant that these answers were just repeating the same point for each value (e.g. the younger guests would be noisy and disruptive so not creating a calming environment, and that the level of noise wouldn't be suitable for business guests).

Task 3

This task gave a schedule of the costs of providing a room at The Grand Hotel for two adults for a week, together with the news that Alpaca would have to reduce their costs in order to meet Flyshift's price.

The first requirement asked candidates to consider the issues when managing the relationship between Alpaca's costs and the price offered by Flyshift. As part of the discussion candidates were expected to consider how any of the costs given in the schedule could be reduced.

A level 3 response would have described at least two techniques that could be used to manage the relationship between costs and price, which should have included target costing and ABM. Unfortunately, very few candidates discussed the relationship between costs and price in terms of target costing or ABM. Where they did, the detail was often lacking and was very generic with no reference to Alpaca's issues and this resulted in level 1 or 2 answers.

When discussing whether the schedule of costs could be reduced, a level 3 response would have suggested a range of actions with clarity and depth covering the full schedule of costs and meals. Many candidates provided excellent answers here which took into account the younger Flyshift guests and suggested cost savings on appropriate items that these guests would be less likely to find important, such as having two-course meals instead of three or redesigning the toiletry kits.

A level 1 or 2 answer discussed only one or two costs. These candidates often strayed into a discussion on brand impact and usually gave a conclusion that these costs could not be reduced.

The second requirement asked candidates to recommend the approach to be taken when negotiating with Flyshift.

A level 2 answer would have discussed the general stages of the negotiation process referring to Alpaca and Flyshift and identified the aim of the negotiation. Many candidates produced well-structured answers that explained the negotiation process with headings and detailed descriptions relating back to the companies involved.

A level 1 response provided less detail and were less well-structured answers resulting in parts of the process being omitted, or the answers only explained the technical side of the process and not how it applied to Alpaca and Flyshift.

Task 4

In the final task there is now an arrangement in place for Flyshift to provide package holidays. Flyshift has since suggested to Alpaca that they make their resort more appealing by establishing a water sports centre on the beach. The centre will require substantial investment and the senior financial manager is proposing that it is rejected even though the project has a positive NPV of \$2m and a payback of 5 years.

The first requirement asked candidates to support the rejection of the proposal including an explanation of the operational issues that the proposal would have caused for the hotel management.

In response to supporting the rejection a level 2 answer would have offered more than one reason to reject the water sports proposal with clear explanations. Unfortunately, most candidates did not complete this part of the requirement thus scoring no marks at all. Those that did often supported the project as it had a positive NPV.

In response to the operational issues a level 2 answer would clearly explain a range of issues arising for the hotel. The vast majority of candidates answered this part well and often gave many relevant issues that were well described and tied back to the scenario.

The second requirement asked candidates to discuss the characteristics of debt and equity and explain which characteristics would be the most significant when considering how to finance the investment.

For the discussion of the characteristics of debt and equity a level 3 answer would provide a wide range of characteristics with full explanations. Most candidates were good at providing the characteristics of debt and equity and explaining them well. A few higher-performing candidates discussed a wider range of characteristics, such as the possibility of having bank covenants to meet, rather than just banks requiring security.

A level 1 answer provided far fewer characteristics and little depth so would note, for example, that a bank loan would incur an interest charge but not state that this would be a tax deductible.

Candidates were not as good at discussing which characteristics would be the most significant when considering how to finance the investment. To achieve a level 3, candidates needed to provide a clear and full explanation of most of the features of the investment. A few candidates did this successfully by either bringing in ratios such as Alpaca's current gearing ratio or interest cover and explaining how the characteristics would impact on those ratios, or they would discuss the timings of raising debt compared to equity and how it would delay the opening of the water sports centre.



A level 1 answer identified only a few of the characteristics and the explanations lacked depth and clarity. Many candidates only discussed the characteristics generically without providing any impact on Alpaca.

Variant 5**Task 1**

This task provided a research document showing the expected annual revenues and sources of information to assess the proposal to allow non-residents to use the leisure facilities at the Mayburgh Principal.

The first requirement asked candidates to explain any concerns about using the research document as the basis for the investment appraisal calculations.

It was expected that candidates would cover both the table of expected annual revenues and appraise the sources of information. However, this was often not the case with many candidates just focussing on the sources of the information in their answer. As a result, the requirement was generally not well answered.

For the expected annual revenues, a level 3 response would have given a clear explanation of the subjectivity of the use of probabilities and expected values and how this could result in a wrong investment decision. Most candidates were not able to show a good understanding of expected values as they assumed that the probabilities for the two fee levels must be identical so did not discuss how they could be inaccurate. This meant the discussions were very limited providing just a level 1 response. In addition, level 1 answers often discussed the merits of different techniques in appraising projects such as NPV and IRR here and these answers were not relevant to the question.

A level 3 response for the sources of information would have included identifying concerns over all three of the sources and providing a clear explanation as to why the information source may not be fully relevant to Alpaca. Many candidates provided clear explanations of how the data may not be relevant by stating how the facilities offered at a specialist leisure facility chain (Gymworld) would be different to those in a luxury hotel or be targeting a different market, which could impact on the fee charged and providing similar analysis for the Census data and the National statistics. These candidates would also recommend that Alpaca should carry out its own research that was more targeted to its own clientele.

Level 1 answers often did not cover all the three sources of information provided in the research document which limited the discussion. In addition, these answers repeated the sources of information, for example noting that the Census data was taken within a 5-mile radius but not explaining why this was an issue.

The second requirement asked candidates to explain how each of the three risks provided in the scenario could be managed and to explain why it was important for Alpaca to manage the risks. Therefore most provided a good response to the solution as they had a starting point.

A level 3 answer to this requirement covered all three risks separately often starting with a discussion of the TARA approach to risks then applying this to each risk. The level 3 answers then included a discussion of the effect on Alpaca of not addressing the risks and provided ways that Alpaca could mitigate the risks.

Level 1 answers would either provide no theory or impact to Alpaca and just provided either one or two ways the risk could be mitigated. Sometimes the mitigations were not always practical such as closing the pool and not providing that as a facility. These answers were thus not broad enough in scope, or they provided a discussion of the theory but did not apply it to each of the risks in the scenario.

Task 2

This task included an extract of Board minutes that provided some financial details of the investment including NPV and payback, and two possible ways of financing the investment.

The first requirement asked candidates to explain, giving financial and non-financial reasons, why the decision should not be based on the evaluation given in the Board minutes. The requirement was not well answered as most candidates did not provide any non-financial reasons as requested. In addition, candidates often gave reasons as to why the decision should be based on the evaluation in the Board minutes which did not answer the question.

A level 3 response required candidates to critique the financial details provided of the NPV, payback and issues of selecting the highest number of members for the estimated cashflows which would mean that the project would not be undertaken. These candidates were also able to provide good explanations that covered the use of the 10% cost of capital on this project which may not be appropriate as this is a new type of investment for Alpaca, and the length of the project would be an issue. Level 3 candidates were also able to provide some non-financial details such as discussing the impact of the refurbishment on hotel guests and the reviews they may leave and effects of competition in the local area.

Level 1 candidates often provided just a generic critique of NPV and payback as means of appraising a project and suggested others such as IRR without tailoring their answers to the scenario. They also tended to ignore the requirement to provide non-financial indicators which severely limited their answers.

The second requirement asked candidates to discuss the advantages and disadvantages of the two suggested methods of financing the investment.

Most candidates were familiar with the methods of financing and set the answers out to cover both advantages and disadvantages. However, many candidates when discussing the rights issue seemed to discuss the advantages and disadvantages as if from the shareholders' perspective instead of Alpaca's. In addition, some candidates also provided a discussion of the subsidised loan from the Maylandian Government which was not required and so candidates had used up time writing an answer that was not relevant and could not receive any credit.

A level 3 response would provide a comprehensive explanation of the advantages and disadvantages of issuing a bond or a rights issue to fund the investment. These candidates were capable of bringing in details from the pre-seen information, such as the gearing ratio and interest cover, and explaining the impact the funding methods would have on these, often showing revised calculations. They also compared the 6% bond cost to the 2% loan from the Government and the 10% WACC helping to provide a more comprehensive discussion. Details of the costs incurred for the two methods of funding and an indication of the timings were also included. Some candidates also considered the effects on the EPS of the rights issue.

A level 1 response just did not provide enough advantages and disadvantages, or the level of detail needed and usually did not make any reference to financial information in the pre-seen. As noted above, for the rights issue the discussion was usually only about the shareholders' feelings towards a rights issue so didn't provide a broad enough discussion.

Task 3

This task provided details of the Zone4U App. The details included the accounting treatment of the costs for the App and the wish to capitalise the brand name "Zone4U". The information went on to show how the App would be used to gather data on members of the Health Zone and the type of data that was to be collected.

The first requirement asked candidates to describe the accounting treatment of both the App creation costs and the brand name in the financial statements.

Overall candidates showed a good level of technical knowledge on the treatment of the App creation costs. The treatment of the brand name was not as well answered, usually as the candidates did not provide an explanation supporting the accounting treatment.

A level 3 answer often started by stating the accounting standard, defining an intangible asset, offering a description of research and development costs and then concluding that the costs could be capitalised as an intangible asset. They then went on to list the criteria, many using the mnemonic "PIRATE" and then addressed the criteria in turn against the scenario details, thus providing a very

comprehensive answer. For the brand name the level 3 candidates discussed the issue of not having a reliable measure and that there had not been any sales of the brand name to date.

The level 1 answers were usually very brief providing one or two of the criteria but not relating them to the scenario and so they did not support their conclusion to capitalise the costs. With the brand name weaker answers also suggested this could be capitalised or again provided no justification for the accounting treatment.

The second requirement asked candidates to explain how Alpaca could benefit from the information that the new App gathered and any issues it would face in using the data.

Again these answers were generally good. As the scenario provided the details of the information that was being collected this helped to give candidates a starting point for the benefits, with many using the list as the format for their answer. It was clearly a topic that candidates were familiar and confident with.

A level 3 answer typically considered each of the types of information that was recorded and clearly explained how this information would benefit Alpaca. The answers were also thorough, as an example, for information of peak usage candidates would discuss being able to schedule more staff for the busier periods as well as recognising quieter periods for carrying out cleaning/maintenance and they also would discuss any cost implications. These answers brought in details from the pre-seen, such as the cost of agency staff being about three times the cost of employees employed directly by the hotel stressing the importance of needing to know when the peak activities are to ensure there were no staff shortages.

Level 1 answers were often very repetitive where, for example, scheduling staff would be the only benefit provided for collecting data on the frequency of visits, the length of visits and the periods of peak usage. This made the answers too narrowly focussed and difficult to achieve additional credit. In addition, the weaker answers sometimes just copied the information recorded from the scenario without providing any commentary on the benefits the information provided.

For the issues that would be faced in using the information most candidates were confident in discussing problems with data security and the risks of hacking.

The level 3 answers provided by candidates identified the issues and then explained the impact that this would have on Alpaca such as reputation issues / lawsuits arising if there was a data breach. These answers also covered more than just security issues and expanded into other issues such as whether Alpaca had the expertise to fully make use of the data or to know how best to secure or store it and noted from the pre-seen that Alpaca didn't appear to have a dedicated IT director. Some candidates also discussed the

problems with Big Data and the 4V's, however the weaker answers just gave details of the theory without relating it to the scenario and thus limited the credit that could be awarded for the solution.

A level 1 answer only listed issues such as security without being able to expand the discussion to include points such as GDPR legislation. In addition, the answers did not include any impact to Alpaca or any of the issues identified. Weaker answers did not identify enough relevant issues.

Task 4

The final task informed candidates that the refurbishment of the Health Zone had been successful and that budgets needed to be set for the Health Zone and the hotel. In addition, candidates were provided with an extract detailing staffing information for the Health Zone.

The first requirement asked candidates to explain the issues in setting transfer prices for the use of the Health Zone by hotel residents from the perspective of the two managers and Alpaca Group.

Some candidates seemed to misinterpret the requirement and thought they needed to set a price that the hotel guests would themselves pay to use the gym facility rather than discussing a transfer price between the hotel and Health Zone. For many candidates who focussed on transfer pricing the answers were too often just repeating all the different transfer prices methods as if they were a regurgitation from a study pack without relating the answer to the scenario.

A level 3 answer provided a comprehensive explanation of the effect different transfer prices would have on both of the managers, tying in the fact the Health Zone was to become a separate profit centre and the effects on motivation and performance of both the managers. The answer also discussed the effects on Alpaca and how the price needed to be set in a way that wouldn't discourage either manager from encouraging guests to use the facility so that the result was in the best interest of the company overall.

Level 1 answers usually briefly described using market price as a transfer price, as it was suggested in the question, but provided insufficient detail on the effects of the price on the two managers and usually did not consider the Alpaca Group.

The second requirement asked candidates to explain the importance of the leadership approaches adopted by Mark Cranston and his team leaders. Staffing information was provided by way of an attached email document.

This requirement was not answered very well. Many candidates critiqued the staffing information provided in the email by discussing issues with the team leaders working early and late shifts and the workforce working zero-hour contracts. These answers discussed the ethics of using such contracts, and how to motivate these workers by offering bonus schemes and additional training/career progression.

A level 3 answer was well-structured that addressed both the approaches needed by Mark and the team leaders as they would be different for each given the profile of the workforce that reported to them. Often the answers discussed different leadership approaches and discussed each in turn addressing whether they would be suitable for the workforce.

A level 1 answer typically didn't focus enough on leadership approaches choosing instead to focus on the employees' feelings in general to the working conditions. If a leadership approach was discussed it was generally just that Mark needed an authoritarian style over all the staff.

Variant 6**Task 1**

The first task introduced a possible new business venture for Alpaca's Northern Highland hotels: hosting conferences in the low season.

There were two requirements to the task, the first one requested an exemplified use of target costing to help determine if the fee offered for the first conference would be acceptable to Alpaca. This tested core activity A, managing the costs of creating value.

On the whole answers were reasonable but often fell short of demonstrating understanding through the requested examples. Most level 3 answers explained the context and process of target costing and the purpose of applying this to the cost estimation provided. Level 3 answers followed through to give multiple examples of both cost cutting; removing items adding no or little value, and cost optimisation; and substituting or minimising cost through control of waste or seeking more sustainable and less costly options. The best answers highlighted the need to market the proposals, positively enhancing the consumer goodwill and value perception.

Level 1 answers often gave a simple reiteration of learning material without either application or reference to the situation presented to Alpaca.

Level 2 answers usually gave a fair demonstration of knowledge of the process of target costing but truncated their answers with scant or no examples when they decided that the simplest analysis revealed that the estimated costs provided would render what they deemed as an adequate margin in the scenario provided without demonstrating how this could be further improved.

The second requirement requested advice on issues to consider and how to overcome them when negotiating with a third-party supplier for services to be delivered to Alpaca's conference delegates.

On the whole answers were relatively weak in this area. Level 3 responses gave a good account of preparation and negotiating process across a number of issues; the need to focus on the client's requirement and adhere to any budget constraints, commercial exposure to Alpaca's reputation through the provision of inferior or unprofessional service delivery, loss of control of activities with disruption of conference schedules, meal provision and potential health and safety risks. These level 3 answers on the whole immediately engaged with aspects of control for the range of issues presented: prior research, seeking references, pilot staff trials, verifying H&S records, checking qualifications, close and specialist liaison in full SLA negotiations. The best answers identified key issues for the suppliers benefit and used these to recognise the future potential of creating a long-term in-house partnership approach, with a win-win scenario tailoring and evolving potential offerings for future clients. Therefore, possibly allowing the suppliers to see the possibilities for investment in Alpaca's service delivery whilst enhancing reputations and value chain for both parties.

Level 1 responses either gave simple risk identification or showed a lack of awareness of the negotiation approach required to ensure sound business benefits from this type of outsourcing.

Level 2 answers generally were better on the negotiation approach and were able to identify some issues but either lacked depth or width on the arguments presented. Many candidates who scored a level 2 mark just needed a little more in-depth discussion to get to a level 3. There were many potential issues available and picking out just one or two was insufficient to gain level 3.

Task 2

This task was again in two parts with the first being to consider the issues when setting transfer prices to enable staff to be supplied from other parts of Alpaca to assist with the conference.

This was generally reasonably answered with most candidates giving a reasonable airing of the issues relating to setting transfer prices from the viewpoint of both North and Central Alpaca parties.

A level 3 response would consider the overall situation from all three parties: North, Central and Group giving a good account of the issues presenting themselves from the scenario provided. The best answers went on to consider Central's temporary surplus of staff and the potential to both benefit the North with the transfer of skill and experience whilst also recognising the potential for conflict with incoming staff on bonus payments.

The level 3 answers went on to consider the potential for this to be a regular occurrence and for there to be significant business change forces in play permitting the growth of staff experience, job roles and satisfaction whilst optimising costs through levelling workload across different sectors going through their respective peaks and troughs.

Level 2 responses tended to miss either the long-term issues or failed to give sufficient consideration of the issues presented in the current scenario.

Level 1 answers tended to give rather brief versions of listing issues without exploring or explaining them.

The second requirement asked what the key risks were associated with the use of the external provider for the team-building activities. This tested core activity D Risk and Control.

There were many level 2 and 3 answers for this question. Level 3 answers gave a good broad account of the types and potential impact of risks presented by the scenario: the need to prepare and monitor the service-level provision throughout, the need to carry out due diligence on the service itself through participation and trialling, the need to ensure the service delivery partner is fully aware of the marketing profile being sought by Alpaca, the need to replace assumptions with target outcomes and smart goal setting. The best answers followed through to consider long term business synergies between the two parties with the potential for clients returning at both the commercial and personal level to repeat their experience.

Level 2 answers tended to have the potential to gain level 3 marks but failed to relate enough to the scenario or give sufficient depth or breadth to the arguments presented to describe and mitigate the risks.

Level 1 answers tended to simply list the risks with brief reference to TARA or simple “need to manage” statements without describing how.

Task 3

The third task was about the impact of hosting conferences on Alpaca’s business model.

The first part asked candidates to explain how the operational impact of hosting conferences could change Alpaca’s business model. This tests core activity A.

This, on the whole, was not well answered. Answers tended to be rather brief and somewhat unstructured.

Level 3 responses gave a broad overview of the different needs of different categories of guests: traditional, families and small groups with individual needs and compared these with conferences; large conference groups where the end consumer can be both the individual attending the experience and the corporation with the strategic budget defining their perception of value for money. Level 3 answers also were able to draw out the business benefit to enhancing low season activity with high volume, lower cost per night business where occupancy is greatly increased but service may need to be reduced.

Most candidates addressed the list of satisfaction ratings provided – the attainment of level 2 versus 3 again influenced by the degree by which candidates recognised what could be done to adjust the value perception and potentially revenue creation of any additional services which could be offered.

There was a lot of material available here and level 2 candidates were able to score highly and get close to level 3 by discussion of some of the available topics in greater depth.

Level 1 candidates tended to be rather brief and mainly failed to consider the additional work required to manage multiple markets, assess business potential or indeed to consider the impact on existing business.

The second requirement asked how this new venture will impact on planning and control.

This was not answered well as many candidates focussed on the need to address the points raised on the satisfaction ratings rather than addressing transformation cost management as part of the planning and control adjustments needed to the existing business model.

Level 3 could be achieved by addressing the need for change and in assessing how these changes would impact on both cost and revenue aspects for the business. Better responses highlighted the different clients, attendees and organisers with the need to satisfy both in order to optimise the outcome.

Level 2 answers benefitted from having a broad range of material to discuss and attainment largely depended on width and depth of that discussion.

Level 1 responses tended to be brief outlining some rudimentary requirements of planning and control without providing adequate depth of discussion to demonstrate understanding of the subject matter or indeed linking in adequately with the scenario.

Task 4

The final task was about funding remodelling of five of Alpaca North's hotels.

The first requirement asked about the characteristics of debt versus equity funding. This tested core activity B.

This requirement was done reasonably well by the majority of candidates.

Level 3 was achieved by providing clear and comprehensive explanation of the different characteristics of interest charges rather than dividends and a discussion of borrowing terms such as variable rate interest. Similarly, candidates had to provide a clear and comprehensive explanation of the impact of the different fundraising approaches for debt and equity.

Level 3 answers achieved this with relative ease and went on to discuss the appropriateness of debt funding for a comparatively small investment as in this specific scenario where it's required in a matter of weeks for the remodelling of the hotels in 2 months compared to the relative long term and expensive process of issuing new equity even when by exercising rights.

Level 1 answers tended to be brief, often with a list of bullet points for the relative advantages and disadvantages of the different funding sources.

Level 2 responses tended to include all this same material but with more description and some discussion of the relative merits.

The second requirement asked candidates to explain the likely impact of the borrowings and the new conference service on Alpaca North's key performance indicators.

This requirement was not answered well by many candidates. A significant number of candidates only achieved a level 1 as they only listed the KPIs and gave the briefest of impact assessments without any reasoning. Many failed to consider the aspects of the borrowing at all.

Level 3 was achieved by considering both the size and timing of interest payments against the KPIs, noting the differences between financial and non-financial KPI and the fact that over time an initial decline should be reversed as revenues start to flow from the new business stream. Better answers recognised the need to create new KPIs which better reflect the expectations of the new business stream and also the need to differentiate between the business streams as there are conflicting forces in place, particularly with regard to length of stay and factors affecting the guest rating.

Level 2 responses offered some explanation against both borrowings and conferences without giving significant discussion or additional insight into the relevance of these factors.

Tips for future candidates

Good answers should have:

- relevance to the requirement
- the necessary technical knowledge of the syllabus content
- the ability to apply that knowledge to a specific scenario, as specified in the case
- well-structured answers, with good use of paragraphs to clarify the development of an explanation
- justification of the arguments made in the answer.

This can be achieved as follows:

Before the exam

- Revise study materials thoroughly. Candidates should study all areas of the syllabus and ensure that all three pillars are covered. It is risky to skip topics, even if they are difficult.
- Read the pre-seen material carefully and think about it. Think about the industry and the entity. That is important because the tasks are all about application to the scenario, which could mean that the technical issues have to be applied in a particular way.
- Practise tasks from past case studies and reflect on whether your answers are full and relevant. Take the time to type or write full answers. You need not necessarily do so under exam conditions at first because part of the value of this exercise is to ensure that you can interpret and answer questions correctly. As you progress in your studies, you may attempt some requirements against the clock.

During the exam

- Plan your answers during the exam and pay close attention to timings. It is very helpful when constructing your answer that it has a logical structure. The Management /Gateway Case Study often asks you to justify your answer. Typing an outline answer plan at the start of each task or requirement will help you to plan the structure and reduce the risk of forgetting any good points.
- Commit to an argument. Some answers are weaker because they seem to have been written with the intention of avoiding contradicting the examiner's suggested solution. Remember that the marker is under strict instructions to mark answers on their merits. There can sometimes be more than one correct answer in business. If you are unsure then invest a minute or two in thinking and developing an argument rather than typing something vague and unhelpful.



Management Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.

This examination is structured as follows:

Section number	Time for section (minutes)	Number of tasks	Number of sub-task/s	% time to spend on each sub-task
1	45	1	2	(a) 60% (b) 40%
2	45	1	3	(a) 40% (b) 30% (c) 30%
3	45	1	2	(a) 60% (b) 40%
4	45	1	2	(a) 40% (b) 60%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.

Reference Material

Pre-seen

On 1 August 2020 Alpaca decided to expand its operations overseas for the first time and acquired 100% of Golden Sands (GS), an entity that operates a single 130-bedroom hotel in Boravia.

Boravia is an independent island nation and its currency is B\$. It has been profitable for many years.

Liz Petrov, the Senior Financial Manager, stops at your workstation and says:

"The Hotel Manager wants to undertake two refurbishment projects at GS in September 2020: the swimming pool and the hotel gym. Capital projects for all regions must be submitted to the Board for consideration. Currently, there is a capital rationing. Details of the projects are:

Swimming pool: There is a growing demand for hotels with luxury pools. The Hotel Manager thinks a refurbishment would attract more guests and maintain occupancy rates.

Gym: The Hotel Manager wants to modernise the gym and allow non-residents to purchase memberships to use it. His research revealed that the only gyms nearby are in hotels and all of them are for residents only. His estimates of membership revenues were based on this scenario. However, a recent social media article suggested that planning permission is being sought for a health club that includes a gym and swimming facilities that will be built close to GS.

I have been asked to present an appraisal of the projects to the Board. I will send you an email with an attachment showing my calculations.

I would like you to:

- Firstly, prepare briefing notes for me to use in my presentation to the Board. Please use Note 1 and consider both financial and non-financial factors.

[sub-task (a) 60%]

I am scheduled to run a session with our new trainees on sensitivity analysis and scenario planning. I will base this on the gym proposal. Note 2 shows my sensitivity calculations.

- Secondly, using the figures for the gym project, prepare notes that I can use in the training session that explain why sensitivity would be useful when presenting this project to the Board. Also, discuss whether it would be better to use sensitivity analysis or scenario planning when evaluating the gym proposal. "

[sub-task (b) 40%]

To view Liz's calculations please click on the Reference Material button above.

Note 1

	Pool	Gym
Initial investment	M\$20 million	M\$40 million
Net present value	M\$7.453 million	M\$7.913 million
Payback	1 year and 11 months	2 years and 4 months
IRR	29.6%	19.3%
Profitability index	0.37	0.20



Notes and assumptions:

- Both investments have a useful life of three years.
- Tax has been ignored.
- Pre-tax cost of capital is 10%
- Incremental revenue:
 - Pool: generated from maintaining current occupancy rates and possible increased food and drink sales in the pool area.
 - Gym: gym memberships which are expected to rise by an average of 16% each year.
- Incremental operating costs of the pool represent 65% of the pool incremental revenue. These cover the costs of the food and drink and maintained occupancy. The incremental costs of the gym are largely fixed in nature and include staff costs.
- The cash flows for each project have been converted from B\$ to M\$ using recent exchange rates.










Note 2












Sensitivity analysis for the viability of the gym project:



- Cost of the equipment: 19.8%
- Volume of memberships sold: 10%
- Cost of capital: 93%

 Reference Material Pre-seen

Draft your response to Liz in the box below:

       **B** *I* U  x_2 x^2 

Paragraph           

 Reference Material Pre-seen

One month has passed. Liz Petrov, the Senior Financial Manager calls you to a meeting:

"Marcus Chan, Divisional Director of Alpaca South has visited the Golden Sands hotel. I have printed you an extract from a report he has circulated to all Board members. Zoe Diaz, our Finance Director, has asked me for some comments before she responds.

I would like you to draft a paper that covers the following:

- Firstly, discuss how we can make the hotel's managers understand the importance of working as an effective team.

[sub-task (a) = 40%]

- Secondly, discuss how we can decide whether Joe's leadership style is creating a conflict between him and the other managers.

[sub-task (b) = 30%]

- Thirdly, discuss how the conflict between Joe and the other managers at GS could be resolved."

[sub-task (c) = 30%]

The extract of the report can be viewed by clicking on the Reference Material button above.

Extract from the report of a visit to the Golden Sands Hotel (GS)

- Prepared by Marcus Chan, Divisional Director of Alpaca South



Hotel management

When Alpaca acquired GS the previous Hotel Manager was replaced with Joe Adams, an experienced manager who has worked for Alpaca for many years. Joe is acting as temporary Hotel Manager until a permanent replacement can be found. We decided to leave the remainder of GS's management team in place, without making any changes. The team consists of three managers who each have responsibility for different aspects of the hotel's operations: kitchens, housekeeping and reception.










During my visit, I was disturbed to see that Joe and the other managers did not appear to be working as an effective team. Managers were openly disagreeing with Joe over important issues. As an example, there was open conflict over a decision made by Joe to adjust the scheduling of kitchen, cleaning and reception staff shifts in order to improve efficiency. The managers complained that the new schedule would be unpopular with staff and that the previous schedule worked well.










I spoke privately with Joe's deputy manager, who told me that several of her colleagues resent the fact that Alpaca has replaced the previous Hotel Manager with Joe. They accept that Joe is an experienced and capable hotel manager, but he has no experience of working in Boravia, where attitudes are more relaxed than in Maylandia, where Joe worked before.

The Board will have to address this conflict as a matter of some urgency.

 Reference Material Pre-seen

Draft your response to Liz in the box below:

       **B** *I* U  x_2 x^2 

Paragraph         

[📖 Reference Material](#)[📖 Pre-seen](#)

It is now November 2020. Liz Petrov, Senior Financial Manager, stops by your workstation and says:

“Hi. I have just forwarded you an email I received from Ted Drummond, who is the new Hotel Manager of the Golden Sands hotel (GS). He has been appointed to replace Joe Adams, the temporary Hotel Manager. It seems that Ted has not worked in a divisionalised structure before and he would like to know how the structure and performance measures will apply to him.

Please send me some notes so that I can respond to Ted.

I would like you to explain:

- Firstly, how the five performance measures operate within the structure of Alpaca and their relevance to his role if GS becomes part of the Alpaca South division.

[sub-task (a) = 60%]

and

- Secondly, how any risks arising from the three issues he identified could be managed.”

[sub-task (b) = 40%]

The email mentioned by Liz can be found by clicking the Reference Material button above.

From: Ted.drummond@alpaca.com
To: Liz.petrov@alpaca.com
Subject: Performance measures and other concerns

Hi

I am the new hotel manager at The Golden Sands Hotel (GS) in Boravia. In my previous role, I was the manager of a small independent hotel where I had responsibility for all financial and operational matters. Each month I sent a report to the owners on the following performance measures:



- Operating profit margin
- Occupancy rate
- Staff turnover
- Return on capital employed
- Overall guest rating on Visitadvisor

I understand that within Alpaca all the other hotels are treated as profit centres within a divisionalised structure. I have been told that GS is going to become a part of Alpaca South. I am not sure how these performance measures fit within the structure of Alpaca. Also, I have identified the following three issues:










- A new hotel is opening in March 2021 in the same resort as GS. It is advertising for new staff and because the wages offered are higher than we pay, I am concerned that staff turnover will increase.
- The local government is not happy about the levels of noise and disruptive behaviour of younger holidaymakers in the bars and restaurants. It has written and issued legislation that states that all bars and restaurants in the resort must close by 23.00. If we do not comply there is a risk of heavy fines and the possibility of losing our hotel licence.
- The Boravian Government is imposing a visitor tax that will be paid by all hotels. The amount is B\$10 per resident per night.










Thank you



Ted

 Reference Material Pre-seen

Draft your response to Liz in the box below:

       **B** *I* U  x_2 x^2 

Paragraph ▾  ▾        

 Reference Material Pre-seen

It is now December 2020.

Liz Petrov, the Senior Financial Manager, has called you to a meeting.

"I would like your assistance with two issues we need to consider for the consolidation of Golden Sands (GS) into Alpaca's financial statements for this financial reporting period. I have attached a summary of some of the findings of the review undertaken by a firm of independent accountants before the acquisition. Please send me an e-mail which addresses the requirements of each issue.

Issue 1 – Determination of the functional currency of GS

GS prepares its financial statements using IFRS and in B\$, which is the currency of Boravia. Alpaca's consolidated financial statements are prepared in M\$. Alpaca has agreed to provide any loan finance GS needs. I would like you to discuss and conclude, based on part 1 of the review extracts, whether the functional currency of GS is B\$ or M\$.

[sub-task (a) = 40%]

Issue 2 – Impact of the acquisition on the consolidated financial statements of Alpaca

Please also explain, with reasons, what the impact of part 2 of the review extracts will be on the consolidated financial statements of Alpaca. I would like to know the impact on both the computation of goodwill on the acquisition and the post-acquisition profits."

[sub-task (b) = 60%]

The extracts from the review can be viewed by clicking on the Reference Material above.

Extract from the review**Part 1: Functional currency**

1. All customers pay their hotel bills in B\$.
2. All cash is held in a B\$ bank account in Boravia.
3. GS pays staff, electricity and gas bills in B\$.
4. GS tries to source goods and services locally, but most of the fruit and vegetables and bar supplies are imported from Maylandia and GS pays these invoices in M\$.
5. Tax is paid to the Boravian Tax Authority.

Part 2: Fair value information on 1 August 2020

- Carrying amount of the fixtures and fittings, with a remaining useful life of four years, is B\$1.25 million.



Fair value for these assets is B\$1.45 million.

- In July 2020, GS arranged customer service training courses for all guest-facing staff. The skills acquired are expected to enhance the future revenues of the hotel in 2021 by B\$150,000.

Fair value of the training courses is B\$150,000

- GS is involved in a legal case relating to a hotel guest who claims to have had food poisoning after dining in the restaurant. GS is being sued for loss of earnings for the guest caused by the alleged food poisoning. GS's lawyers have estimated that there is a 40% chance that the case will go against GS. They have advised that if the case does go against GS then the amount awarded to the guest would be B\$100,000. GS has made no provision relating to the case in its own individual financial statements but has disclosed the potential liability in the notes to its financial statements. GS estimates that the fair value of this potential liability at the date of its acquisition by Alpaca is B\$36,000.

Fair value of the contingent liability is B\$36,000.

 Reference Material Pre-seen

Draft your response to Liz in the box below:

From: Finance Manager

To: Liz.petrov@alpaca.com

Subject: Golden Sands issues





Thank you for completing the Management Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.



Management Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.





This examination is structured as follows:

Section number	Number of tasks	Time for section (minutes)	Number of sub task/s	% time to spend on each sub task
1	1	45	2	(a) 40% (b) 60%
2	1	45	2	(a) 40% (b) 60%
3	1	45	2	(a) 60% (b) 40%
4	1	45	3	(a) 28% (b) 40% (c) 32%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.



 Reference Material Pre-seen

Liz Petrov, one of Alpaca's Senior Financial Managers, stops by your workspace and hands you a document.

"Sam Singh, the Central Division Director, is concerned that his Human Resources (HR) managers are performing poorly. Sam met with Zoe Diaz, our Finance Director, and Zoe made these notes of their meeting.

I need you to draft a paper for me that covers the following:

- Firstly, evaluate Sam's concerns relating to the three Key Performance Indicators (KPIs).

[sub task (a) = 40%]

- Secondly, evaluate the impact of each of the risks listed by Sam and recommend how each might be managed."

[sub task (b) = 60%]

The notes referred to by Liz can be found by clicking the Reference Material button.

Meeting notes from discussion with Sam Singh

Sam noted that the performance of his division's HR function is monitored using the following KPIs:

- Employee turnover
- Revenue per employee
- Recruitment cost per hire.

He is concerned that these are very generic performance indicators. He also feels that they are unlikely to reflect the performance of his HR team in relation to its management of the recruitment and training of unskilled and low-paid staff.









Sam also expressed concern that the Alpaca Group is not doing enough to manage the following risks associated with staffing:











- Loss of experienced staff in key roles, such as concierges, head chefs and hotel managers.
- Injuries to employees arising from hazardous duties, including lifting guests' luggage and working with gas burners and scalding pots in the kitchen
- The abuse of guests' personal information taken from hotel records and from other sources such as address labels on luggage and paperwork in bedrooms.





 Reference Material Pre-seen

Draft a paper for Liz Petrov in the box below:

       **B** *I* U  x_2 x^2 I_x

Paragraph          

 Reference Material Pre-seen

Later that week, you receive the following email:

From: Liz Petrov, Senior Financial Manager
To: Financial Manager
Subject: Proposed venture

Hi,

I have attached an extract from today's Board meeting. I need a reply from you that covers the following:

- Firstly, identify the key issues that will have to be decided when creating a team to collaborate with Harper Lane's staff and recommend responses to those issues.

[sub task (a) = 40%]

- Secondly, recommend with justifications an appropriate pricing strategy for the proposed restaurant that would help the hotel meet its objectives.

[sub task (b) = 60%]

Many thanks,

Liz

The document referred to by Liz can be found by clicking the Reference Material button.

Extract from Board meeting minutes

Sam Singh, Central Division Director, reminded the Board that the hotels in the Central Division have been suffering from increased competition.

The Mayburgh Principal Hotel has been set objectives to improve occupancy rates and the average guest spend per stay with a particular focus on business guests whose employers pay for the hotel stay and meals.

Sam delivered a recommendation to the Board that The Mayburgh Principal should enter into an agreement with a leading chef to create an upmarket restaurant in the hotel's largest dining space. The Mayburgh Principal is the Group's oldest hotel and it is the largest in the Central Division.

The proposed new restaurant would be open to hotel residents and non-residents. It would serve elaborate, high-quality meals.


It should be noted there has been recent government investment in the local area in preparation for Maylandia's "Year of Culture 2021". This has increased the number of upmarket restaurants in The Mayburgh Principal's locality.

Sam informed the Board that he had made initial contact with Harper Lane, a leading chef who has an international reputation. Harper Lane is interested in discussing this proposal further, with a view to creating a restaurant that would be called "Harper Lane at The Principal".

If this venture proceeds, then it is expected that Harper Lane will:

- develop menus and train staff in sourcing suitable ingredients and in preparation of the dishes
- supervise the design of the restaurant including décor and furniture
- permit the restaurant to be called "Harper Lane at The Principal"
- participate in marketing and publicity events, particularly at the opening.

The Board agreed that a team of managers from Central Division would be established to develop this proposal in conjunction with Harper Lane's staff within a six-month deadline in time to benefit from potential sponsors and investors visiting Mayburgh in preparation for the "Year of Culture 2021".

 Reference Material Pre-seen


Write a response to the email from Liz Petrov in the box below:

From: Financial Manager

To: Liz Petrov, Senior Financial Manager

Subject: RE: Proposed venture



 Reference Material Pre-seen

The proposal to launch the restaurant at The Mayburgh Principal as “Harper Lane at The Principal” was implemented six months ago. Liz Petrov asks you into her office and hands you a document.

"This letter arrived today.

The Central Division management team has spoken to the food and beverages manager at The Mayburgh Principal, who is concerned that Harper Lane is making impossible demands. Many of the dishes that he created for the restaurant require unusual ingredients that are sometimes impossible to obtain. They always have to be fresh, which means that the restaurant's Head Chef often has very little notice of shortages. It is rarely possible to contact Harper Lane because his business interests mean that he is constantly travelling. Our Head Chef admits to substituting dishes when he has to, but it should be remembered that he is one of Maylandia's top chefs.

I need you to prepare a briefing paper that covers the following:

- Firstly, recommend with reasons how the potential conflict arising from Harper Lane's concerns could be managed by Alpaca.
- Secondly, explain the difficulties associated with accounting for Harper Lane's M\$5 million claims for compensation."

[sub task (a) = 60%]

[sub task (b) = 40%]

The document referred to by Liz can be found by clicking on the Reference Material button.

KQW Legal Solicitors

Finlay Rae,
CEO,
Alpaca Hotel Group,
Mayburgh.

Dear Mr Rae,

Mr Harper Lane

We represent Mr Harper Lane, whose name you use in the promotion of your restaurant Harper Lane at The Principal (hereafter "the restaurant"). Mr Lane has asked us to advise you of breaches of contract which have affected the running of this restaurant to his detriment.

On several occasions, staff employed by Mr Lane have visited the restaurant and on each occasion they have found that several menu items have been unavailable. They were offered alternative dishes that were not personally authorised by Mr Lane. Mr Lane's contract states that changes to the menu are not permitted without his express permission.

Mr Lane's staff reported that some of the meat, fish and vegetables used in their meals were not of the high standard specified by Mr Lane when the restaurant was created.



A leading newspaper published a highly negative review of the restaurant, claiming that the food was not of the same high standard that could be found in Mr Lane's restaurants in other countries.

Our client has instructed us to warn you that your contract will be terminated within two months unless standards improve. He has also asked that you pay him the sum of M\$5 million in compensation for the damage to his reputation.










Yours sincerely,










Jun Yoshida

Partner

 Reference Material Pre-seen

Write your briefing paper for Liz Petrov in the box below:

       **B** *I* U  x_2 x^2 

Paragraph         

Reference Material

Pre-seen

A month later, the conflict with Harper Lane over the restaurant has been resolved. The restaurant itself continues to operate.

You receive the following email:

From: Liz Petrov, Senior Financial Manager

To: Financial Manager

Subject: Proposed investment

Hi,

Zoe Diaz, our Finance Director, received this document from Sam Singh, Central Division Director. She forwarded it to me.

I need you to assist me with the following:

- Firstly, identify the difficulties associated with determining the net present value of this investment.

[sub task (a) = 28%]

- Secondly, recommend with reasons whether the investment should be funded with debt or equity, assuming we decide to proceed.

[sub task (b) = 40%]

- Thirdly, identify the challenges associated with maintaining the engagement of the staff who will be retained after the installation of the robots, and recommend responses.

[sub task (c) = 32%]

Many thanks,

Liz

The proposal prepared by Sam can be found by clicking on the Reference Material button.

Proposal to invest in robotics at “Harper Lane at The Principal”
Executive summary

- Prepared by Sam Singh, Central Division Director



The operating costs of Harper Lane at The Principal have exceeded budgets, largely because many of the dishes created by Harper Lane are very labour intensive to create. For example, one dish requires that a carrot is sliced very thinly and that each slice is trimmed so that it is shaped like the scales of a fish. These are then assembled into the shape of a carp and are floated as a garnish for our fish soup.

I believe that we could replace much of this highly skilled labour with robotics. We could purchase six robotic arms in the kitchen for M\$5.1 million. I have selected these machines because they can be programmed to scan and then replicate a human's hand movements with a high degree of accuracy. In fact, Harper Lane uses these robots for exactly this purpose in some of his other restaurants.

I have noted that there are a number of other possible large investments under consideration by the Board.

Installing these robots would replace 70% of the skilled staff in the restaurant kitchen, reducing staffing costs by M\$2 million per year. Most of those staff could be redeployed elsewhere in Alpaca's Mayburgh hotels.

Half of the remaining employees will be involved in cooking processes that cannot currently be replicated by the robotic arm unit because they are too intricate. The remainder are unskilled workers responsible for tasks for which it is not cost effective to acquire a robot, such as washing pots.

 Reference Material Pre-seen

Write a response to the email from Liz in the box below:

From: Financial Manager

To: Liz Petrov, Senior Financial Manager

Subject: Re: Proposed investment

       **B** *I* U  x_2 x^2 

Paragraph ▼





Thank you for completing the Management Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.





Management Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.




This examination is structured as follows:

Section number	Number of tasks	Time for section (minutes)	Number of sub task/s	% time to spend on each sub task
1	1	45	2	(a) 50% (b) 50%
2	1	45	2	(a) 40% (b) 60%
3	1	45	2	(a) 30% (b) 30% (c) 40%
4	1	45	2	(a) 60% (b) 40%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.

 Reference Material Pre-seen

Liz Petrov, Senior Financial Manager, stops at your workspace and hands you a document.

"As you know, we prepare a report like this for each of our hotels at the end of the busy spring season. This report is typical of most of our Alpaca South hotels. A number of our hotel managers from the South Division have been making comments like these in the document. Zoe Diaz, our Finance Director, and Marcus Chan, South Division Director, are meeting soon to discuss the content of these reports.

I am preparing a briefing for Zoe and need you to draft some points on the following:

- Firstly, to what extent is the hotel manager justified in making such comments for the disappointing ratios? Recommend, with reasons, three additional measures that might offer a more realistic insight into the performance of our hotel managers.

[sub task (a) = 50%]

I would also like to hear your views on the proposal that has been made that the divisional procurement teams should merge to form a centralised procurement team which will operate as a profit centre. In order to make this happen all purchases will be recharged to hotels at cost plus 15%.

- Secondly, please explain how the new profit centre could impact on the behaviours of the purchasing managers and the hotel managers and also suggest how any problems can be overcome."

[sub task (b) = 50%]

The document referred to by Liz, can be found by clicking on the Reference Material button above

**Extract from the Annual Spring Season Performance Report
Alpaca Sandsea Majestic Hotel**

	Spring 2020	Spring 2019
Occupancy rate	70%	85%
Average room rate	M\$ 150 per night	M\$ 180 per night
Revenue (M\$ million)	1.90	2.78
Gross profit %	35%	38%
Operating profit margin	8%	12%










Hotel manager's commentary on the performance indicators.










These figures are disappointing, but the deterioration in performance is caused by factors outside of my control.



Operating profit has fallen partly because the operations team at Alpaca's South Division decided to sponsor the town's "Spring of Music 2020" event and charged the cost of that sponsorship to our hotel. That meant that the hotel's name was featured prominently on posters and on the sign that was erected above the stage on the town's bandstand. That generated very little revenue, if any, in 2020, although it might encourage visitors to the town to book with us in 2021.

 Reference Material Pre-seen

Draft your notes for Liz Petrov in the box below:

       **B** *I* U  x_2 x^2 

Paragraph ▾  ▾        

 Reference Material Pre-seen

A month later, Liz Petrov invites you into her office. She hands you a document.

"I printed a copy of a Board meeting extract.

I need your help with the following:

- Firstly, please recommend with reasons three relevant sources of data that we might use to forecast demand for the proposed all-inclusive holidays.

[sub task (a) = 40%]

- Secondly, evaluate Marcus' arguments concerning revenue recognition and identify the implications that his proposed recognition policy would have on the Alpaca Group's financial statements."

[sub task (b) = 60%]

The Board Minute referred to by Liz Petrov can be found by clicking on the Reference Button above.

Extract from Board minute

Marcus Chan, South Division Director, presented a proposal to the Board.

He reminded the Board that occupancy rates at the hotels in his division had declined since 2018 and that revenues were falling.

He proposed that Alpaca South should start to offer all-inclusive packages that would be pre-booked exclusively through Alpaca's website. Guests booking such packages would be free to eat meals and snacks and consume soft drinks throughout their stay, at no additional charge.















Guests would be required to pay a deposit at the time of booking and would be required to pay the balance of their bill 10 weeks before the start of their stay. In his opinion, it would be legitimate to recognise revenue from such bookings much sooner, either at the time of booking or on the settlement of the final balance. That would mean that Alpaca would be able to recognise bookings for January, February and the start of March 2021 in its financial statements for the year ended 31 December 2020.

At present, Alpaca recognises revenue at the conclusion of the guest's stay.

Reference Material










Pre-seen



Draft your notes for Liz in the box below:



Paragraph ▾

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 Reference Material Pre-seen

Two months later, Liz stops at your workspace and asks you to look at her tablet computer.

"I have just received this email from Zoe. I need you to draft a briefing paper for me in response to this email that covers the following:

- Firstly, identify the key matters that our project planning must achieve, giving reasons for your selection.

[sub task (a) = 30%]

- Secondly, recommend, with reasons, the approach that should be taken to the management of this project.

[sub task (b) = 30%]

- Thirdly, recommend how we might negotiate a favourable response from the town council.

[sub task (c) = 40%]

The email referred to by Liz Petrov can be found by clicking on the Reference Material button above.

From: Zoe Diaz, Finance Director
To: Liz Petrov, Senior Financial Manager
Subject: All-inclusive

Hi Liz,

The proposal to introduce all-inclusive stays in the South Division's hotels is still under consideration. We intend to proceed however, there are still some issues to resolve. This will be a major project.

At present most of our guests' book on a bed and breakfast basis. We will need to extend the restaurants at all twenty of the hotels in the Division to create sufficient capacity for dinner service for our predicted guest numbers. We will probably have to remodel the restaurants to convert them to offer a buffet service, in addition to creating additional seating capacity. We will need to upgrade our IT systems to manage inventory of food and beverages.

Launching this option will require a major advertising campaign. This is our first experience of such a project. It will involve South Division management, hotel staff, external construction companies and IT consultancies.

We need to be careful about the timing because we do not wish to take bookings and then be forced to let guests down if we are not ready in time, but we also want to be able to have our all-inclusive option available for the forthcoming spring season.















On a related note, Maylandian law requires all restaurants to be licensed with their local town councils to serve food and drink. Several councils have already warned us that we will require permission to offer an all-inclusive service and that there are concerns about whether such permission will be granted.

Zoe


Reference Material





Pre-seen



Write your briefing paper for Liz Petrov in the box below:





Paragraph ▾

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 Reference Material Pre-seen

Liz joins you at your workspace and hands you a document:

"I have brought you a copy of some costing estimates for the new all-inclusive format for the South Division hotels.

The Board has conducted a study on online reviews of other hotels that offer all-inclusive packages. Guests often complain that food is of poor quality and badly cooked, that hotel staff are overworked and unfriendly and that children's play activities, which are included in the all-inclusive rate, are often badly organised.

Marcus Chan has reassured the Board that South Division's management will focus on providing value for money and that Alpaca's high standards will be maintained. I need you to do the following:

- Firstly, based on Liz's document, explain how this information would help us to set an appropriate price.
[sub task (a) = 60%]
- Secondly, recommend with reasons three quality management techniques that might be used in the South Division to ensure that adopting the all-inclusive model does not reduce the quality of our guest experience."
[sub task (b) = 40%]

The costing estimates referred to by Liz Petrov can be found by clicking on the Reference Material button above.

Estimated costs for Alpaca Southtown Grand Hotel (a four-star hotel)

Costing schedule for one room for two weeks for two adults and one child

Estimated cost	M\$
Laundry services	360
Toiletries	142
Wages and salaries for housekeeping	336
Beverages	252
Other incidentals	84
Breakfast, lunch and dinner	456
Wages and salaries for bar and restaurant staff	160
Wages and salaries for entertainment and kids club staff	98
Total	1,888



Based on the current budgeted gross profit margin of 35% for the Southtown Grand Hotel the following price and cost relationships would exist:

Price M\$	2,100	2,500	2,905
Direct costs M\$	1,365	1,625	1,888










Competitor pricing










The nearby five-star Beach Plaza Hotel charges M\$2,500 for a 2-week all-inclusive stay for two adults and one child who share a room.

In the region occupied by South Division, the average all-inclusive room rate for two adults and one child is M\$2,100 for a two-week stay.

 Reference Material Pre-seen

Draft your response to Liz Petrov in the box below:

       **B** *I* U  x_2 x^2 

Paragraph ▾  ▾        



Thank you for completing the Management Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.



Management Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.




This examination is structured as follows:

Section number	Number of tasks	Time for section (minutes)	Number of sub task/s	% time to spend on each sub task
1	1	45	2	(a) 50% (b) 50%
2	1	45	2	(a) 50% (b) 50%
3	1	45	2	(a) 60% (b) 40%
4	1	45	2	(a) 40% (b) 60%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button

 Reference Material Pre-seen

Liz Petrov, a Senior Financial Manager, asks you to join her in her office. She hands you a document.

"We received this letter this morning. The Board will be meeting to discuss this proposal later today.

The Grand Hotel typically has around 75% occupancy. It has a loyal core of guests who have visited before and have returned because it offers good service and peaceful surroundings. Most of those residents book through Maylandia Travel, a company that specialises in booking holidays for older guests.

I need you to draft a briefing paper that covers the following:

- Firstly, explain the product, reputation and operational risks that would be associated with this deal and how we could mitigate these risks.

[sub task (a) = 50%]

- Secondly, explain the challenges associated with communicating with Maylandia Travel if we agree to Flyshift's proposal and suggest a response."

[sub task (b) = 50%]

The letter referred to by Liz Petrov can be accessed by clicking on the Reference Material button above.

Flyshift Airlines
Southtown International Airport
Maylandia

Finlay Rae,
Chief Executive Officer,
Alpaca Hotels,
Mayburgh

Dear Mr Rae,

Potential collaboration

Flyshift is a relatively new budget airline that specialises in providing affordable package holidays, that include flights and accommodation, to young adults who like to holiday together in large groups.

Flyshift's Board believes that there is a potential market for package holidays in Maylandia. We intend to commence flights from several foreign cities to Southtown International Airport at the start of this summer season. We are keen to use The Alpaca Southtown Grand Hotel ("The Grand") to accommodate these holidaymakers because it is only a 30-minute coach journey from the airport.

We propose the following:



- The Grand will set aside 30% of its rooms for Flyshift's package customers for the whole summer season.
- We reserve the right to cancel rooms, with no payment to be made provided we give ten days' notice of cancellation.
- We will sell half-board accommodation, comprising room, breakfast and dinner, at The Grand.
- We will pay The Grand's room rate, less 20%, for half-board accommodation at the time of the guest's booking.

We would welcome the opportunity to discuss this proposal with you and your team as soon as it is convenient.










Yours sincerely,










David Hans



David Hans, CEO Flyshift Airlines

 Reference Material Pre-seen

Write your briefing paper for Liz Petrov in the box below:

       **B** *I* U  x_2 x^2 

Paragraph ▾  ▾        

 Reference Material Pre-seen

A week has passed. Liz Petrov invites you into her office and shows you the screen of her laptop.

"I have downloaded Flyshift's latest annual report and calculated some ratios. I also obtained industry averages for comparison.

The Board is looking ahead to the possibility that we might extend the arrangement with Flyshift to provide package holidays to young adults who like to travel in groups to other hotels in the group. Please prepare a briefing note that covers the following:

Firstly, use my schedule of ratios to evaluate Flyshift's suitability as a major customer for Alpaca.

[sub task (a) = 50%]

Secondly, assuming that this may be extended to other hotels in the group, identify the implications that this arrangement will have for Alpaca's business model."

[sub task (b) = 50%]

Liz Petrov's ratios can be accessed by clicking on the Reference Material button above.















**Accounting ratios based on Flyshift's published financial statements for the year ended 31 December 2019.**

Ratios	Flyshift	Comparable industry average
Operating Profit Margin	9%	13%
Return on Capital Employed	7%	11%
Gearing [debt/(debt+equity)]	85%	60%
Trade Payables days	51 days	35 days
Current ratio	0.7:1	1.1:1
Revenue growth	40%	10%

Reference Material









Pre-seen

Write your briefing notes for Liz Petrov in the box below:



Paragraph ▾

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A month has passed. You receive the following email:

From: Liz Petrov, Senior Financial Manager
To: Financial Manager
Subject: Flyshift

Hi,

Flyshift has conducted further market research and has found that its proposed package holidays are too expensive. They have asked us to reduce the price of our rooms in order to make this arrangement viable.

I have attached a cost schedule. In order to meet Flyshift's price, we would have to reduce our cost to M\$480.

We are, of course, still negotiating. We do not know how much profit Flyshift is making for the flight element of these holidays, so we need to proceed carefully. I need you to:

- Firstly, explain the issues that we need to consider when managing the relationship between our costs and the price offered by Flyshift.

[sub task (a) = 60%]

- Secondly, recommend the approach that we might take when negotiating with Flyshift.

[sub task (b) = 40%]

Many thanks,
Liz



The costing schedule referred to by Liz Petrov can be accessed by clicking on the Reference Material button above.

Costing schedule for one room for one week for two adults at The Grand

Cost per room	M\$	Note
Laundry services	23.65	1
Toiletries	17.89	2
Average housekeeping staff costs per room	155.19	
Refreshments	8.78	3
Average cost per room of providing a cooked breakfast in the hotel restaurant	78.43	
Average cost per room of providing a three-course dinner in the hotel restaurant	252.68	
Total	536.62	

Notes

1. Fresh bed linen and towels are provided each day.
2. Toiletries include individual sachets of Petalpower shampoo and shower/bath gel, vanity kit, shoe-shine, soap, hand and body lotion and dental kits.
3. Each room has a kettle and a supply of complementary tea bags and sachets of instant coffee that are replenished daily.

 Reference Material Pre-seen

Write a response to the email from Liz Petrov in the box below:

From: Financial Manager



To: Liz Petrov, Senior Financial Manager

Subject: Re: Flyshift



Paragraph ▼



 Reference Material Pre-seen

Two weeks later, you receive the following email:

From: Liz Petrov, Senior Financial Manager

To: Financial Manager

Subject: Flyshift

Hi,

We have finalised our arrangements with Flyshift to provide the package holidays. Flyshift have now suggested that to make The Grand more appealing to its guests Alpaca should consider adding a major attraction.

I have attached the notes of a telephone conversation made by our CEO during a call from David Hans, CEO at Flyshift. David would like us to consider establishing a watersports centre on the beach.

If we go ahead with the watersport centre proposal it will require a substantial investment. I have estimated the Net Present Value (NPV) of this investment to be M\$2million and the payback period to be five years.

Despite this financial evaluation I am going to recommend that we reject the watersport proposal.

I need you to prepare some briefing notes which:

- Firstly, support my rejection of this proposal including an explanation of the operational issues the proposal would have caused for the hotel management.
[sub task (a) = 40%]

- Secondly, in case the Board decides to go ahead, explain which characteristics of debt and equity would be most significant when considering how to finance this substantial investment.
[sub task (b) = 60%]

Many thanks,
Liz



The telephone conversation notes can be accessed by clicking on the Reference Material button above.

Notes of a telephone call from David Hans, CEO Flyshift

Flyshift has suggested that Alpaca establishes a watersports centre at The Grand. Flyshift offers holidays at other beach hotels which have these facilities and these always prove popular with holidaymakers, so Alpaca could expect to see future bookings increase at The Grand.

The Grand has a private beach that is for the exclusive use of guests. Flyshift proposes that Alpaca uses a stretch of that beach to establish the watersports centre, to offer jet-skiing, water-skiing and scuba-diving. Alpaca would need to make a significant investment in equipment, but the centre could be operational fairly quickly.

Flyshift proposes that Alpaca acquires the necessary speedboats, jet-skis and other equipment. Alpaca would keep all the revenues generated by the activities at the watersports centre and would be responsible for staffing and running costs.

 Reference Material Pre-seen

Write a response to the email from Liz Petrov in the box below:

From: Financial Manager

To: Liz Petrov, Senior Financial Manager

Subject: Flyshift



Paragraph ▼





Thank you for completing the Management Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.



Management Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.

This examination is structured as follows:

Section number	Time for section (minutes)	Number of tasks	Number of sub-task/s	% time to spend on each sub-task
1	45	1	2	(a) 52% (b) 48%
2	45	1	2	(a) 40% (b) 60%
3	45	1	2	(a) 44% (b) 56%
4	45	1	2	(a) 60% (b) 40%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.

Reference Material

Pre-seen

Zoe Diaz, Finance Director, stops by your workplace.

"All Alpaca hotels have leisure facilities for hotel residents. A review of usage shows that these facilities are underused by hotel residents in our city centre hotels located in the Central region.

Sam Singh, Central Division Director, has asked me to evaluate a proposal to allow non-residents to use the leisure facilities at The Mayburgh Principal. Non-residents would have to pay a membership fee to use the leisure facilities. Access to the leisure facilities from 06:00hrs to 22:00hrs requires a unique bar code downloaded onto a mobile app, Zone4U. Membership fees will be paid monthly and renewed annually.

The marketing team has provided me with external research estimating demand levels and expected revenues. This information will be used as the basis to forecast cash flows for use in our investment appraisal calculations.

Sam has concerns that exposure to the following three risks will increase if we allow people other than hotel residents to use leisure facilities:

1. Accidents in the pool during peak usage.
2. Non-members gaining access by members allowing them to share their app.
3. Accidental damage to equipment

Before I prepare my evaluation, I would like your assistance with two matters.

- Firstly, explain any concerns you have about using the research report as the basis for our investment appraisal calculations.
[sub-task (a) = 52%]
- Secondly, explain how each risk could be managed and why it is important for Alpaca to manage each of these risks."
[sub-task (b) = 48%]

The research document referred to by Zoe can be found by clicking the Reference Material button.

Research document

The external research conducted indicates that projected uptake of annual health and leisure memberships is heavily priced dependent. Annual membership fees charged by three independent health and leisure complexes within a 10-mile radius of The Mayburgh Principal are M\$950 on average. Details relating to volume and revenue for two possible levels of membership fees are shown in the table below:



Annual Membership Fee M\$	Possible annual membership uptake			Expected Annual Revenue M\$
	Poor	Medium	Strong	
1,200	3,000	5,000	8,000	5,400,000
800	3,000	5,000	8,000	4,560,000

The expected annual revenues are based on estimated probabilities of membership uptake for each fee.










Sources










The information contained within this document has been prepared from data derived from a number of sources including:



- A survey conducted by GymWorld, Maylandia's leading leisure facility chain
- Census data for the population residing within a 5-mile radius of The Mayburgh Principal.
- Maylandia national statistics for the average number of gym memberships per household.

 Reference Material Pre-seen

Write your response to Zoe in the box below:

       **B** *I* U  x_2 x^2 

Paragraph         

 Reference Material Pre-seen

The proposal to sell memberships of the leisure facilities at The Mayburgh Principal is now being considered by the Board. In order to maximise the uptake of annual memberships, the leisure facilities need upgrading at a cost of M\$25 million.

Zoe Diaz, Finance Director, stops by your workplace and hands you a document.

"I have brought you an extract from the minutes of yesterday's Board meeting.

I am preparing a briefing paper for Finlay Rae, CEO of Alpaca Group. Please prepare an email response to me addressing these two matters:

- Firstly, explain, giving financial and non-financial reasons, why the decision should not be based on the evaluation given in the Board minutes.

[sub-task (a) = 40%]

- Secondly, discuss the advantages and disadvantages to Alpaca of each suggested method of financing of the required M\$20 million."

[sub-task (b) = 60%]

The extract of the Board minutes referred to by Zoe can be found by clicking the Reference Material button.

Extract from Board minutes



The Central Division Director proposed an investment of M\$25 million in the leisure facilities of The Mayburgh Principal. This would be partly funded by a M\$5 million subsidised loan from the Maylandian Government with an annual interest rate of 2%.

The investment is expected to yield a positive NPV of M\$2.3million using Alpaca's usual 10% cost of capital and a project duration of 7 years. The payback period is 4.5 years. The estimated cash flows used in these calculations were based on the lowest annual membership fee of M\$800 and attracting 8,000 members each year. The other forecasted possible levels of membership were 3,000 and 5,000 members.

The HR Director countered that Alpaca usually looks for a 3-year payback period and rarely considers NPV. He questioned why this investment is being pursued when it does not meet the payback period benchmark.

The Finance Director suggested two possible ways of financing the remaining M\$20 million of the investment.

1. Issue of a fixed rate bond with a coupon rate of 6% per annum redeemable in 2022.
2. A rights issue to existing shareholders. A "1 for 35" rights issue at M\$1.00 per share would raise the necessary finance, given the current share price and shareholder expectations.

 Reference Material Pre-seen



Write your response to Zoe in the box below:

From: Financial Manager

To: Zoe Diaz, Finance Director

Subject: Refurbishment of The Mayburgh Principal leisure facilities



 Reference Material Pre-seen

Eight months have passed. The leisure facilities at The Mayburgh Principal have now been fully refurbished and rebranded as the “Health Zone”.

Zoe Diaz, Finance Director, stops by your workplace.

“As part of the refurbishment at the Health Zone, our I.T. department created a mobile access app for users of hotel gyms – “Zone4U”. They believe that other hotels will want to buy licences so that their gym members can use the app too. The app will be programmed so that it provides information to each hotel about their members only. I have been asked by the Board to prepare an evaluation of the success of this app to date. I have forwarded you an email with further details.

I need your help with two matters.

- Firstly, describe the accounting treatment of both the app creation costs of M\$1,280,000 and the brand name of M\$1,000,000 in the financial statements of Alpaca.

[sub-task (a) = 44%]

- Secondly, explain how Alpaca can benefit from the information that the new app gathers about members of the Health Zone and any issues it may face using this data.”

[sub-task (b) = 56%]

The email referred to by Zoe can be found by clicking the Reference Material button.

To: Financial Manager
From: Zoe Diaz, Finance Director
Subject: App development

A total of M\$1,280,000 has been capitalised as an intangible non-current asset for costs incurred in the creation of the "Zone4U" app.

The Board is planning to sell the brand name "Zone4U" to other hotel chains that offer leisure facilities. It believes the brand name "Zone4U" is worth M\$1,000,000 to Alpaca and has requested that this amount be capitalised as well.

I am concerned about whether the accounting standards permit the app creation costs of M\$1,280,000 and the M\$1,000,000 for the brand name to be capitalised in the financial statements of Alpaca.

The Zone4U app has been designed to gather data on members of the Health Zone. Its functionality comprises a unique bar code that members must scan to enter each facility and activate any equipment being used.

This information is recorded and stored on a server to monitor:

- Frequency of visits.
- Length of each visit.
- Periods of peak usage.
- Facilities used on each visit.
- Periods of inactivity.















The Zone4U app also allows members to renew their memberships.

Regards
Zoe

Reference Material










Pre-seen

Write your response to Zoe in the box below:



Paragraph ▾

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Reference Material

Pre-seen

A further month has passed. the Health Zone is being managed by Mark Cranston. The financial results of the Health Zone are included in the monthly performance reports of The Mayburgh Principal and Mark reports into the hotel manager.

You receive an email from Zoe Diaz, Finance Director.

To: Financial Manager

From: Zoe Diaz, Finance Director

Subject: The Health Zone at The Mayburgh Principal

The recent refurbishment of the Health Zone has been hugely successful with external memberships exceeding our expectations. 81% of visits last month were from external members.

Sam Singh, Central Division Director, wants to treat the Health Zone as a separate profit centre at the request of Mark Cranston.

We will need to prepare separate budgets for the Health Zone and the hotel. Mark Cranston wants the Health Zone to receive a fee per day from the hotel for every guest that stays at the hotel. He proposes that this transfer price should be based on the equivalent daily rate for members. I think that we should set the transfer price centrally.

Mark Cranston will take responsibility for managing the employees of the Health Zone. Staffing information as provided by HR is contained in an attachment to this email.

The Board has asked me to prepare a briefing paper and I need your help with two matters.

- Firstly, explain the issues that need to be considered when setting transfer prices for the use of the Health Zone by hotel residents. Please ensure that you cover this from the perspective of each of the two managers and the Alpaca Group.

[sub-task (a) = 60%]

- Secondly, explain the importance of the different leadership approaches adopted by Mark Cranston and by the team leaders that would lead to the successful operation of the Health Zone.



[sub-task (b) = 40%]

The attachment referred to by Zoe can be found by clicking the Reference Material button.















Staffing information

The workforce has been tripled to 60 staff since the refurbishment. Two team leaders have been appointed, one for each of the early and late shifts. Both of the team leaders are currently enrolled on a part-time hospitality management degree course. Both report to Mark Cranston directly.

The workforce report into the two team leaders. 50% are unskilled contracted employees working 40 hours per week comprising cleaning, front desk and administrative roles. The remaining 50% are qualified fitness instructors who are signed up to zero-hour contracts to allow flexibility for Alpaca. The annual employee turnover rate is currently 35%.





















 Reference Material Pre-seen

Write your response to Zoe in the box below:



Paragraph ▾

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Thank you for completing the Management Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.



Management Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.

This examination is structured as follows:

Section number	Time for section (minutes)	Number of tasks	Number of sub-task/s	% time to spend on each sub-task
1	45	1	2	(a) 60% (b) 40%
2	45	1	2	(a) 60% (b) 40%
3	45	1	2	(a) 60% (b) 40%
4	45	1	2	(a) 60% (b) 40%

Each section (task) has a number of sub-tasks. An indication of how much of the time available for the section that you should allocate to planning and writing your answer is shown against each sub-task in the text of the question (and summarised in the table above).

This information will be available for you to access during the examination by clicking on the Pre-seen button.

Reference Material

Pre-seen

Liz Petrov, the Senior Financial Manager telephones you:

"We have a new project I'd like you to work on. Our hotels in the Northern Highlands of Maylandia are popular in winter for skiing holidays, and in summer for walking breaks. But occupancy is much lower in spring and autumn.

We have been approached by FlashFashion, a major corporation. FlashFashion wishes to hold a four-day conference for 150 delegates in our Royal Clan hotel, the delegates would stay for three nights. It would require sole use of the hotel which has 170 bedrooms. The conference would be in two months' time, at the beginning of the autumn season. We would be expected to provide three meals a day plus refreshments.

The fee that FlashFashion is prepared to pay for the conference, to include delegate accommodation, conference rooms and food is M\$75,000 and it has emphasised that this figure is not negotiable. FlashFashion also requires a programme of team building outdoor activities such as kayaking on the hotel lake and mountain biking. We would subcontract the outdoor activities to a specialist company. FlashFashion would pay an additional fee for the outdoor activities.

We have never hosted a conference before, so this would be a new venture for us. Amy Lomako, the North Director, thinks this proposal is worth investigating and could be treated as a pilot project. If it goes well, we could begin to offer conferences regularly in the Highlands in spring and autumn.

I have sent you some costing information for the conference, assuming our usual level of service.

- Please send me an email that explains, with examples, how we might be able to use target costing to help to determine if the fee offered by FlashFashion is acceptable to Alpaca.

[sub-task (a) = 60%]

- We will need to use an external company for most of the outdoor activities, so secondly, please include in your email some advice on what issues we need to consider when negotiating with an activity provider and how we can overcome these."



[sub-task (b) = 40%]

To view the costing information please click on the Reference Material button above.










Amy Lomako, the regional manager for Alpaca North, has provided the following schedule of the estimated costs of offering the conference.










Estimated costs for the FlashFashion conference, based on 150 delegates in the Royal Clan Hotel for 4 days 3 nights.

Direct costs	Cost M\$	Comments
Laundry services	9,600	Sheets and towels changed daily
Toiletries per night	2,520	High quality toiletries replaced daily
Wages and salaries for housekeeping	7,400	
Complimentary refreshments in bedrooms	4,790	Tea, coffee, water and a selection of biscuits provided in bedrooms each day
Breakfast, lunch and dinner	13,900	Based on the hotel's normal meal menus
Fresh flowers in bedrooms	3,400	Fresh flowers checked each day and replaced when necessary
Tea, coffee and biscuits at workshops	1,470	Provided in line with client FlashFashion requirements
Paper, pens and other consumables	1,840	Provided for delegates use in workshops
Total direct costs	44,920	
Indirect facility costs	21,000	Property and administration costs
Total	65,920	

 Reference Material Pre-seen

Draft your response to the request from Liz in the box below:

       **B** *I* U  x_2 x^2 

Paragraph ▾  ▾        

Reference Material

Pre-seen

The planning work for the FlashFashion conference is continuing and you receive a phone call from Amy Lomako.

"Hi, Liz said you would be able to help me. We are going to need extra staff for the conference. We have fewer of our own staff available in the autumn given our lower occupancy levels but the conference will completely fill our hotel. FlashFashion wants a high level of service by our waiters. We don't have enough waiters on our staff, but Alpaca Central do and are willing to let them work here during the conference. Central has other staff who are available because an event scheduled for the same period as the conference has been cancelled.

We have never used staff from another region. Central has said that the waiters and other staff will require a bonus for travelling here. Central wants to charge us the cost of the waiters and other staff, including bonuses, plus a mark-up.

We will need to use an external provider for most of the team building activities. We do not have the skills or equipment for this. Amy is worried that using an external service provider will expose us to risks we have not faced before.

I have left on your desk a copy of the brochure from a local activity provider. Please prepare a briefing note I can use in the next meeting with Amy and the conference planning team.

In the note, I need you to:

- Explain the issues that need to be considered when setting transfer prices for both waiters and other staff. Your notes should consider the issues from the perspectives of both Alpaca North and Alpaca Central and also the Alpaca Group.

[sub-task (a) = 60%]

- Explain the key risks to Alpaca associated with using an external provider for the team building activities and how these can be mitigated."

[sub-task (b) = 40%]

To view, the Outdoor Activity brochure referred to by Liz click on the Reference Material above.

Adventure Maylandia

Rafting, Kayaking, Hill walking, Mountain biking, Quad biking, Climbing,

Canoeing – these are just some of the activities Adventure Maylandia can offer. Our friendly, highly qualified instructors will be there to provide training and guidance whether you are a beginner or experienced. All safety equipment is provided.





let you try a new sport, three-day residential courses and everything in between.

We also offer courses for schools and have an excellent safety record and full insurance.















Get in touch via our website, www.Adventure.Maylandia.com, or phone us on 0124 789789

We run introductory sessions to












 Reference Material Pre-seen



Draft your response to Amy in the box below:



Paragraph ▾

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 Reference Material Pre-seen

Three months have passed, the FlashFashion conference has taken place, and Liz phones you.

"I'd like you to do some more work on the proposal to offer conferences in the Alpaca North hotels. The FlashFashion conference was a great success and they have passed on a summary of their feedback, which I have emailed to you. FlashFashion is planning their events for next year and have said that they would be happy to use our hotels again.

One issue we need to consider is that, if we continue to offer conferences, we will have to be prepared to close the hotels to guests whilst the conferences are running. We are unsure at the moment how many conferences we will host and when they will be held because demand is unpredictable at this stage. We had to cancel bookings for ten rooms to accommodate FlashFashion and we returned the guests' deposits. Also, if a conference uses most but not all of a hotel, guests may not be happy if their use of hotel facilities is limited by conference delegates. We need to think about the operational impact of this. We also need to review the feedback we have received on the FlashFashion conference and consider how we can encourage more conference bookings.

Our experience with the FlashFashion conference highlighted the differences between this and our usual business, conferences would be a major new channel for us and our plans and budgets need to reflect this. Our reception staff were much less busy during the conference as the delegates all arrived and left at the same time and were greeted by the conference organisers. On the other hand, our staff were expected to help coordinate activities and support the conference organisers.

I would like you to explain how the operational impact of hosting conferences could change Alpaca's business model.

[sub-task (a) = 60%]

Please also explain how the decision to host conferences would impact on planning and control."

[sub-task (b) = 40%]

The FlashFashion conference feedback can be found by clicking on the Reference Material button above.

An extract from digital feedback questionnaires completed by conference delegates.

Satisfaction rating from delegates

Bedrooms

★★★★★

Food

★★★★★

Outdoor activities

★★★★★

Workshops

★★★★★

Evening entertainment



★★★★★

Conference organiser comments










Delegate feedback was generally positive, although some commented that the hotel was a little isolated, so they were not able to go out in the evenings. For us as organisers this is positive, we prefer delegates to remain at the conference venue.










Some delegates commented that vegetarian options were limited, which could perhaps be addressed for a future event.



As organisers, we were impressed with the management team at the Royal Clan Hotel, who returned phone calls and replied to emails promptly. We would have liked details of the outdoor activities to be made available a little earlier in the planning process.

 Reference Material Pre-seen

Draft your response to Liz in the box below:

       **B** *I* U  x_2 x^2 

Paragraph ▾  ▾        

 Reference Material Pre-seen

Liz has left a note on your desk:

The Board has decided to go ahead with the proposal to offer conferences in our Alpaca North hotels. This means we need to invest in some remodelling of five of the hotels so that they are more suitable for conferences. For example, the lighting in rooms to be used for meetings needs to be improved, and some of the hotels don't have large enough meeting rooms, so we will need to remove internal walls and replace them with removable partitions. One hotel needs an extension in order to provide a large conference suite. This work will commence in two months' time, with conferences scheduled for the Autumn of next year.

The management team at Alpaca North had expected the remodelling work to be financed with equity. They have just been informed that Zoe Diaz has decided to borrow the funds needed. I have attached a copy of the email from Zoe setting out the funding proposal.

Please prepare a briefing paper for the Alpaca North management team that explains:

- Firstly, the characteristics of the proposed borrowing and how these differ from the equity funding the Alpaca North management team were expecting.

[sub-task (a) = 60%]

- Secondly, the likely impact of the borrowings and the new conference service on Alpaca North's key performance indicators.

[sub-task (b) = 40%]

To view the email from Zoe please click on the Reference Material above.

From: Zoe Diaz, Finance Director
To: Amy Lomako, Regional Manager North
Subject: Proposal to remodel hotels to accommodate commercial conferences

Dear Amy

As you are aware, the Board has approved the proposal to offer conferences in the Alpaca North hotels, which means that capital investment is required to ensure that the hotels can offer appropriate facilities. The cost of this work is estimated at M\$25 million, and it will commence in two months' time, with conferences scheduled for the autumn of next year.

The Board have decided that the most appropriate form of funding is a bank loan. The bank is prepared to offer the full M\$25 million, at a variable interest rate. The loan will be secured on the Alpaca North hotels.

The Board consider that Alpaca North's performance indicators should reflect the investment. Alpaca North will therefore be charged a fee, equal to the interest payment, which will be a deduction in arriving at operating profit.















The commercial conferences will impact Alpaca North's key performance indicators. Last year's budgeted and actual KPIs as presented in the Annual Report were as follows:












KPI	Actual	Budget
Occupancy	72%	85%
Average length of stay	10 days	12 days
Operating profit margin	8.7%	9.5%
Return on capital employed	4.2%	4.8%
Visitadvisor guest rating	3.9/5	4.5/5

Reference Material

Pre-seen

Draft your report to the Alpaca North management team in the box below:



Paragraph 



Thank you for completing the Management Case Study Exam.

Before you leave, don't forget to collect your printed confirmation of attendance.

Please click the End Exam (E) button before leaving the testing room quietly.

**Management / Gateway CASE STUDY MAY–
AUGUST 2020 EXAM ANSWERS**

Variant 1

These answers have been provided by CIMA for information purposes only. The answers created are indicative of a response that could be given by a good candidate. They are not to be considered exhaustive, and other appropriate relevant responses would receive credit.

CIMA will not accept challenges to these answers on the basis of academic judgement.

SECTION 1

(a) Briefing notes for the presentation to the Board on the proposed investment projects

Financial factors

There is capital rationing, which may mean that Alpaca has insufficient funds to undertake all the positive net present value opportunities that are available to it. The first issue to consider is whether it would be possible to invest the M\$60 million required for both projects. If not, then the availability of funding will determine whether Alpaca is forced to reject either, or even both, projects because of funding constraints.

If the Board has more than M\$40 million, but less than M\$60 million, then it must decide between the pool and the gym. It would be possible to decide on the best use of the available funds by looking at the profitability index (PI) for each project. These have been calculated for the pool and the gym. Both are positive and indicate the amount of net present value generated for every M\$1 invested. The pool's PI is 0.37 indicating that for every M\$1 invested the project returns M\$1.37 in today's monetary terms. The Board will review all proposals submitted and will rank them according to their PI and then allocate the funds.

One of the main objectives of a listed group like Alpaca is to develop strategies and undertake projects that increase the wealth of its shareholders. The net present value (NPV) of a project indicates the amount of increase in shareholder wealth. Both the pool and the gym investments have a positive NPV and so both should be undertaken. Other projects the Board is considering may have higher PIs but the NPVs may be lower. If the main objective of Alpaca is to maximise the wealth of its shareholders, then it should choose the project with the largest NPV. There is very little difference between the NPVs of the pool and the gym. If capital is not rationed the gym project would, in financial terms, be thought of as being the best project of the two because it generates the highest NPV. However, it requires double the initial investment of the pool refurbishment. This is why, with capital rationing, the PI should be considered as it compares the NPV to the size of the initial investment.

Payback indicates how long it takes to recover the initial cash outflow of the investment if the net income is assumed to accrue evenly throughout each year. The shorter the payback the better, as this suggests that the initial capital invested is recovered the soonest. This gives an indication of liquidity and both projects would seem to create funds in a short space of time. The pool's payback is just under 2 years and this is the shortest (although it would need to be compared to other projects in the group which may be even shorter). The payback of the gym is slightly longer. The Board will note that both are 3-year projects and the payback for both is over half of the project's life. The Board may find this unacceptable. Perhaps we should determine what an acceptable payback is for the group.

The IRR is the project's rate of return at which the investment has a zero net present value. The pool has the higher IRR, but that comparison can prove misleading when choosing between competing projects because the pool project gives a higher return on a much smaller investment, which could mean that it is not the better investment in absolute terms.

One issue the Board may raise is the fact that the cash flows for each project have been converted from B\$ to M\$ using recent rates. There may be some concern about the stability of the exchange rate. However, this should have been a factor considered by the Board when buying an overseas hotel like GS. They would have already thought about how the profits generated by GS will convert into M\$ and the impact on the group financial statements.

Non-financial factors

Making the investments now, when Alpaca has bought their first hotel in Boravia could be good publicity for the group. Building the pool using local builders and buying gym equipment locally could indicate that Alpaca is a boost to the local economy.

Staff at the hotel may feel unsettled by the change in ownership. Investment in these parts of the hotel may show them how committed Alpaca is to the ongoing success of GS. Also improving the quality of the pool and gym facilities will make the hotel a more desirable place to work so there may be fewer staff turnover than would be expected when there is a change in ownership.

The reopening of the pool and the gym would create local marketing opportunities. We could ask a local celebrity to open the facilities and this could lead to social media posts that create a positive image for the hotel. This may encourage more people to apply for job vacancies at the hotel.

(b) Sensitivity analysis

Sensitivity analysis helps the Board to understand the impact of changes in key variables for each project's NPV. The Board does not want to make an investment decision based on estimates without knowing how sensitive the decision is to the various revenues and costs estimated. One question that may be raised by Board members would be: "what would happen if demand for annual membership was lower than expected or incremental costs increased above the estimates in the NPV calculation?". The answer might be that the gym will not be financially worthwhile if some relatively small changes occur in the cash flows.

Reducing revenue, increasing costs or increasing the cost of capital would reduce the NPV of the investment. Sensitivity analysis takes each of these in turn and determines

how much each estimate, taken individually, would need to change to give a negative net present value. A negative net present value would then suggest that the project is not worthwhile. The identification of these key variables highlights those areas that will need to be managed carefully during the life of the project. The Board will need to consider the implications of this throughout the 3 years. Sensitivity analysis indicates how risky the project is to changes in each key variable.

For example, if the number of memberships sold reduced by 10% over 3 years then the gym will not deliver the positive NPV that was hoped for. This is the smallest percentage change of the three variables given and suggests that this is the most important one to manage. However, it is also the most difficult variable to predict. Liz has assumed that the memberships are expected to rise by an average of 16% each year. So, the membership numbers in the first year are considerably less than those of later years. If the numbers do not reach the estimated figures in year one, then the project's risk is even greater than this sensitivity suggests. The Board will be concerned about this and will want some reassurance that the estimates of membership volumes have not been overstated.

It is worth noting that this analysis is not complete as we have only considered three variables. It would be useful to prepare calculations for the prices charged for the membership fees and operating costs.

Scenario planning

Sensitivity analysis focusses on the effects of changing numbers on the cash flows and the expected NPV. Scenario planning focusses on the possibilities that might arise and the implication that they might have for the project. For example, if there is a health scare then that might encourage more people to exercise and so gym memberships might increase.

Scenario planning might require the Board to consider the overall implications. For example, an increase in interest rates would affect the cost of borrowing and would also increase the borrowing costs of potential gym members, who would have to pay more for their mortgages. Alpaca would have to consider how it would cope with both of those adverse effects.

Scenario planning would help the Board to identify potential threats to the success of the gym. Scenario planning is making assumptions on what the future could be and how Alpaca's business environment might change.

Alpaca's Board must consider the possible impact that GS's new health club will have on its gym membership. That will be difficult, especially because Alpaca needs to consider the factors that might occur, such as the fees that GS will charge and whether they will be more or less than the fees charged by Alpaca.

Scenario planning may be more useful here as the impact of the new health club would change the volume of memberships sold, potentially the costs incurred and the price we may need to charge. It therefore considers all the factors of the project not just one at a time and so would be more beneficial.

SECTION 2

(a) How to make sure the hotel's managers understand the importance of working as an effective team

Joe and the existing GS managers need to be reminded that it is vitally important that they operate as an effective team. The integration of GA into the Alpaca Group must be handled carefully and Joe requires advice and support from the other managers. The management team must also ensure that the ongoing activities of the hotel are managed properly and that guests do not complain about an unsatisfactory stay. Alpaca is entitled to expect that the managers will work together to further Alpaca's best interests and each manager should be told to consider how best to achieve the group's objectives. If they are not prepared to work as part of a team under Joe's leadership then the managers should be encouraged to look for new jobs.

Alpaca should brief the managers on the performance measures that will be used to monitor the management of GS. It should be stressed that many measures, including key figures such as occupancy levels, will reflect the overall activity of the management team as a whole. Any managers who do not work towards maximising those measures could be putting the careers of the entire management team at risk and this would cause even more conflict between the managers.

As part of the emphasis on teamwork, Joe should be reminded that his colleagues were running the hotel before the acquisition and so their experience is potentially valuable. He should encourage the other managers to voice their opinions and should consider their views before reaching a final decision.

It may be helpful to consider team-building activities that could have an immediate impact on cohesion. An away day or short conference offsite would give the managers an opportunity to share views and develop a strong mutual respect.

(b) How to decide whether Joe's leadership style is creating the conflict between him and the other managers

Joe's history with Alpaca should be reviewed, with emphasis on the extent to which he demonstrated sound leadership in past appointments. It is unlikely that he will have been moved to this position if he had not shown strong leadership in the past. However, if there have been complaints or disputes in other hotels showing that Joe is unduly aggressive and showing an authoritative style, then there could be a risk that he will alienate the managers at GS.

Alpaca should seek advice about the business culture in Boravia in order to better understand the working culture and how managers interact and engage with one another. If managers are generally laid-back and relaxed in their dealings with their staff, then perhaps Joe should be briefed on that and encouraged to change his leadership style accordingly. It may be possible to arrange training sessions from external providers on the supervision and management of staff in Boravia.

The backgrounds and experience of the managers at GS should be reviewed, by looking at their HR files, CVs or through interviews. It may be that there are some managers who would have expected to be promoted to Hotel Manager in the event the

previous incumbent left the hotel. It is possible that the conflict is due to resentment of Joe, whose arrival as an external appointee, could be interpreted as an end to the managers' career paths. This would suggest that it is the decision to appoint Joe as Hotel Manager of GS that has been the main cause of the conflict, rather than Joe's leadership style.

(c) How to resolve the conflict between Joe and the other managers at GS

This scenario implies that the management team have a high level of assertiveness and a low level of cooperativeness. That implies a "competing" form of conflict in which two parties are trying to win, possibly at one another's expense.

One approach that could help manage the conflict would be to work towards conflict reduction, which would involve building on areas of agreement. Taking the example of the staff scheduling, it would be ideal if both sides could agree that there are inefficiencies in the previous arrangements. If such an agreement can be reached then it may be possible to develop a response to the inefficiency that the whole management team can support, even if that means some compromise from both sides.

Ideally, in the longer term the basis of the conflict can be resolved. If Joe and the other managers can agree that they will be assessed together then they may be prepared to work towards maximising their performance. Clear communication is essential if the managers are to be persuaded that they have no reason to fear Joe or to be jealous of his position as their Hotel Manager. Joe should consider not imposing too many major changes without their agreement.

SECTION 3

(a) How the five performance measures operate within the structure of Alpaca and their relevance to Ted's role, if GS becomes part of the Alpaca South division

Operating profit margin

There are three aspects of running the hotel that may affect this performance measure: revenue, efficiency and costs.

Revenue is generated from room bookings (discussed under occupancy rate), the restaurant and the bar. Ted can influence revenue from food and drink as he is responsible for the overall quality of service and for creating a pleasant atmosphere in the restaurant and bar.

Ted is not able to set the pay rates of staff as these are made centrally but does influence efficiency of resources. Ted, with his team, decide how many staff are needed to operate the hotel and then he recruits locally. Over-recruitment creates excess idle time and increased staff costs, which negatively affect the hotel's operating margin. There may be unexpected staff absences, like illness, that create unavoidable increases in staff costs. These should be explained in the monthly management commentary.

Fresh produce sourced locally should be bought as needed and at the lowest price possible that maintains quality. Extra costs from waste reduces the operating margin.

Non-perishable food supplies, linen and tableware are bought centrally, and so Ted is unable to influence the cost of these. However, he can order additional supplies as needed and should keep the quantity to a minimum to avoid reduced margins.

Occupancy rate

The occupancy rate is determined by two factors: the room rate set and the appeal of the hotel to guests.

Room rates are set centrally with some input from the divisional directors. Ted would not be involved in this decision. If room rates are higher than those of competitors, revenue may fall. Ted should be aware of competitors' rates and should inform his divisional director of these, but he does not have direct influence on the room rate.

Marketing campaigns are coordinated centrally to attract guests and increase revenue, the cost of these is beyond Ted's control.

A low occupancy rate could be due to the declining appeal of GS as a holiday destination. If the level of customer service or cleanliness (and this could be reflected in Visitadvisor reviews too) is poor, then guest numbers will fall. Ted has overall responsibility for this.

Staff turnover

The hotel industry is known to have high staff turnover as some of the work is low paid and low skilled and Ted cannot control this. However, if the staff turnover is high due to an unpleasant working environment, this could be down to Ted's poor leadership style.

Return on capital employed (ROCE)

ROCE measure is affected by the operating profit (discussed above) and the investment made in GS (called capital employed). The divisional director determines

the capital investment made in each hotel and so this would not be Ted's responsibility.

Visitadvisor reviews

Ted is responsible for the guest experience as indicated by the Visitadvisor reviews. Some guests do not post reviews after staying at the hotel and others may only post a comment if they have had an exceptionally good or an exceptionally poor experience, so reviews do not give the complete picture. Also, fake reviews from competitors may distort the results and Ted can do nothing about this.

Ted should encourage all guests to leave comments if they are able. He should reduce the bad publicity of negative reviews by responding to comments promptly, and state the corrective action taken by the hotel.

For all the financial performance measures mentioned above, it is worth noting that the results of GS are generated in B\$ and then converted into M\$. If the exchange rate moves unfavourably this may have an unfavourable impact on some of the measures. This is not within the control of the Hotel Manager.

(b) How any risks arising from the three issues can be managed

New hotel

There is nothing we can do to prevent the new hotel from opening nearby. The hotel industry employs many low-skilled and low-paid staff and they will leave if they can earn higher wages at another hotel. Therefore, we may have to accept this risk. It would be worth meeting with recruitment experts in Boravia and finding out what the local employment levels are. It may be that there are plenty of potential employees to replace those who leave and so this may not cause a major disruption to the running of the hotel.

The greater risk is if the higher-skilled managers and chefs leave. We would want to avoid this so it may be advisable to identify those who are likely to leave and persuade them not to. It may be sensible to ask HR to organise some staff evaluation meetings and develop management and leadership training programmes to make sure these staff know their value to the business.

23.00 closures

The major risk to GS is the loss of revenue due to the reduced operating hours of its bars and restaurants. To generate revenue, changes should be made to the schedules. This will encourage guests to dine and to use the entertainment facilities, including the bar, earlier in the evening. The bar and restaurant could offer promotions and discounts to encourage this.

The risk of GS not complying with the legislation should be minimal. The hotel will have policies and procedures in place to deal with noisy guests. The bar and restaurant managers should be told to implement the new closing time and the importance of doing so.

Visitor tax

We are not told when this taxation will start to be charged. There may be an opportunity for all hotels in Boravia to lobby the national tourist board and the government and try to persuade them that this is not good for trade. The hotel

manager could start the process and create a discussion forum on a social media platform.

The tax will create an additional expense for GS and therefore reduce the hotel's profits. One way of managing the issue is to transfer the risk of reduced profits to the guests by adding the charge to the cost of their holiday. The problem with this is that this may deter guests from coming to the hotel and bookings and occupancy levels will fall. However, if all the hotels in competition with us also do this there should be no change to GS's occupancy levels. The only risk then is that guests do not come to Boravia. This is unlikely and may be a risk we have to accept.

SECTION 4

(a) Determining the functional currency of Golden Sands (GS)

IAS 21 The Effects of Changes in Foreign Exchange Rates states that the functional currency of an entity is that of its primary economic environment. This is generally taken as being where the entity generates and spends its cash. GS operates in Boravia where the local currency is B\$.

The standard goes on to say that the functional currency is also partly determined by other factors:

1. The currency that influences the sales price for goods and services and the currency in which receipts from operating activities are retained. The extract of the review states that all our customers pay their hotel bills in B\$. The cash is then kept in a bank in Boravia in B\$. This suggests that the functional currency could be B\$.
2. The currency that influences labour and other costs. The extract of the review states that all the staff and utility bills (gas and electricity) are paid in B\$. In addition, it is only some of the fruit, vegetable and bar supplies that are paid in another currency: M\$. There are likely to be many other supplies and expenses like laundry that are also paid in B\$. It is not conclusive from this what the functional currency of GS would be.
3. The currency in which funds are raised from financing activities. We are told that Alpaca will provide loan finance. This would suggest that the functional currency could be M\$.
4. Other economic factors like where tax is paid may also be considered. This is in Boravia and suggests that B\$ is the functional currency.

On balance, it would appear that the functional currency of GS is B\$, because most of the factors discussed above point towards this.

(b) Fair value information on 1 August 2020

On the date of acquisition of GS, Alpaca would have to calculate the goodwill arising on acquisition to include in the consolidated financial statements. Goodwill is calculated as the difference between the fair value of the consideration paid to acquire the 100% holding and the fair value of the net assets acquired at that date. The values that have been mentioned could potentially be reflected in the goodwill calculation as adjustments to the book values of the net assets to arrive at the fair value. When the consolidated financial statements are prepared, the goodwill is calculated in B\$ and then translated into M\$ using the historic rate. Each year the goodwill is re-translated into M\$ using the year end closing rate. Exchange differences are recorded in the group reserves.

Fixtures and fittings

The fair value of the fixtures and fittings exceeds the book value by B\$0.2 million (B\$1.45 million less B\$1.25 million). This uplift in value is added to the book value of the assets in the goodwill calculation. This will reduce the current value of goodwill. The value of the group's non-current assets in the consolidated statement of financial position will increase by B\$0.2 million (translated into M\$). There will be an additional depreciation to charge to the consolidated statement of profit or loss of B\$0.2 million spread over 4 years. None of these adjustments will be reflected in GS's single entity financial statements for the year ended 31 December 2020.

Training costs

The new skills acquired by the guest-facing staff as a result of the customer service training courses will have been expensed in GS's statement of profit or loss in July 2020. Training costs do not meet the definition of an asset regardless if the future revenues are expected to rise. The fair value of the training courses is ignored in the goodwill calculation and having already been expensed, will not be recorded in GS's financial statements for the year ended 31 December 2020.

Contingent liability

The contingent liability will be disclosed in the notes to GS's single entity financial statements and is not recognised as a provision. However, on acquisition the fair value of this contingent liability is deducted from the fair value of GS's net assets acquired resulting in an increase in the value of goodwill. The fair value estimated by GS of B\$36,000 is also recognised as a current liability and is added to the current liabilities of the group in the consolidated statement of financial position. When, or indeed if, the case is settled in the future, the difference between the liability recognised and any cash paid to the guest will be recorded as a post-acquisition adjustment to the consolidated statement of profit or loss.

**MANAGEMENT / GATEWAY CASE STUDY MAY–
AUGUST 2020 EXAM ANSWERS**

Variant 2

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SECTION 1

Requirement 1: Evaluate Sam's concerns relating to the key performance indicators (KPIs)

Sam Singh appears to have two concerns relating to the KPIs used to evaluate his poorly performing HR managers within the Central Division:

1. The KPIs are too generic – suggesting that the KPIs are not specifically controllable by the HR managers.
2. The KPIs do not fairly evaluate the HR manager's performance relating to the management of the recruitment and training of unskilled and low-paid staff.

Employee turnover

Employee turnover provides a measure of employee satisfaction. The HR managers at divisional level have responsibility for establishing suitable wage rates which might influence employee satisfaction. However, unskilled employees are likely to be earning the minimum wage in Maylandia, therefore action taken by the HR managers in relation to their pay is unlikely to affect employee turnover.

Whether staff choose to stay or leave is more likely to depend on factors such as how they are treated by their line managers, the hotel manager and colleagues, for instance.

Unskilled employees are likely to be influenced by money so, if another local employer is offering jobs at a higher level of pay, they may be tempted to join them. If this is the case the hotel manager would recruit a replacement, with HR managers having little influence on the recruitment process other than ensuring that the correct Group HR policies are accurately followed.

It is unlikely that Alpaca would invest in the training and development of unskilled workers as they are relatively easy to replace and do not conduct roles within the hotel that require skill or staff retention.

Sam is right to have concerns in relation to this KPI. In unskilled and low-paid roles at Central, it is unlikely that the HR managers have much influence over employee turnover levels. This is a more appropriate performance indicator for hotel managers.

Revenue per employee

Revenue per employee is calculated by dividing the total hotel revenue by the number of hotel employees.

The number and grade of employees is determined by the hotel manager but must be agreed with the HR manager for the Division to ensure staffing levels are appropriate and within budget. This suggests that the hotel manager determines the ratio of unskilled to skilled staff rather than the HR manager.

HR managers have little control over the revenue generated by the hotels within Central. Unskilled, low-paid staff are often not guest-facing. However, they may be performing roles such as housekeeping and kitchen cleaning which may affect the hotel guests' experience. If these are not satisfactory, hotel guests may leave poor online reviews that deter potential future guests, thus reducing revenues. However, this does not appear to be under the control of the HR managers and would be more suitable for hotel managers.

Recruitment cost per hire

Recruitment cost per hire is calculated by dividing the total recruitment cost by the number of employees recruited. This would be an appropriate performance indicator for the HR function. Although the hotel manager is responsible for establishing the number and grade of employees for each hotel, as a central function for the Division HR managers are likely to be able to negotiate better terms with recruitment agencies to reduce recruitment costs per hire.

Unskilled and low-paid staff are likely to be frequently replaced as they have little loyalty to Alpaca. As a result, minimising the recruitment costs of hiring new staff is important to the Division overall. Monitoring the costs incurred by HR on recruitment provides a good performance measure within the control of HR managers.

Requirement 2: Risk review

Loss of experienced staff in key roles

Experienced staff in key roles such as concierges, head chefs and managers can be invaluable to a successful hotel chain.

A concierge with good contacts to access dining reservations at short notice, can significantly improve the guests' experience and is important for Alpaca to retain its high-end reputation.

If such key staff leave, Alpaca may lose its competitive advantage over other hotels in the area which may result in guest dissatisfaction, poor online reviews and a decline in occupancy rates.

The risk cannot be avoided, as there will always be reasons that staff want to leave, so we could look to reduce the impact of this risk by ensuring that an effective knowledge transfer process is in place as well as a clear succession planning system.

The risk could also be reduced by implementing strong training and development processes including the performance of regular appraisals for key employees with clear objectives being set and evaluated on a timely basis to improve motivation. Key staff should be encouraged to work towards relevant qualifications to fulfil their roles to the highest standard and fulfil personal development goals.

An anonymous staff satisfaction survey could be conducted to identify where and how Alpaca can improve the working conditions of employees.

Injuries to employees from hazardous duties

Injuries to employees from hazardous duties could lead to Alpaca being liable to pay damages for substantial litigation claims made by employees that have had accidents whilst at work. It may also adversely affect Alpaca's reputation if the injured employees disclose hazardous working conditions through media channels.

This risk can be reduced through the implementation of robust health and safety policies and procedures that are monitored. Adequate training should be provided and regularly updated to ensure the correct procedures are being followed with appropriate disciplinary action taken against employees that do not adhere to Alpaca processes.

The risk could be transferred through insurance policies to minimise the financial impact of any claims from employees. Actions including reviewing the adequacy of insurance coverage on a regular basis, perhaps bi-annually and performing a detailed review of insurances with the provider on an annual basis.

The procurement function may wish to offer liability insurances to tender annually to ensure that Alpaca is obtaining the most comprehensive coverage for its needs at the most competitive rates.

Abuse of hotel guests' personal information

The misuse of guests' personal information to commit fraud by Alpaca employees will adversely affect Alpaca's reputation leading to a loss of customers and, therefore, revenue and profit.

The affected guests may make litigation claims against Alpaca resulting in legal fees and damages being paid out.

Alpaca may also receive fines and penalties from the government of Maylandia for breaches of data protection regulations which will also further tarnish the reputation of the company.

This risk can be reduced by implementing strong internal controls such as performing criminal background checks on employees prior to their recruitment.

Additional internal controls relating to the retention and restricted accessibility of confidential information must be implemented. Senior management should monitor compliance with these policies on a regular basis and, any incidences where they are not followed, should result in disciplinary action for the employees involved.

SECTION 2

Requirement 1: Issues in team building with Harper Lane

A team comprising members of Harper Lane's management team and Alpaca employees will work on the restaurant relaunch. Key issues to be decided include:

How to allocate roles and responsibilities between the team members

The priorities of Alpaca employees are likely to differ from Harper Lane's team therefore allocating responsibilities and roles may prove a challenge.

There are team members from two different entities who will be unfamiliar with each other's abilities and working styles to build good working relationships. It is likely that there will not be time for the team to go through the stages of development (such as storming and norming) that lead to a successful and high performing team.

There is no information relating to Harper Lane being involved in the team directly on a day-to-day basis, however he may want final sign-off before decisions are made. This may hinder the team's performance if there is little authority to make decisions and keep the project rolling. Much of the creative control on the new venture lies with Harper Lane which will require his input. This will be difficult if he is not present and actively involved.

To resolve this issue a project manager with strong leadership skills is required that must remain impartial and focus on the collective aim of the successful relaunch rather than Alpaca or Harper Lane's individual agendas.

How to meet the tight 6-month deadline for completion

There is a tight 6-month turnaround before the restaurant is relaunched. The limited time frame may result in a more authoritative approach to project management being taken in order to keep the project to schedule. This is less motivating for team members and may result in conflict and lack of productivity.

A clear action-orientated plan must be developed in response to this issue. There should be clear reporting channels and an understanding of which team member is responsible for which tasks. Regular monitoring of progress should be implemented by the project manager to ensure the timeline is on track.

Method and frequency of communications

Regular communication between team members will be needed to ensure the deadline is met and that all team members are aware of the current status of the project.

Catch-up meetings should be scheduled on a regular basis, perhaps weekly, to keep all team members aware of the current stage of development. This can be conducted in a face-to-face meeting or remotely through conference calls.

Summary

The project team does appear to have the potential of being a high-performing team on paper in that it is a small team with a specific time-limited purpose. However, the key to the successful restaurant relaunch will be the appointment of a suitable project manager who can motivate the team to work together whilst managing Harper Lane's expectations and creative input.

Requirement 2: Pricing strategies

The Mayburgh Principal's key objectives are to improve occupancy rates and increase the average guest spend per stay. Given the increase in upmarket restaurants in the area local to The Mayburgh Principal, it is unlikely that a cost-based pricing strategy would be appropriate.

There are two possible market-based strategies that may be appropriate to achieve these objectives.

Premium pricing

Alpaca has sought to collaborate with an internationally recognised chef who has a strong reputation in high-end dining. A premium pricing strategy would involve pricing the menu at a high level because of The Mayburgh Principal's association with Harper Lane.

The use of the Harper Lane name and his involvement in the development of the menu, restaurant décor and marketing campaigns may allow premium prices to be charged that diners are prepared to pay to eat at a Harper Lane restaurant.

This is certainly a strategy that would fit in with Alpaca's and Harper Lane's reputation as a premium brand with a reputation for high quality.

It may not lead to increased occupancy rates at the hotel as premium pricing can limit the market audience and a stay at the hotel or visit to the restaurant may be considered only for one-off "special occasions", particularly with leisure travellers.

However, it could achieve the objective of increasing the average guest spend per stay for business travellers whose employers cover the cost of the hotel stay and meals, and who choose to eat in the restaurant as they are not paying the premium prices personally. This would depend on whether the business traveller was allocated a budget for the hotel stay by their employer. It is unlikely they would dine at a premium priced restaurant if they had to pay for it themselves.

One of the problems with using premium pricing is that the recent government investment in preparation for the "Year of Culture 2021" has increased the number of upmarket restaurants in The Mayburgh Principal's locality. This increased competition may make it more difficult for the restaurant to charge a premium price as potential diners have many alternative options.

Price differentiation

Price differentiation involves charging different prices to different customer groups.

This could be used to good effect for The Mayburgh Principal to achieve its goal of an increased average spend per stay (particularly for business guests). This suggests that we believe that the mid-week business traveller on expenses will be less concerned about price so, if we can provide a superior level of service, it is likely that we would be able to charge higher prices for this target clientele during the week and increase their average spend by providing a high-quality dining experience that they may use to entertain their own customers or suppliers and charge to their account for their employer to cover the cost.

It could also be used to increase occupancy rates through the implementation of “Stay and dine” packages. These could be offered by the hotel targeted at times when occupancy rates are low to encourage guests to stay at the hotel and dine in the restaurant at a discounted package price. The profit margin on these packages will be lower than for guests booking these options separately but it is likely to increase occupancy rates and attract leisure travellers.

The danger with this approach, though, is that the mid-week guests may find out about the differential pricing and feel cheated and defect to one of our rivals.

Recommendation

In order to achieve the objectives of increasing occupancy rates at the hotel and increasing the average spend per guest stay, the most appropriate pricing strategy to recommend would be a price differentiation approach. This strategy can be used to achieve both objectives for The Mayburgh Principal.

SECTION 3

Requirement 1: Conflict management

The actions of the Head Chef at Harper Lane at The Principal to replace dishes approved and created by Harper Lane with unapproved alternatives and the use of sub-standard ingredients has created a potential conflict.

The negative review published in a leading newspaper has adversely affected the reputation of both the restaurant and Harper Lane himself to the extent that Harper Lane has sought legal action and damages.

An action plan needs to be developed to address this conflict as soon as possible in order to resolve it and to avoid unnecessary legal costs associated with the claim for breach of contract and to improve the ongoing relationship between Harper Lane, Alpaca management and the Head Chef.

Harper is clearly seeking compensation in the form of damages. However, the legal letter suggests that a solution may be found if standards improve, without the need to continue with a court case which will be costly for all parties.

One option is to negotiate a satisfactory conclusion which would involve arranging a meeting to engage all parties directly and provide an opportunity to discuss the issue. This would involve Harper Lane, Alpaca management and the Head Chef attending a face-to-face meeting.

Discussion and negotiations with all parties to reach an appropriate, satisfactory compromise is needed. This is often referred to as a “win-win” solution. There is no additional cost involved in this option. It is unlikely that Harper will want to go to court over the matter as it might actually damage his reputation.

Communication is vital in times of conflict. It is important, therefore, that we are seen to be addressing Harper’s claim seriously and that we keep him involved as we try and work through the issue.

The Head Chef will have the opportunity to explain the difficulties in sourcing some of the key, quality ingredients and ensuring sufficiency to meet unknown demand without unnecessary spoilage through overstocking. Harper Lane may be able to suggest suppliers that he works with to attempt to resolve this issue. Similarly, it may be an opportunity for the Head Chef to obtain approval for alternative dishes from Harper. The Head Chef is a leading chef in Maylandia and could create dishes that would meet Harper’s exacting standards. This will improve the ongoing relationship between Alpaca and Harper Lane and motivate the Head Chef.

As it is difficult to contact Harper Lane, it may be appropriate to nominate a member of his management team for the Head Chef to contact if issues arise with availability of ingredients.

We could try and avoid the conflict by ignoring it and hoping it will go away, though this would not be recommended as he has already sought legal representation and clearly intends to pursue this through the courts.

Another possible option as a method of conflict resolution is accommodating. This is where we would yield, or give in, to Harper's demands. Whilst this might make him happy, the approach would build up resentment between the Head Chef and Harper Lane and may make working together going forwards difficult at the very least or even impossible. As the Head Chef is one of Maylandia's leading chefs, they may become demotivated and seek employment elsewhere which is not in Alpaca's, nor Harper Lane's, best interests.

In summary, I would suggest that we try and negotiate a "win-win" solution with Harper Lane.

Requirement 2: Legal claim

If Harper Lane pursues a legal claim against Alpaca for breach of contract, there may be implications for Alpaca Central's financial statements. The potential impact on the financial statements revolves around the state of the potential claim when it comes to producing the financial statements at the end of the financial year, which is fast approaching. In particular, whether a provision would be required in respect of the claim or a disclosure note being required in the financial statements providing shareholders with details of the legal action brought by Harper Lane, or whether no action is required in the financial statements. The reference to the claim in the accounts is dependent on whether the conditions of IAS 37 Provisions, Contingent Liabilities and Contingent Assets are met.

IAS 37 sets out clear guidelines for whether or not a provision needs to be made in the financial statements and sets out three conditions that would need to be met.

Difficulties are likely to arise in establishing whether these conditions have been met sufficiently to include a provision in the accounts. If it is identified that the following three conditions apply at the financial year-end, a provision for damages of M\$5 million must be included in the financial statements of Alpaca.

1. A present obligation as a result of a past event – this factor may be difficult to establish, however the presence of a legal contract suggests this condition would be met. It may be considered that offering unapproved dishes that occurred on a number of occasions when Harper Lane staff visited would constitute a breach of that contract.
2. A probable outflow of economic benefit – this would arise if legal representatives consider the likelihood of Alpaca being required to pay damages to be greater than a 50% probability. This could be established using previous case precedent; however it would be difficult to verify the probability with any accuracy when Harper Lane has suggested that by improving the standards within 2 months, the contract will continue as normal.
3. A reliable measurement of outflow can be made – this applies when the amount of damages can be reliably estimated. A claim for M\$5 million has been made. This is the potential value of damages that may be due from Alpaca, however it would be difficult to verify that the cost of damage to Harper Lane's reputation is M\$5 million and our legal representation may negotiate with Harper's legal team to reduce this amount to a mutually agreeable level.

Due to the closeness to our financial year end, it is unlikely that a probable outcome could be established by Alpaca's legal team nor a definitive amount that can be reliably measured. The claim is most likely to be disclosed as a contingent liability if Harper Lane continues to pursue this action.

SECTION 4

Requirement 1: Difficulties in determining the net present value (NPV)

There are a number of elements within the NPV calculation that may be difficult to determine for this investment in robotic arms.

Although the initial investment in robotic arms is known at M\$5.1 million, there may be additional costs involved in the process of scanning the human hand movements for replication. These costs would be recurring as there are likely to be changes to the menu on a regular basis but the frequency and cost may be difficult to establish.

The useful life of the robotic arms is also unclear, meaning the duration of the project life for NPV calculation would be difficult to establish. The robotic arms will have a finite life and may need replacing frequently due to the intricate nature of the activities performed and the speed with which advancements in technology occur.

The cost of capital may be difficult to establish as it may be inappropriate to use Alpaca's standard cost of capital percentage for a project of this nature. The level of risk involved may be considered higher than regular capital investments as it involves the use of technology in the restaurant kitchen that has not been implemented within Alpaca previously. Quantifying this risk in a higher cost of capital to reflect the increase uncertainty and risk associated with the investment is likely to be difficult to achieve.

Requirement 2: Financing options

The robotic arm units cannot be acquired using a lease agreement, therefore an alternative source of finance must be sought.

As the equipment will be classified as a non-current asset, a long-term source of finance should be used to fund the acquisition of these items outright.

The two main options of long-term finance are debt finance and equity finance.

Alpaca has low capital gearing and reasonably high interest cover. This suggests that Alpaca has low financial risk at present due to low levels of debt finance.

If Alpaca chose to obtain debt finance to fund the purchase of the robotic arm units, they could apply for a bank loan on the money market to fund the purchase. This is likely to require a fixed charge over an asset to secure the debt. The bank may not accept the robotic arms themselves as security given the bespoke nature of the asset and uncertain resale value. A fixed rate of interest could be negotiated, and loan repayments would be known in advance.

The capital gearing of Alpaca would not be significantly affected by further borrowings of M\$5.1 million as current levels of long-term borrowings are M\$395m. It is unlikely that Alpaca would raise equity finance for this relatively low value capital investment. The costs associated with share issues are too high in comparison with the investment amount.

There may be merit in Alpaca using its cash reserves to fund the acquisition of the robotic arms units. The cash flow statements show an overall net inflow of cash of M\$86 million in 2019 which suggests that there are sufficient cash reserves to fund this investment without the need to source external finance.

However, there are a number of other possible large investments under consideration by the Board which suggests they may have allocated these cash reserves to other projects.

Requirement 3: Challenges in maintaining employee engagement

When the robotic arm units are installed and fully operational, 70% of the kitchen staff will be offered redeployment in other group hotels reducing the operational costs of The Mayburgh Principal by M\$2 million per annum.

This may result in resentment and demotivation in the remaining kitchen staff which, if not managed appropriately, can lead to dysfunctional behaviour such as deliberate errors in food production, inefficient work ethic and an increase in staff absence through sick days. This could result in lower efficiency levels and have the effect of increasing costs, depleting the returns that we would expect to achieve from savings arising from our robotics investment.

The employees are likely to be concerned for their jobs as they feel that they may be next. Even the remaining skilled workers are likely to be worried as improvements in robotics over even a short period of time could result in more advanced versions being able to take over some, or all, of the remaining skilled jobs. Another factor is that, with only 30% of the kitchen workforce remaining, it makes it much more difficult for working relationships to develop and nurture.

To maintain employee engagement in this transitional period and beyond, it is important that communication channels are open between restaurant management and staff. All kitchen staff should be made aware of the rationale behind the introduction of robotics in the restaurant kitchen and the benefits it provides.

Harper Lane could be encouraged to include the remaining skilled kitchen staff in the development of the new menus to increase engagement. It may be appropriate to ensure these remaining employees are enrolled on training courses and undergo continuing development to increase motivation and staff retention rates.

MANAGEMENT / GATEWAY CASE STUDY MAY– AUGUST 2020 EXAM ANSWERS

Variant 3

These answers have been provided by CIMA for information purposes only. The answers created are indicative of a response that could be given by a good candidate. They are not to be considered exhaustive, and other appropriate relevant responses would receive credit.

CIMA will not accept challenges to these answers on the basis of academic judgement.

SECTION 1

The commentary section is the hotel manager's opportunity to present their view on the hotel's performance. We could therefore argue that they are justified in making their comments, but this does not mean that the comments explain the disappointing ratios.

Given that the hotel's performance has been poorer than the previous year, the manager is inevitably going to wish to protect their own position and that of their staff. The manager has therefore chosen to deflect the discussion by focussing on the fact that the hotel's performance depends, in part, on matters outside his or her control. To a certain extent this view is justified.

Gross profit margins have fallen. This could be caused by costs rising, and/or costs remaining static whilst revenues fall. It is likely that the fall in spring guests will have affected profit margins as many costs, at least in the short term, are likely to be fixed. The operating profit margin has fallen more than the gross profit margin. The advertising campaign may have caused this, at least in part, and this was decided by the divisional team not the hotel manager.

In the spring quarter, revenue has fallen more sharply than occupancy rates. This may be because Alpaca has been discounting room rates in order to attract guests. The APAS pricing software takes account of factors such as competitors' rates and the number of vacant rooms, so if the hotel has a higher level of vacancies the pricing system may well respond by cutting prices.

On the other hand, the commentary is concerning because it does not indicate that the hotel manager is reflecting on the results and actively looking at how they could improve the performance of themselves and their team in order to improve them.

For example, although the pricing of the hotel rooms is determined by the APAS software, a factor in determining the price is the level of occupancy. The manager is responsible for the overall guest experience, and if guests are not happy with the quality of service they receive at the Alpaca Sandsea, this will be reflected in occupancy levels and also room prices. There is no indication that the hotel manager is carrying out any

kind of review of guest satisfaction or considering how this might be improved. Possibly a feeling that too many factors are outside their control has had a demotivating effect.

Further investigation is needed to gain a more realistic insight into the performance of the hotel managers.

It would be helpful to have more than one previous year's data to consider as there may have been some unusual factors making last year's occupancy rates higher than normal.

It would also be useful to see customer satisfaction ratings for the hotels, which could be based on the Visitadvisor ratings. If customer satisfaction is falling, or is lower than that for local competitors, this could help to explain why occupancy levels are low. Guest reviews might refer to specific problems which could be overcome to encourage bookings.

Staff turnover would be another helpful measure, recruiting and training replacement staff will add to costs. If the hotel manager has a problem retaining staff, this might also indicate that staff in the hotel are not happy, which could easily mean that they do not appear cheerful to guests, which could in turn impact on the guest experience.

Returning customer levels would also be a useful measure, particularly over a number of years. If fewer guests are returning to the Alpaca Sandsea hotel, then finding out why would be a step towards rectifying the problem. Similarly looking at average length of guest stay would be useful, as there may be a trend that guests are staying for shorter breaks, which would not only reduce revenue but also increase costs.

The purchasing managers may have less motivation to negotiate low prices for the goods they need. They will be able to recharge all purchases at cost plus 15%, so they have nothing to gain by reducing costs. This would, however, have an adverse impact on Alpaca as a whole. The purchasing managers may also currently have a close working relationship with hotel managers in their division, and also with local suppliers. If the purchasing managers are part of a central team, their links to local hotel managers and suppliers may weaken. This could have an adverse impact if sourcing fresh local produce is an important factor in the hotel guest experience.

There may also be positive impacts. The purchasing managers will be working more closely together which may help them to communicate and implement best practice. There may also be considerable cost savings to be achieved by buying in greater bulk for the Alpaca Group as a whole rather than as each individual division. Suppliers may also work harder to provide a high-quality service to the group. These impacts could help to motivate the purchasing managers if they believe that their actions have improved the prices and quality of goods Alpaca is sourcing.

The hotel managers could take the view that the new central procurement policy could have reduced their autonomy and influence. This may also reduce their motivation, and that of their staff, such as hotel chefs. If the managers believe that the new policy is unfairly reducing their profitability and restricting their choice of food ingredients, they may make less effort to improve the profitability of the hotels. They may feel there is little point controlling the costs which they can influence, if profitability is going to be diminished by a policy which disempowers them and their team. Staff turnover may increase if they become disillusioned, which could lead to competitors benefitting from their knowledge and expertise. We saw in the commentary that the Sandsea hotel manager was very focussed on the reasons why poor performance was due to factors outside his control. Centralised procurement could increase this tendency.

There is a competitive market for the produce the hotel managers need. They are not going to feel it is fair to pay a centrally set price higher than this market price. It is possible that regional variances in prices make the central recharge prices attractive to hotel managers in expensive areas, such as the capital city, but too expensive for managers in cheaper areas like the south. Sometimes there may also be good commercial reason for buying externally. If a hotel manager can attract customers by offering menus based on local ingredients, they should be free to do so and preventing this could have a demotivating effect.

Behavioural implications could also include hotel managers potentially going against the centralised procurement policy and buying local ingredients if they continue to be measured on profitability. This could have a knock-on effect, the price of centrally procured goods for other divisions may rise if volumes fall.

SECTION 2

Forecasting demand will be difficult so it would be advisable to use several different data sources if possible. One useful source would be the marketing material produced by Alpaca's competitors who also offer all-inclusive packages. Their brochures would include details of prices and what is included in the all-inclusive deals. This may vary from food and drink at particular times of day to 24-hour provision. Some hotels may include other services in their all-inclusive rate such as sports tuition, spa treatments and local tours. Understanding what is offered by competitors will help Alpaca understand what they would need to offer in order to compete. This will, in turn, help to forecast the revenues which can be expected from the all-inclusive offer.

Social media is another useful source. There will be reviews on Visitadvisor for the hotels which compete with AHG south and also some posted by our own guests. There may also be online forums for our competitors' guests.

Alpaca could also review the financial statements of competitors who offer an all-inclusive package. For example, it should be possible to carry out ratio analysis on a hotel or group of hotels which has adopted an all-inclusive model and see if this has improved revenues and profit percentages. This analysis could be used to support a revenue forecast for Alpaca South.

Alpaca could use a third-party market research company specialising in the hotel sector, who could be better placed than Alpaca staff to search for relevant data and use it to predict future behaviour.

It is possible that a single data source could be misleading, for example a hotel could manipulate its online reviews, therefore looking at a range of sources will help to build a more accurate picture.

Marcus appears to believe that the revenue for all-inclusive packages can be recognised as soon as payment for the holiday is received. This is not in accordance with IFRS 15, which sets out a five-step process which Alpaca must follow.

The first step is to identify the contract. This requires both Alpaca and the guests to have committed to fulfilling the contract, with identified rights and payment terms. It must be probable that Alpaca will be paid and the contract must have commercial substance, these criteria should be easily met at the point when the guest pays for the all-inclusive package. When they have just paid a deposit, they may change their mind, so there may not be a probability that Alpaca will be paid. The deposit may be non-refundable but may also be relatively small.

The second step is to identify the separate performance obligations within the contract. The performance obligation is for Alpaca to provide an all-inclusive holiday. This step would be straightforward - all-inclusive package contracts are usually quite detailed and will specify the dates of the stay, what food and beverages the guest is entitled to, what services require additional payments and the grade of the room.

The third step is to determine the transaction price. This should be clearly stated in the contract with the guest. There is one price that covers all the performance obligations.

The fourth step is to allocate the transaction price to the performance obligations in the contract. In the case of an all-inclusive holiday, it would be reasonable to allocate the transaction price over the length of the holiday, or to recognise it at the end of the stay.

The fifth step is to recognise revenue when the performance obligation is satisfied. The performance obligation cannot be satisfied until the guest stays at the hotel for their holiday. The performance obligation cannot be satisfied at the point when the guest pays for the package, as they have not at this point had their holiday.

Compliance with the fifth step means that Alpaca must recognise the revenue for each holiday over the time of the holiday. So, the revenue for a 2-week holiday would be recognised over the 2 weeks of the holiday.

Marcus is therefore incorrect in his view that the revenue can be recognised at the point where the guest pays for the holiday, some of the steps have been met at this time but not, crucially, the performance obligation.

Although Marcus may be disappointed by this, he should be reassured that the impact on the Alpaca Group's financial statements is only one of timing. The revenue from the all-inclusive packages will all be recognised, but at the time when the holidays take place. If Marcus's approach were implemented, the revenue would be recognised earlier and could therefore improve the results of an earlier year. If Marcus is correct and Alpaca South has improved revenues as a result of the all-inclusive launch, his results will improve accordingly, just not quite as early as he had hoped.

SECTION 3

One key matter is that this project will require a large team with a wide range of skills. Contractors will be needed to carry out the construction work.

Designers will be needed to work on the renovated interiors and make sure they are in line with Alpaca's house style. The food and beverage managers will need to plan the food and drink to be offered and leisure staff to plan activities. The marketing team will need to know what is offered so that they can advertise appropriately. Project management will therefore need a high level of coordination, and it would be appropriate to develop a comprehensive project plan. The plan would help everyone to know when their input is needed and what stage the project is up to at any particular point in time.

The timing of this project will also be very important. In order to market the new all-inclusive deals, a date will need to be fixed for the hotels reopening with the new model in place. If this deadline is missed, or hotels open without all their facilities available to guests, the hotels will receive poor reviews. Soft openings may be needed to test any new facilities. In addition, any time when the hotels have to be closed will need to be minimised and as far as possible to occur when occupancy is expected to be low. If work is carried out when guests are in residence, then disturbance to them needs to be minimised.

Our project planning needs to produce a plan which will support communication with all the staff and contractors involved, so that everyone is aware of their responsibilities and activities are coordinated. It also needs to provide a solid basis for measuring progress against milestones.

The need for strong communication between many different staff and contractors means that an experienced project manager should be appointed, ideally one with a track record of managing hotel refurbishment projects. Appropriate project management tools should be used to facilitate communication between team members and ensure accurate timing of work.

These could be simple, for example a Gantt chart would be helpful, Project management software can automate some of the work and reduce the effort taken to produce tools such as network diagrams and Gantt charts. It can also assist with resource allocation, and the creation of project budgets. Once the project is ongoing, the software can provide links to all team members and also a central store for project results and documentation. The software will be able to automatically compare actual progress to the plan and help to plan revisions when needed. It will provide reports which can be accessed by all team members.

Given that this is likely to be a complex project, it would be inadvisable to proceed without appropriate software. PRINCE2 is a popular methodology which could be suitable. Using a single methodology for all the hotel renovations will mean that users can become familiar with the tools and reports, which will be helpful since several hotels are to be renovated.

Ideally, we should aim for a win-win approach to the negotiations. This will mean that both sides should gain, and both sides will attempt to reconcile their differences. However, in this case this is unlikely to happen, the best we can achieve may be a

compromise where we keep our bars and restaurants open as much as possible and local establishments suffer as little lost trade as possible.

We need to clarify our own preferred position which is presumably that we want our guests to be able to use our all-inclusive facilities at any time. We can then have initial discussions with the licencing authority, listening carefully to their views as well as getting our own points across.

We also need to understand what power the licencing authority has. Presumably they could withdraw the licence of a hotel, but this would be a draconian action. In any case we will have ongoing interactions with the authority so will wish the relationship to remain amicable.

We may be able to offer some concessions which would help to minimise the loss of trade to local bars and restaurants, for example agreeing to offer their details to hotel guests wishing a “change of scene” for an evening, or organising trips out for guests including refreshments at another restaurant.

We will need to convey the decision to all interested parties within Alpaca and ensure that everyone respects what has been agreed and works within any agreement that we reached with the authority.

SECTION 4

We need to decide what we want our pricing strategy to achieve. Do we want to adopt a profit maximisation model, or to set lower prices than our competitors in order to gain market share? The pricing strategy we adopt initially may not be the one we wish to use long term.

Broadly our choice is to use a profit maximisation model, to take a cost-based approach, or a marketing-based approach. If we use profit maximisation, we would deploy a mathematical model to determine an optimal selling price. This is unlikely to be appropriate here as we are unlikely to be able to determine the demand function for the all-inclusive product with any degree of accuracy.

We could adopt a cost-based approach, adding a mark up to the cost of the product. One problem with this approach is that it may result in a price which is well above or below what guests are prepared to pay. Another problem is that the fixed costs will be spread over the number of resident guests, and this will fluctuate. This would, in theory, lead to us charging more when occupancy is low. It would make more sense to charge the highest prices when demand for the hotels is highest such as during children's summer holidays. Rooms are likely to need to be heavily discounted during quiet months. The information we have would help us to adopt a target costing approach. We can see that using our current budgeted gross profit margin we would need to charge M\$2905 for a two-week family holiday. This is unlikely to be feasible, as we know that the Beach Plaza hotel has 5 stars compared to our four stars and charges M\$2500 for a similar holiday. We would therefore need to accept a lower margin or reduce our costs in order to achieve an acceptable margin at a price which will attract guests. Target costing could help us to achieve this, there may well be costs which could be reduced without also reducing the perceived quality of the guest experience.

This leads us to consider a market-based pricing strategy. If our product is superior to that offered by our local competitors, we could adopt a premium pricing strategy. The focus on maintaining high standards implies that this might be successful, as the marketing of the hotels could focus on the superior quality food and service guests will benefit from. Market skimming could be possible, but this might alienate guests who find that others in the hotel have paid less than them for a similar room. Penetration pricing would mean pricing very low in order to establish market share. It is likely that we will have to begin with prices which are lower than we intend to charge longer term especially as early guests may face teething problems with the new all-inclusive offering. This could, however, lead to difficulties in raising prices later. Given that all-inclusive hotels can have a "cheap and cheerful" image, Alpaca would need to be very careful that a low price is not perceived to be linked to a low-quality guest experience.

A market-based pricing strategy is probably our best starting point. We may begin by setting prices below that of our competitors in order to attract guests and build positive online reviews. Target costing could help us to reduce costs to an appropriate level. Once we are established in the market, we could seek to raise prices to the point where they hopefully reflect our superior product.

All-inclusive hotels can have a reputation for serving cheap food in canteen-like buffet restaurants, and low quality generic alcoholic drinks. They may therefore attract customers who prioritise having a low-cost holiday with plenty to eat or drink. However, there are also all-inclusive hotels which provide high quality food and drink, charging correspondingly more.

The quality management techniques we need to use will depend on how Alpaca wishes to position their hotels in the market. Some standards must be maintained, such as those associated with food hygiene. Alpaca must ensure that their staff are all appropriately trained and must cooperate with food hygiene inspectors. Regular in-house inspections should also be carried out.

The all-inclusive model may mean that the hotel restaurants do not offer dishes made with premium cuts of meat, and that cocktails are made using pre-prepared bases and unbranded spirits. But the food should still be well prepared and served at an appropriate temperature. Staff should be polite and friendly to guests. Again, staff training, and internal inspections are important. Mystery guests could be used.

Quality circles could be an important technique to use here. Staff would regularly look at potential issues that might put our quality standards in danger or seek to address a particular quality issue. Quality circles are made up of staff from different departments and at different levels in the hierarchy. The idea is to ensure that we have the collective capabilities to sort out problems and to ensure that quality is seen as important, regardless of our position in the company or which department we work for. It stresses the fact that we all have a responsibility for quality.

Our management accounting systems can help by providing reports and measures which will support managers in improving quality. These reports can focus on non-financial, such as Visitadvisor reviews and the number of guest complaints, as well as financial factors.

Looking at the concept of the cost of quality is important too. Maintaining quality standards is not just about putting something right if it goes wrong. This could prove extremely costly and it is often too late as the damage has already been done. Instead it is worth spending money to make sure that things are right first time (often referred to as conformance costs) so that less money needs to be spent to put them right after they've gone wrong (non-conformance costs).

Another way of controlling quality is by regular communication. This could be in the form of team meetings, updates on the intranet or more formal reports. The key thing is to keep everyone in the loop with what is going on, reminding them of the need to consider quality at all times and sharing progress against any known quality issues. Again, the key focus is on ownership and encouraging people to work together in the best interest of the organisation.

We could also use quality inspections, carried out either by Alpaca staff (perhaps from another region) or independent consultants. They would work to an agreed checklist and identify compliant and non-compliant items, together with the corrective action needed.

MANAGEMENT / GATEWAY CASE STUDY MAY– AUGUST 2020 EXAM ANSWERS

Variant 4

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SECTION 1

Business risks of the proposed arrangement

Product, reputation and operational risks that would be associated with the Flyshift deal.

There are a number of risks associated with the proposal.

Flyshift provides affordable package holidays to young adults who like to travel in large groups. Alpaca operates luxury hotels that are 4 and 5-star rated. If the proposal goes ahead the reputation of offering cheaper holidays may affect the current brand image of the group. Loyal guests who return to Alpaca's hotels because they value the quality of service and atmosphere created, may not want to book in the future and ultimately occupancy levels will fall.

The proposal is to set aside 30% of the rooms at the hotel for Flyshift's guests. The current occupancy levels are around 75% and so the hotel may have to turn away other guests who may have paid a higher price than Flyshift (as it cannot operate at over 100% occupancy). This will reduce revenue and operating margins.

Flyshift reserve the right to cancel rooms with no payment and giving 10 days' notice. This does not give the hotel manager much time to rebook any rooms that are not booked by Flyshift. This could lead to many issues. Firstly, financial as the revenue reduces and secondly a waste of resources. The hotel manager will have set staffing levels to accommodate the occupancy levels, especially for housekeeping and kitchens, and also ordered supplies of food and drink that may now not be used. Additional supplies from head office for towels and linen as well as crockery and cutlery will be surplus to requirements. This wastage will lead to losses.

The other issue that arises from the proposal is the fees. Flyshift want a 20% discount on the current room rate. This gives two issues. Firstly, the reduced sales price might not cover the expense of offering the level of service shift requires leading to losses. Secondly, if the existing guests have paid more for their rooms, and they find out about this reduced rate, they will also be demanding a discount. This will lead to reduced margins in the future.

The request to provide dinner and breakfast on a half-board package means that the dining areas of the hotel will be busy in the mornings and evenings. The younger

guests who like to travel in large groups will occupy parts of the dining areas and therefore they may be very busy at certain times and this means excessive noise and potential problems with guests having to wait a long time for their meals after ordering.

The risks may be mitigated in the following ways:

Alpaca could avoid all the risks by rejecting the proposals suggested by Flyshift or amending them. For example, Alpaca could suggest that the discount is less than 20% and that the number of rooms set aside is reduced from 30% to a more manageable 15%–20%. It would be sensible to carry out further financial analysis to determine the impact on the hotel's profitability before doing this.

If Alpaca finds that the proposal is acceptable from a financial perspective, then it may accept the fact that they may lose some of their existing clientele and that the 4- or 5-star rating may be reduced.

There are two ways of mitigating the risks associated with the cancelled bookings. Firstly, Alpaca could take out an insurance policy to cover the amount of lost earnings. This may not be possible and if it is, the premiums paid to the insurance company may be relatively high and so not worthwhile. Alternatively, the hotel manager may be able to provide last-minute deals at reduced prices to try and earn some revenue from the empty rooms. There may be some online companies who specialise in offering these for a fee. The hotel manager would have to be given permission to set the price by head office.

The hotel could use agency staff instead of full-time staff to provide help for the Flyshift rooms. The kitchen, bar and housekeeping roles are low skilled and should be found relatively easily, especially in the summer months, from a recruitment agency. The hotel would have to pay more per hour for hours worked but there is the flexibility of recruiting at short notice and not incurring lots of salary costs and have idle staff.

To avoid the wastage of supplies, perhaps the hotel manager may be able to buy some of the food and drink from a supplier on a sale or return basis. This means that when the room bookings fail to materialise the orders can be stopped and this saves costs.

For the challenges faced in the dining areas at busy times the hotel could operate separate dining times and perhaps separate the dining areas for Flyshift and other guests. The Flyshift guests could have a buffet breakfast served in one dining area as this will keep the costs lower and also means that the serving staff are then available for other guests. In the evenings, there could be two sittings for dinner encouraging the younger guests to dine between 18.00 and 19.30. This would leave them time to enjoy the bar. The other guests could be offered dinner from 19.30 to 21.30.

The challenges associated with communicating with Maylandia Travel

Maylandia Travel makes many guest bookings for the Grand Hotel and so the relationship that Alpaca has with this agent is important to the success of the group. Maylandia Travel should not have heard about Flyshift's proposal yet as the letter has been sent to Alpaca privately. It is important that Maylandia Travel does not find out about the proposal from other sources before Alpaca has had an opportunity to discuss it first and address any concerns they may have. The agreement has not been finalised yet, so the points in the proposal may change. The other challenge will be to make sure that there are no leaks via social media from staff, suppliers or customers of Flyshift. Alpaca does not know the extent of the knowledge of this proposal and

once the news is on social media it would be very difficult for Alpaca to control the speed and extent of the coverage.

Therefore, it would be sensible to hold a meeting in person with the senior management of Maylandia Travel as soon as possible so they hear it from Alpaca first. It would not be acceptable to inform them by email as this may be open to misinterpretation and does not allow Alpaca to address any concerns they may have immediately. This may be difficult to arrange without having an excuse for the meeting so perhaps this should be scheduled as a quarterly review.

It would be best not to mention the proposal as part of the agenda for the meeting to avoid any hostility at the beginning.

The meeting should be scheduled to allow sufficient time to discuss all issues and it should not be rushed. We should contact their management team before the meeting to make sure that there is sufficient time to consider the proposal.

In the meeting it needs to be emphasised that the arrangements have not been finalised yet and that the proposals are simply proposals and may change. It would be sensible to start with any positives that the arrangement may bring. For example, having more guests in the hotel may improve the reputation of the hotel as a desirable holiday destination and the marketing that Flyshift undertakes may increase the appeal of the hotel generally and therefore more bookings may be made through the agent.

Maylandia Travel will concentrate on the negative aspects of the proposal from their point of view. These will include the change in atmosphere and the fact that there may be insufficient capacity to accommodate Maylandia Travel's guests. Responses could include offering upgraded rooms with sea views to all guests and a dedicated customer service team for their guests. Maylandia Travel's senior managers may want additional time to think about the issues. We should be prepared to hold further discussions with them in the future.

At the meeting we need to stress the importance of the relationship between the two companies. Maylandia Travel need to feel valued. The management team may need time to consider the proposal and want to discuss it with colleagues back in the office. We should expect further feedback and should suggest a follow-up meeting or call for this.

SECTION 2

Flyshift's suitability as a major customer of Alpaca

Performance

Performance indicators help to determine whether Flyshift is a successful business and this is an important feature when deciding whether Flyshift would make a suitable customer.

We are not told how long Flyshift has been trading but we know it is a relatively new airline. The performance indicators suggest that Flyshift is performing less well than the other businesses in the industry, except for the revenue growth which is significant. This may indicate that Flyshift has not been trading for as long as its competitors and is experiencing rapid growth in revenue in the early years of trade. Being a newly established business may be of concern to Alpaca as any entity that does not have a proven track record of success through previous years' financial statements may be a risky business to enter into an agreement with.

The operating profit of Flyshift is lower than that of the airline industry. This may be for one of two reasons. If Flyshift has not been trading for many years, it will be experiencing high levels of expenditure on, say, marketing to establish itself in the market. The increase in revenue may have been achieved with this expenditure and so the margins will be relatively low at present but may rise in the future as the brand name is more established and the marketing costs reduce. This would indicate that the airline is going through a growth phase and this is a good for Alpaca. Alternatively, it could be because Flyshift is not as successful in controlling its operating costs as other businesses in the industry. To comment further, it would be useful to have a more detailed statement of profit or loss.

Flyshift may have lower operating margins because the business incurs expenditure on providing excellent customer service compared to others in the industry. One of the highest costs for airlines is the price of fuel. This fluctuates as the price of oil changes and the low margins may have arisen because Flyshift bought fuel when the market price was high. This would have affected the airline industry generally but Flyshift may not have managed their exposure to the price volatility as well as other companies. The return on capital employed (ROCE) is lower for Flyshift than the industry. This may be because Flyshift have lower profits as discussed above and identified by the lower margin. Alternatively, Flyshift may have invested in new aircraft and other equipment this year and this has not had time to generate a return. This may be particularly true if Flyshift is a new entity compared to others in the same industry whose asset may have been held for longer. This would potentially make Flyshift a sound business partner as the new assets would be efficient and the need to replace them would not be immediate.

There may also be different accounting policies used within the industry. For example, Flyshift may choose to revalue its non-current assets and this would reduce the ROCE compared to other businesses that do not follow this policy.

Liquidity

Alpaca would be a supplier to Flyshift so it is important to consider Flyshift's ability to pay us.

The liquidity ratios for Flyshift are worse than the industry average suggesting that their ability to pay creditors quickly may be poor. In particular, the current ratio is less than one. This may be due to a distortion close to the year-end where supplies like fuel were acquired on credit and this has increased the payables. For Alpaca the more worrying ratio is the payables days which suggests that trade payables are paid, on average, 51 days after the purchase is recorded. This is an average, so for some payables this may be even longer. Alpaca will not want to wait for nearly 2 months before being paid by suppliers as it will not be able to cover employment costs that are payable to staff each month. It is also a concern that this ratio is worse than the industry average. There are two potential reasons for this. It could be because Flyshift are a much larger airline than the average and so they have more buying power and can make the suppliers wait for payment. This would not be good for Alpaca. Alternatively, and more likely as this is in line with other performance measures listed here, it has low cash resources because they have been growing, leaving little cash to pay the suppliers. This would be of concern to Alpaca.

Alpaca should ask about credit terms and demand to be paid quickly. Of course, this is not always guaranteed. Again, if we had previous years' financial statements, we would be able to determine whether these figures are unusual for this year or not and whether there is likely to be an issue for Alpaca.

The major worry is that these poor liquidity ratios, along with the substantial revenue growth could indicate overtrading. This is when the business is growing too quickly and has insufficient working capital to cope. The concern for Alpaca is that Flyshift cannot pay its debt and the business is liquidated. This would leave Alpaca with no arrangement and therefore unoccupied rooms and cash owed.

Gearing

Gearing gives an indication of whether Flyshift will continue trading for the foreseeable future.

The gearing level suggests that Flyshift holds a considerable amount of debt, but this is usual for the airline industry. This may be because Flyshift have considerable non-current assets (buildings and planes) that are acquired through long term leases or from issuing debt. The concern for Alpaca would be that should this level of debt rise and Flyshift become unable to pay it back, the business is not a going concern and will be liquidated. As Alpaca would be an unsecured trade payable, the likelihood of being paid any monies owed would be slight and there would be a large number of unoccupied rooms.

It would be useful to know when the long-term debt is due to be paid back to give us an idea of the level of risk.

Without knowing how long Flyshift has been trading and without the detail that the financial statements provide, it is difficult to determine Flyshift's suitability as a business partner.

Implications for the business model

Alpaca's business model has four key areas. If this proposal is extended to other hotels in the group, the implications for the business model will need to be considered. There are challenges for Alpaca if they want to keep the existing model.

Defining value

Alpaca aims to meet the developing needs of the guests for hospitality services associated with leisure or travelling for business. If the Flyshift arrangement is extended to other hotels this means that there will be different types of guest in each hotel. There will now be guests travelling in small parties and business travellers as before and now also young adults who like to travel in large groups. Trying to meet the needs of all guests in each hotel may be challenging and the result is that none of the guests are satisfied. This would lead to brand confusion.

Creating value

Alpaca currently aims to create value by creating a calming and attractive environment at each of its hotels. The hotels are considered to be at the luxury end of the market with most being at least 4-star and some being 5-star establishments. The younger guests travelling in large groups through a budget airline may be looking for cheaper holidays and the hotels will need to reduce the quality of service to reduce costs. The younger guests may be looking for more onsite entertainment like live music and beach activities. This may change the environment of the hotels and the business model would need to be changed.

Delivering value

Alpaca delivers value by creating an identity that is familiar to guests, even if this is their first visit to an Alpaca hotel. This suggests that returning guests know what to expect at each visit and that the level of service does not change. New guests would know the reputation of Alpaca and expect the service to be similar to other hotels in the industry claiming to be at the same 4- and 5-star grading level.

To accommodate Flyshift's younger guests, changes to the hotels will be required. The half-board packages will mean that Alpaca may need to consider more buffet-style dining and this may not be acceptable to the type of guest who currently uses Alpaca hotels. In many hotels there are restaurants and the younger guests may not be prepared to pay the existing prices. Reducing the prices of rooms offered to younger guests will mean that to maintain margins there may need to be reductions in expenditure and so common areas like receptions and lounges may not be of the standard they are now.

Capturing residual value

We are told that Alpaca is a major employer in Maylandia and offers careers for those in the hospitality business and providing jobs for unskilled staff. The proposal of offering package holidays to younger guests still requires a number of staff to be employed and may even increase the number as the level of occupancy is likely to increase (hopefully to near 100% occupancy). The business model would be the same.

It is likely that the skills of the staff may change, though. Younger guests may not have the disposable income of existing guests and so the room prices they pay will reduce. This reduces the margins of Alpaca and so costs would need to be cut if financial value is to be maintained. Lower skilled and therefore cheaper staff may have to be

employed. The types of roles may change too with more emphasis on staff to deal with the younger clientele's needs like music venues, beach facilities and cheaper dining. Alpaca may currently attract those wanting a career in a more upmarket hotel chain. The change in the business model may deter high quality potential staff and this would mean that the guest experience may change. Alpaca may also face a higher turnover of staff.

It may be that the market is changing, and Alpaca should be considering whether the target market needs to change. If this is the case the business model may need to be changed too.

SECTION 3

Issues to consider when managing the relationship between our costs and the price offered by Flyshift

The price offered by Flyshift is lower than the price our other guests currently pay. In order to maintain the margins for the hotel and the group, the cost of providing the holidays to Flyshift guests will need to reduce. There are different techniques that Alpaca can use to achieve this.

Activity based management (ABM)

This is a technique that is used to manage and possibly transform costs. It uses activity based cost information to find ways of reducing the current costs. Alpaca would need to identify those activities in each process that add value or those that are unnecessary and don't add value. One of the activities is the provision of hotel rooms for younger guests. We would need to identify the costs that are incurred that add value and those that don't. To do this we should identify costs that do not need to be incurred to keep the guests happy. For Alpaca, the level of service required by existing guests looking for luxury accommodation is different to those younger guests of Flyshift so perhaps we need to think about what we offer at present and then see if the cost is essential. The management of Alpaca, with input from the operational staff, must determine which services are critical to make sure we get further business from Flyshift. In fact, employee empowerment is considered important for ABM.

For the rooms offered to Flyshift guests, we identify the value adding costs. These include the basic provision of the room including clean laundry and towels. However, we may be able to reduce the costs of laundry by perhaps changing the sheets less frequently than once a day, unless required. The towels can be used for more than one day too and we could ask guests to leave a note for housekeeping to identify if they are happy for this each day. The quantity and quality of toiletries provided may also be reduced. As long as the essentials like soap and shower/bath gel and shampoo are provided, the rest could be made available upon request. The quantity of complimentary tea and coffee could also be limited to encourage guests to buy more drinks in the bar. This may save some costs and reduce wastage of resources.

The other key area of costs to consider is the food. One of the cost drivers is the amount of waste and the main issue is that perishable foodstuffs are wasted if overbought and are unused by the kitchen. Offering a limited choice and reduced quantity of food items on the half-board menu may be the solution. We are told that a three-course dinner will be offered but this could be reduced to two courses and then ask guests to pay for a third course if required. There is no suggestion that drinks are being offered with the meals. We may be able to charge these at a slight premium to recoup some of the costs.

It is difficult to know what the guests may consider essential until we have served the first guests from Flyshift. However, we should discuss these points with Flyshift before the final arrangements are agreed.

Target costing

Target costing is another technique to manage the relationship between costs and the price offered. We start by finding out the price Flyshift are prepared to pay us for each

guest stay and deduct our usual operating margin. This then leaves us with the target cost we need to achieve and then we will reduce our existing costs to this amount. Target costing will ensure that we maintain our existing margins. We would then communicate with Flyshift to determine what they consider to be essential service levels the guests require. It may be wise to ask them before explaining what we offer otherwise they will suggest everything we currently offer our guests should be offered to theirs too. At the moment, we believe that the cost needs to reduce from M\$536.62 to M\$480. This is about M\$57 for two guests for a week sharing a room. Some cost saving measures for laundry, refreshments and toiletries mentioned for ABM will apply here.

Negotiating with Flyshift

It seems that Flyshift want a level of service for their guests that we may struggle to offer without the risk of incurring additional costs that are not covered by additional revenues. Alpaca would then be entering into a loss-making arrangement that does not add value to the group. Formal discussions will need to be held with Flyshift.

The aim of the discussions will be to try and agree on an acceptable level of service for their guests at a price that will cover the costs and maintain the current operating margin.

Flyshift seem to want to work with Alpaca as the approach was made to us. If we are to be successful in getting a good deal, then the discussions need to be friendly. A good starting point is to make Flyshift believe that Alpaca is the best hotel chain to accommodate the package holidays their guests require and that there are not many others in the resort that will match our level of guest service.

Before we start discussions, it would be sensible to prepare for the meeting with Flyshift. This involves gathering information about what we would like to negotiate. Here it is the price Flyshift are prepared to pay for the package holidays. Alpaca staff attending the meeting will collect some financial data that breaks down the costs of each element of service. The appropriate margin will be added and a minimum sales price will be determined. This could be done for a range of potential standards of service. For example, Level one would offer room cleaning twice a week, fixed one-course dinner and the guests provide their own toiletries. Level two may be fresh laundry twice a week, a more varied menu perhaps with a two-course dinner and limited toiletries provided. Level three could offer more. The detailed costs of each of these options and a suggested price that guarantees Alpaca a margin, may then be calculated. The negotiators need to know the constraints of the various levels of service.

A good starting point at the meeting is to make Flyshift believe that Alpaca is the best hotel chain to accommodate the package holidays their guests require and that there are not many others in the resort that will match our level of guest service. A friendly opening position is more likely to get us the outcome we require.

At the meeting both sides will present their starting positions. Flyshift want to make sure they pay the minimum price possible for the service they require. Alpaca want to receive the highest price possible to cover costs and maintain a margin. Alpaca will start by proposing the level of service that gains the best price and margin for the group (knowing from the information collected in the preparation stage, the lowest they

would accept to make a profit). Flyshift will start with a low price and the negotiation process will find an agreement somewhere in between.

Once discussions have started the purpose will be to close the gap between Flyshift's price and Alpaca's price. Alpaca must listen to what Flyshift want even though Alpaca will persuade Flyshift to pay the maximum price possible for the service they require. This may involve explaining Alpaca's strengths and making Flyshift believe that there is no other hotel chain that could offer the package holidays. This could be backed up by showing Visitadvisor and guest survey reviews to show the quality of the hotel. The analysis prepared before the meeting will be useful to identify what level of service Flyshift may settle upon. We must be prepared to find trade-offs (wins and losses) so both parties get something out of the deal.

If Flyshift expect a standard of service that cannot be provided by Alpaca for the price Flyshift are willing to pay, then Alpaca must be prepared to decline the proposal.

SECTION 4

Support of the rejection of the proposal including an explanation of the operational issues the proposal would have caused for hotel management

The investment in the watersport centre requires substantial investment. It is not clear how much this is but there may be one, or a number of smaller investment opportunities that would make use of the funds to generate a higher net present value than M\$2 million. Alternatively, there may be refurbishment projects that require less funding that could generate the same level of return. Either way, this would suggest that this proposal should be rejected.

The positive net present value would normally suggest that this is the increase in value to the business. However, any net present value calculation is based on estimates of future revenue and costs. These estimates may be difficult to determine and make the outcome of the investment risky. The project may be rejected if it is found that these estimates are not accurate.

The payback of the investment is 5 years. It is not clear what the useful life of the equipment is, but jet-skis, water-skis and scuba-diving equipment that is used extensively may not last 5 years and will need to be replaced or repaired before that time. This relatively long payback period indicates the liquidity, or ability to generate cash, from the investment and if this is going to take a significant amount of time, the project should be rejected.

Flyshift have finalised the arrangements with Alpaca. However, we are not told how long the agreement will last. Alpaca could make a substantial investment in the equipment only for Flyshift to terminate the agreement in the next year or two. There may then be staff redundancies which would incur expenditure and the equipment may have to be sold for considerably less than its cost or carrying amount.

David would like us to establish the facilities at the hotel, but we have not seen any evidence that confirms the guests would use the facilities. David has not provided any research. Younger guests may not be prepared to pay for the watersports activities as they are travelling on a budget so the expensive equipment would be under-utilised. There are too many uncertainties and so the proposal should be rejected.

There are also many operational issues the proposal will cause the hotel management:

- Staff will need to be assigned or recruited for the watersports centre. They will require different skills to existing staff and these skills are higher than for, say, housekeeping. They will need to be trained on how to handle the equipment and how to deal with first aid. It may be difficult to find staff with these skills and train them if the centre is to open quickly.
- Additional health and safety requirements. Operating the jet-skis and running water-skiing and scuba diving are high risk activities. We need to make sure the health and safety issues have been considered. The level of insurance will be increased to cover issues arising from accidents and the staff will require additional training.

- Using part of the beach for watersports reduces the space available for other guests and the activities may reduce the space available for swimming. The hotel manager would need to ensure the existing guests' enjoyment of the beach is not compromised or the demand for rooms will reduce.
- The centre is going to be operational quickly. This may take a good deal of the hotel manager's time with recruitment and sourcing suppliers for the equipment. This will leave less time for dealing with other operational issues that arise on a day-to-day basis like dealing with any guest complaints that may arise.

Characteristics of debt and equity

Debt finance is likely to take the form of a loan from the bank or the issue of a corporate bond. For both forms of debt finance, Alpaca would receive a sum of money on issue and must pay interest each year until the full debt is repaid. Bank loans may attract variable or fixed interest, whereas bond interest is usually fixed (coupon rate). The capital and interest are repaid to the bank regularly throughout the term of the loan, whereas the bond will be repaid in full on the redemption date. We are not told the size of the investment except that it is substantial.

Equity finance may take the form of a share issue (full market issue or rights issue) or from retained earnings, where Alpaca would reduce the dividends paid to ordinary shareholders over one or more years. Share issues, especially a full market one, tend to have high issue costs. A rights issue is cheaper to issue and is likely to be the preferred choice of the two. Also, Alpaca's shareholders have pre-emption rights enabling them to buy new shares before shares are offered to the public and so the rights issue may need to be offered first. Reducing the dividend incurs no issue costs but we have to think about what the shareholders will think having received a dividend in previous years.

The investment is described as substantial although we are not told how much this is. Using retained earnings may not raise enough cash to cover this cost. The dividend paid last year was M\$17 million out of profits of M\$34 million. Shareholders may not accept the reduction in dividends to pay for this. A rights issue, equity share issue to the public or any form of debt is likely to cover this initial cost.

We are not told the life of the equipment so we are not sure how long the investment will be needed for. However, it is likely that the equipment will need to be replaced in the medium term. Debt finance is redeemable and will need to be repaid to the investors by a pre-determined date. This may be when the equipment is sold and replaced with newer items. An issue of equity shares on the other hand is not redeemable, so once it has been issued and the cash received there is no need to pay the money back to the investors. If the project failed then the debt may be difficult to pay back as there may be insufficient funds from selling the second-hand equipment quickly. If equity had been used to fund the investment there would be no need to repay anything to the shareholders.

The providers of debt finance will often require security over some of Alpaca's assets. The only assets we have in the investment is the watersports equipment. This may have a substantial initial value but may not retain that value for the life of any debt finance. This makes the assets unsuitable for security. The hotel may have to provide security from an asset that may not lose value like a building and the group may not be

prepared to do that or there may already be mortgages held on this property. Equity finance does not require security.

We are not told when the cash flows arise from the investment, only that there is a positive net present value. For debt finance there is a need to repay interest annually and failure to do this will result in secured assets being taken away by the finance provider. Regular, constant cash flows would be required to service the debt. For equity issues, dividends are paid at the discretion of the directors so if there is insufficient cash generated from the watersports activities one year or if the equipment needs repairing or replacing leaving insufficient cash, a dividend does not need to be paid.

We are told that the watersports facilities will be operational fairly quickly. This means that we need to raise the finance quickly. Debt is often quicker to raise than equity because there are fewer administration procedures and the providers can come from one source, like a bank, or a small number of investors buying bonds. Equity, on the other hand, may take a little longer to arrange. A full issue involves discussions with many financial and legal advisors before the issue is made. The process of then finding the investors through the stock market may take time. A rights issue is quicker as we are asking existing shareholders to buy the shares. The administration may still take longer than issuing debt, though.

Finally, it may be worth considering tax. Interest payments made to investors are generally tax-deductible so if the corporate tax rate is 20%, this means that Alpaca is effectively paying 80% of the interest payment. If equity is issued the dividends are not tax deductible and this may make equity more expensive if dividends are going to be paid.

MANAGEMENT / GATEWAY CASE STUDY MAY– AUGUST 2020 EXAM ANSWERS

Variant 5

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SECTION 1

Concerns about use of the research report

The research report offers estimates of membership numbers and expected annual revenue for two different fee structures. Expected values are calculated on the basis of estimated probabilities. The probabilities used are highly subjective and may prove inaccurate. This is a new venture, therefore it is unlikely there will be historical information relevant to Alpaca that could have been used to establish these probabilities which increases the risk of inaccuracy.

The use of probabilities for both the premium and budget pricing structures arrives at an expected membership volume that may not correspond with one of the projected uptakes of 3,000, 5,000 or 8,000 members, so may provide inaccurate data for forecasting revenues. This may lead to an inappropriate investment decision when actual cash flows differ significantly from the expected values used in the calculations.

It may be difficult to forecast expected revenues for a period of more than 1 year as there is no guarantee that a member will renew their membership after the initial 12 months. This may hinder the use of the forecasts for long-term decision making.

The research has been carried out externally by a consulting firm that may not fully understand our requirements which can adversely affect the reliability of the data for inclusion in our investment appraisal calculations.

The information has been prepared in conjunction with data from a survey conducted by GymWorld, Maylandia's leading health and leisure chain. This data will be secondary data. It wasn't specifically carried out for our needs and may, therefore, not be such a good match. Furthermore, we haven't been told how old this data is. It may not be current and relevant to use in forecasting.

National statistics have been used to estimate the number of health and leisure memberships per household, in combination with census data for the population in Mayburgh. Mayburgh may not be representative of the national data and households in the locality may already subscribe to a membership with another facility.

The facilities offered at other independent facilities, such as Gymworld, may differ from the leisure facilities available at The Mayburgh Principal and would influence the fee that potential members would be prepared to pay. There is competition in the area with at least three independent health and leisure facilities within 10 miles of The Mayburgh Principal. The hotel has pool facilities and a gym. The independent facilities may have more extensive, state-of-the-art gym equipment, longer opening hours and childcare facilities that would render the estimated premium price unrealistic.

Managing operational risks

Increased risk of accidents in the pool

Alpaca could reduce the risk by implementing a number of controls including:

1. Ensuring that there are sufficient, qualified lifeguards patrolling the pool area in line with Maylandia's health and safety legislation at all times. Currently lifeguards only patrol during peak hours.
2. A maximum capacity should be enforced limiting the number of users that can enter the swimming pool at any one time. This could be implemented by restricting access to the pool area through the app when capacity is reached.
3. The changing rooms should be cleaned regularly during the day to prevent slips and trips on wet floors.

In addition, the risk could be transferred by taking out an insurance policy to cover public liability in the event of an accident.

Non-members gaining access to facilities

We may need to accept this risk. The membership fees will have been received from the member themselves and the member will not be able to use the facilities at the same time as a non-member as the unique code is required from the app.

We could look at reducing the likelihood of occurrence by monitoring entry data gathered by the app to identify when non-members may be given access to the leisure facilities by borrowing a member's app.

Alternatively, the app could be amended to require fingerprint technology to access the facilities rather than a mobile app. However, this would require significant investment by Alpaca to implement.

Accidental damage to equipment

We can reduce this risk by:

1. Requiring all members to complete an induction prior to using the gym equipment for the first time, where they are shown how to operate the equipment correctly and safely. This should be repeated on a regular basis as a reminder.
2. Implementing a programme of equipment maintenance to ensure equipment is serviced regularly to reduce the risk of damage.
3. Ensuring that instructions on how to use the equipment are displayed with the piece of equipment for members to refer to.
4. Requiring a qualified instructor to supervise members at all times to ensure that equipment is operated correctly.

SECTION 2

Reasons for not accepting the evaluation

The investment appraisal methods used give conflicting results. This project has a positive NPV of M\$2.3 million. This suggests that the investment will increase shareholder wealth by this amount, however there are a number of matters that suggest this should not be used as a basis for the decision.

Alpaca has no experience in running a commercial leisure facility. Attracting and retaining members is vitally important, particularly given the high volume of members used in the projections.

The cash flows have been based on the lowest annual fee of M\$800 and the highest uptake of 8,000 members. If the NPV was recalculated using either of the other possible membership levels of 3,000 and 5,000 members, it is likely that the NPV would be significantly lower, and perhaps even negative, which would suggest we should not proceed.

The number of potential members itself may be unrealistic as there might not be the operational infrastructure to accommodate 8,000 members, with respect to changing facilities, staffing and car parking.

The HR Director's comment should be considered, however NPV is a superior method in comparison with payback period from a financial perspective, and there may be other reasons the Board wish to pursue this investment. It may be a pilot project that is part of a new strategy to roll out leisure memberships to the local community for all Alpaca hotels or it may be that enhanced leisure facilities are seen as a necessity to attract hotel residents to The Mayburgh Principal.

Financing options

Fixed rate bond

The fixed rate bond offers lenders security, which should result in a relatively low cost.

Only the coupon (interest) is payable each year and the principal (the amount borrowed) is not due to be paid back until 2022. Therefore, from a cash flow point of view, it gives time for the investment to start earning returns before we need to repay the amount borrowed. However, for this investment payback is achieved after 4.5 years, which means we will not have generated sufficient cash returns from the investment to repay the principal when it is due in 2022.

Alpaca's gearing will increase with the issue of the bond. This increases the financial risk of Alpaca because it will run into difficulties if it cannot service the bond's cash flows but, as a relatively low borrowing in comparison to Alpaca's equity, it is unlikely to adversely impact on the group's ability to obtain future finance.

Rights issue

Rights issues are generally an attractive means of raising equity. Shareholders can either increase their shareholding or sell their rights.

A rights issue will decrease financial risk by raising equity and so reducing gearing. Although it will not significantly affect the ratio in this case.

The amount required in this case is relatively small and so it may not be cost-effective to make a rights issue. There are significant expenses associated with making a rights issue, such as professional fees. Those expenses bear little relationship with the amount being raised.

SECTION 3

App creation costs

The treatment of intangible non-current assets is addressed by IAS 38 Intangible assets. The finance team at Alpaca would evaluate whether the app creation costs meet the definition of development costs. Development costs may be recognised at cost as an intangible non-current asset if they meet the following criteria:

- The app is technically feasible – in this case it has already been created and so is definitely feasible.
- The costs can be reliably measured – for example, it will have to be determined whether the I.T. department kept records of programmers' time spent on the app in order to support the salary cost of creating the app.
- The app can be sold or used – which already seems to have been established.
- The app is commercially viable – this appears to be so because the Board believes that there is a market for the app from other hotel chains.
- There is an intention to complete the project and there are resources to do so – which has already been demonstrated.
- There are probable future benefits - demonstrated by the data gathered which can be used to tailor the members' experience creating customer satisfaction and brand loyalty.

If all of these criteria have been met then the app creation costs will be treated as intangible non-current assets. The development costs will be amortised over their useful life from the date the app was issued for use to members. In this case, the only matter that is uncertain is that of measuring costs.

If any of these criteria are not met, the app creation costs will be expensed to the statement of profit or loss as an operational cost.

The brand name should not be treated as an asset. In fact, the brand name value of M\$1 million should not appear in the financial statements of Alpaca at all. This represents an internally-generated value which is not permitted for recognition in the financial statements as it cannot be reliably measured. No cost has actually been incurred and the Board has no basis for the M\$1 million valuation other than its expectation of potential value. The "Zone4U" app has not yet been sold to any other hotel chains and has no reliable value attached to it.

Use of data gathered

Firstly, the data gathered by the app allows the Health Zone to tailor a member's experience based on their individual usage. For example, a suggested workout programme can be created based on equipment used in previous visits. Targets can be created to personalise the programme to the member's preferences and fitness levels to increase engagement and encourage continued membership renewal.

Furthermore, the data could be analysed and used by The Mayburgh Principal. For example, special deals on meals and snacks could be offered by the hotel to coincide

with the most popular times of the day that members visit the Health Zone facilities, to capitalise on a member's visit.

Exception reporting that identifies inactive members can be targeted. This will reduce the risk of inactive members cancelling or not renewing their subscription.

Costs can be better controlled, particularly staff costs. Data from the app can identify periods of peak and off-peak usage for each area. This allows staffing to be minimised during quiet periods and maximised during peak times. This is particularly relevant with the use of zero-hour contracts for some of the workforce. This will minimise labour costs and inefficiency.

However, the collection of data may be considered an invasion of privacy by members who do not want to have their previous activity recorded and used by the Health Zone. Data protection legislation applicable in Maylandia must be complied with and consent obtained where necessary to collect, store and use personal data. Failure to comply with such regulations is likely to result in heavy financial penalties, as several high profile companies have found out in recent months. Members may be concerned about the security of the storage of personal data gathered by the app. Appropriate measures must be taken by Alpaca to minimise the risk of a security breach and loss of personal data which could lead to serious reputational damage to the Alpaca brand.

Trends in member visits may not be easily identifiable leading to insufficient staff or overstaffing during certain periods. The data gathered by the app does not incorporate hotel residents which may also lead to inappropriate staffing decisions.

SECTION 4

Issues when setting transfer prices

There are a number of issues to be considered if transfer prices are set centrally for hotel residents using the Health Zone facilities.

Both managers are likely to feel that their autonomy, as managers of profit centres, is being undermined by centrally-set transfer prices. This can lead to demotivation and dysfunctional behaviour. However, from Alpaca management's perspective the managers may not be deemed to have sufficient experience to set appropriate transfer prices, particularly Mark Cranston as a new profit centre manager.

Mark Cranston has suggested a daily fee be charged for every resident that stays at the hotel. The hotel manager is unlikely to be happy with this arrangement as not all hotel residents will use the leisure facilities. The fee charged would reduce the hotel profits and increase the Health Zone profits on a basis that the hotel manager is likely to feel is unrepresentative. There appears to be a system in place to record hotel resident usage, therefore a charge per visit to the Health Zone by a hotel resident appears more appropriate.

Mark Cranston will want to maximise the transfer price charged for hotel guests to increase his revenues as far as possible. His suggestion of a daily fee equivalent to a member's daily rate suggests that he wants to use the market rate as the transfer price. The Health Zone is to be treated as a profit centre and his performance will be appraised using operating profit margin, therefore this approach would maximise the profit.

He might suggest that the Health Zone is a facility that attracts residents to the hotel and the Health Zone should benefit from that. However, the charge for hotel guests using the leisure facilities will increase the costs of the hotel and reduce profit. These costs are unlikely to have been budgeted for so the hotel's performance will look poor against budget targets. The hotel manager will want to keep the transfer price as low as possible.

Resolving this issue in a satisfactory manner is important to the Alpaca Group because any dysfunctional behaviour is likely to affect the Group's performance. Hotel guests will be disturbed if they wish to use the Health Zone and they are made to feel unwelcome or are charged a significant additional fee. That could result in them taking their business to other providers, both of health spa facilities and of other services, such as restaurants. That could lead to the loss of repeat custom, if guests are discouraged from returning to the hotel.

The net cost to the Group as a whole of encouraging guests to use the Health Zone may be very small and yet the amenity value perceived by guests could be significant. This is the type of issue that could influence guest ratings on social media sites.

Leadership style

The two team leaders report into Mark Cranston directly. Both of these employees are enrolled on hospitality management degrees. It is likely that the Health Zone will want to retain these team leaders and develop their knowledge and experience for the future growth of the Health Zone and for succession planning. It is important that they feel valued, motivated and empowered by Mark Cranston. They may want to feel involved in the decision-making process in relation to their departments and not be micro managed.

It also shows good leadership skills on the part of Mark that he has realised that the number of staff has grown too big for him to manage them all himself.

For this reason, the leadership style used by Mark Cranston is important. A democratic style would encourage the team leaders to be involved in the decision-making process before the final decision is made by Mark Cranston himself. This is likely to increase motivation and make them feel valued. This, in turn, should lead to employee loyalty. The hospitality industry is a people industry where appropriately skilled and experienced staff at management level can be the key to success. Authoritarian style, where Mark simply tells the team leaders what to do, would not make them feel valued or motivated. Laissez-faire style, where Mark leaves the team leaders to make their own decisions, would be unsuitable given their limited experience. Neither of these would work well for managing these team leaders.

The team leaders, however, have a mixture of unskilled contracted employees and zero-hour workers. The high employee turnover rate suggests that the workforce has little loyalty towards the Health Zone and that the unskilled employees are easily replaceable.

There is no real desire to motivate the unskilled workforce and little opportunity to develop high performing workers into managerial positions, given the flat hierarchy adopted.

Therefore, it is less important for the team leaders to adopt a leadership style to empower employees who have little loyalty to the Health Zone. It may be most appropriate for the team leaders to adopt a task-orientated approach, where clear responsibilities and roles are established and met.

MANAGEMENT / GATEWAY CASE STUDY MAY– AUGUST 2020 EXAM ANSWERS

Variant 6

These answers have been provided by CIMA for information purposes only. The answers created are indicative of a response that could be given by a good candidate. They are not to be considered exhaustive, and other appropriate relevant responses would receive credit.

CIMA will not accept challenges to these answers on the basis of academic judgement.

SECTION 1

Use of target costing

The target costing method begins by ascertaining a market price and specification. A desired profit margin is then subtracted, to give a target cost. This technique is most commonly used in manufacturing organisations, where a product team would apply target costing at the design stage.

However, in this scenario, target costing could be useful. FlashFashion have offered a fixed price for this conference and have made it clear that this is not negotiable. We could therefore take the price they have offered, decide on and deduct an appropriate margin and then analyse our costs to see if we can meet their quality and service specifications within that cost target.

Although we are not working in a manufacturing environment, we are still designing a product for FlashFashion. Functional analysis, value analysis and value engineering could be used to reduce our expected costs so that the target is met. Functional analysis and value analysis are customer focussed. We should break down the product we are offering into its functions. For example, we need to offer refreshments to our conference guests. We will be committing to providing three meals a day, plus tea, coffee and biscuits during breaks. If tea, coffee and biscuits are being provided in the conference room, we may not need to also make them available in the bedrooms. FlashFashion have said that they require high quality meals, but they may well not need the wide choice of menu options we usually provide in our hotel restaurants. They may be happy with a set menu, and for delegates to make their food choices for the day at breakfast time. This would reduce our food wastage costs without affecting the quality of what we offer them. Another required function will be the provision of pleasant guest bedrooms. We usually provide individual flower arrangements in our bedrooms. This is not necessarily something which FlashFashion will value. Research would tell us the importance the conference organiser and delegates attach to each function, and the pilot conference will contribute to this research.

Once we have decided how to provide each of the required functions, we can compare the expected costs to the target cost. If the expected cost is too high, we might need to modify our plans for that function, for example using cheaper ingredients for the delegate meals.

A key point will be deciding the profit percentage we require for the conference. We could look at the profitability our Alpaca North hotels achieve during their high season and base a percentage on this. On the other hand, we could argue that the main point of holding this conference is as a pilot to see if we wish to offer such events regularly in our Alpaca North hotels. On this basis, provided the FlashFashion fee covers the additional costs of providing the conference and makes some contribution to the other indirect costs, we should still be prepared to go ahead.

This does not mean that if we decide to offer conferences in the future, we necessarily need to accept a low profit margin. There may be some costs which we cannot reduce in the short term for this particular event, which might be better able to be managed with longer term planning. We need to be sure that we would be able to bring the costs down over the longer term otherwise future conferences might also run at low margins, and the target costing focus needs to be on what conferences should cost in the long term. This is the first time we will have hosted such an event, and as our experience grows, we may be better able to control costs.

Although the letter from FlashFashion makes it very clear that the price they are offering is fixed, and not an opening figure for negotiations, it is possible that we could identify additional services which we could offer as “add-ons” which they might be prepared to pay for. These additional services could be at a higher margin than the standard service which could increase the overall profit margin on the conference.

The reason for holding this pilot conference, is to see if it is successful and to provide us with more information to help us decide whether to offer conference packages in all our Alpaca North hotels during their quiet seasons of spring and autumn. We can use the target costs as a basis for reviewing performance after the conference in order to support this decision.

Negotiating with service provider

We can divide the process into four stages:

Preparation

This stage involves information gathering. This is important, as we do not have an existing relationship with any providers of outdoor activities, or a detailed knowledge of what is needed to provide the activities requested by FlashFashion. Our preparation should include analysing online reviews for local providers, looking at whether the activities they offer meet the requirements of FlashFashion, and learning a little about the activities, the prices participants expect to pay and any other important factors. For example, if a particular activity can only be carried out if the weather is fine, we would wish to know this, as well as what back-up activities could take place that are not weather dependent.

Opening

During this stage we would set out our requirements for activities and show the service provider the hotel grounds where some of them would be carried out. The service provider would explain what they offer, and how much they would expect to charge. This would be an opportunity for the service provider to assess the suitability of the hotel premises, for example, water depth of the lake and ease of access to it for kayaks. We could also discuss how many delegates would be carrying out an activity at one time and the implications of this for staff numbers and equipment provision.

Bargaining

At this point we would negotiate a fee for the activities. It is possible that a provider might be prepared to discount their rates if we explain that this is a pilot project and, if it is successful, we could offer them further work in future. This expense will be paid by FlashFashion but we should still try to negotiate as good a price as possible, as this may affect FlashFashion's view of the conference as a whole.

Closing

At this stage we will hopefully reach agreement. This would include not only the fee we will pay, but also details of the service they will provide. It is important that this is agreed in writing, by us, the service provider and FlashFashion.

SECTION 2

Transfer pricing issues

We will be transferring some waiters from Alpaca Central to Alpaca North for the conference, and also general staff who are not needed at Alpaca Central during the conference period. Alpaca Central will be paying the staff wages whilst they are working at Alpaca North, and a transfer price needs to be set which Alpaca North will pay to Alpaca Central.

The price could be market based, in which case it would be likely to reflect what a staffing agency would charge, cost-based which would be the cost of the staff, plus an element of mark-up, or a negotiated price. If the price includes a mark-up on the cost, this would represent additional income for Central but would cancel out from the Group's perspective.

From the point of view of Alpaca Central, they will not wish to let the staff work for Alpaca North if doing so loses them money. We are considering two different types of staff, waiters and general staff. The waiters are highly skilled and presumably in demand. If not transferred to Alpaca North, they could probably have been utilised in Alpaca Central hotels. The other staff were available because an event has been cancelled at short notice. It is therefore likely that Alpaca Central would have had to pay them anyway but may not have had any work for them, although if the staff were on zero hours contracts, they may not have been paid.

Alpaca Central are likely to charge what both categories of staff cost them, plus any additional expenses incurred such as staff travel and subsistence whilst away plus a margin. If there is an opportunity cost to transferring the waiters, because they could have added value in Central hotels, then Central will wish to recover this. This could arise because the waiting staff could have enabled Central to provide a service which cannot go ahead without them. Or if waiters are needed Central might have to pay for agency staff and would want the fee from North to at least cover this. On the other hand, there would be little point in Central providing staff to North if Central then had to use agency staff, it would be more straightforward for North to use agency staff.

From the point of view of Alpaca North, they will wish to pay less than agency staff would have cost them. Staff agencies often charge at least a 100% mark-up on the staff wages. On the other hand, from Alpaca North's point of view, this is a pilot conference and it is important that it runs well. Alpaca Central's staff are already used to the group's working methods and may require much less training and familiarisation than agency staff. Alpaca North might therefore be prepared to pay a premium for Central's staff, although they are highly unlikely to offer this willingly.

The longer-term intention if the conference is a success and regular conferences are to be offered, is likely to be to train sufficient staff so that they can be transferred within Alpaca North rather than between divisions. This transfer of staff between regions may therefore be a "one-off", in which case provided both regions can agree a price for this conference there is no material impact on the Alpaca Group.

On the other hand, such transfers may happen regularly in future. From the point of view of the Alpaca Group, they could leave North and Central to negotiate, or could intervene and set a price. The transfer price determines how the total profit is shared between the two divisions. It could determine whether or not each division is prepared to let their staff

work for another region or use staff from another region. It is in the best interests of the group that staff are transferred rather than agencies used. It would therefore be rational for the group to impose transfer prices if they cannot be agreed by negotiation. From the group's point of view, it is also important that the transfer prices do not distort the measurement of divisional profits.

Key risks

Alpaca will be outsourcing the outdoor activities such as kayaking, quad biking and mountain biking. This has the advantage that Alpaca can offer the activities FlashFashion wants, but Alpaca does not have suitably qualified staff to run. It does, however, bring some risks.

Firstly, Alpaca could choose a supplier who does not provide the quality of service which Alpaca or FlashFashion expect. If FlashFashion staff complain that they are not happy with the activities they are carrying out, Alpaca will have limited ability to correct this. This risk can be mitigated by carefully checking online reviews posted by past clients of the service provider, and also by making sure that exactly what the contractor will provide is detailed in their contract.

A second risk is that Alpaca will have less control over the activities. In the event of any problems, such as poor weather or an accident involving a conference delegate, the immediate interaction will be between the FlashFashion staff and the contractor, not Alpaca. If there is a problem and the contractor does not react professionally, this will reflect on Alpaca, but Alpaca will not have control. Again, this can be mitigated by careful choice of supplier and detailed service agreement, but Alpaca should also appoint a member of their own staff to liaise with both the contractor and the FlashFashion team.

The third risk is that using an external contractor may make co-ordination more difficult. The schedule set out by FlashFashion is a busy one, if an activity begins late and overruns this will have a knock-on effect on meal timings and workshops. This can be mitigated by emphasising the importance of keeping on schedule to the service provider, and also having a member of Alpaca staff as liaison.

There is a risk that a conference delegate could be injured whilst carrying out the activities. This risk does not really result from using an external provider. Kayaking, quad biking, etc. are likely to be riskier than sitting in the hotel, but it is probably safer for these activities to be organised by a suitably experienced specialist company than by Alpaca's own staff.

SECTION 3

Impact on business model

Changes to the business model

The conferences will be a new business model for Alpaca North. We need to consider how we will create value by using resources to create a product which guests' value, how we will deliver value to our guests and how the value that we have added can benefit our stakeholders, including shareholders.

Defining value

We need to consider who we are creating value for, which means identifying our stakeholders and prioritising them. For example, one key stakeholder group is our guests. Alpaca aims to meet the developing needs of guests for hospitality services associated with leisure and business travel. The development of a conference service would be meeting the needs of businesses which need to bring employees together for a short time, possibly for teambuilding or in order to make plans for the next year's activities. As more company employees work from home, the need for such events may increase.

Creating value

Alpaca creates value through the creation of a calming and attractive environment at each of its hotels.

We need to consider the impact of the conversion work we will do in order to make the hotels more suitable for conferences. This could change the ambiance and make the hotels less attractive to external guests. For example, if a room is to be used for business meetings, bright lighting is beneficial, but when the same room may also be used as a bar for our regular guests, dimmer lighting is required. This should be carefully considered when carrying out the conversion work. It is important that the hotel environment remains attractive to regular guests, if not then whilst new conference bookings may be secured, regular guest bookings in summer and winter may fall.

Delivering value

Alpaca delivers value by creating an identity that is familiar to guests, even if they are staying at a particular hotel for the first time. This is an important consideration; the experience of a conference delegate will be slightly different to that of a regular hotel guest. In order to reduce costs to a level which will enable Alpaca to provide a conference at a price acceptable to the client, some of the little touches which guests associate with staying in an Alpaca hotel may be removed. So, a conference delegate who has stayed with Alpaca before may be disappointed with a conference stay. Also, whilst the FlashFashion conference utilised the whole of the Royal Clan hotel, smaller conferences may only need part of a hotel, which would mean the hotel manager would have to provide facilities for conference guests and also ensure that regular guests have the experience they are expecting. Alpaca North may be able to manage this by using the range of hotels in the region and offering the most appropriate hotel for a conference organiser's requirements. Regular guests who have booked at a hotel which is subsequently booked for a conference could be given the option of a stay at an alternative hotel.

Capturing residual value

In order to capture value, the revenue we earn from delivering value must exceed the costs of creating value. We must effectively use our resources to deliver and capture value, considering the cost model (efficiency of the processes, levels of activity, resources consumed during activities and price paid for resources) and the revenue model, charging prices which reflect market conditions. This value will be shared with stakeholders, particularly shareholders but also employees. Alpaca is a major employer, providing careers in the hospitality industry while also creating jobs for unskilled staff. If the conferences are successful, this will enable Alpaca to offer more employment opportunities for both skilled and unskilled staff. It is likely that other hotels in the North may also be quiet in spring and autumn so the opportunity for more work could be very helpful. Alpaca also offers career development and the opportunity to provide conference services could be a useful additional skill for staff.

Impact of decision on planning and control

We need to consider the changes which will be required to successfully implement this. The management team at Alpaca North need to create a cost-conscious culture. But this carries the risk that reducing costs could result in reducing quality and the guest experience being impacted. When planning, we need to consider this from the point of view of both the conference organisers and the delegates. If delegates have a poor experience, they will leave critical reviews on Visitadvisor. If conference organisers are not happy with the conference facilities, they will be much less likely to use Alpaca hotels for subsequent events.

Activity based costing (ABC) and activity based management (ABM) techniques could be helpful, in that they will focus attention on the link between costs and activities. ABM would use the information derived from ABC and classify each activity into value added or non-value-added. Non-value-added activities should be eliminated as far as possible. For example, it may be that the provision of flowers in bedrooms does not improve the guest experience of conference delegates and this cost could be eliminated. On the other hand, some activities will be core to what the Alpaca group does. An example of this would be the cleaning of the hotel. This should be done cost efficiently but cannot be eliminated.

The CGMA cost transformation model is helpful here, it suggests six changes which Alpaca could apply, including engendering a cost-conscious culture, aiming to have lower costs than rival hotels and managing the risks that come with this, for example that reducing costs could also reduce guest satisfaction.

The ABM process would help decide whether or not to continue with particular activities, and how Alpaca North's cost structures compare to those of competitors. It will help the management team understand their costs. This understanding will enable the team to control and reduce costs.

Some activities may not be needed for conferences but are required when a hotel is occupied by regular guests. For example, during a conference less will be required of the reception staff, as all the delegates will check in and check out at more or less the same time, and their first point of contact for queries is likely to be the conference organiser rather than the hotel staff. On the other hand, given the importance of satisfying the requirements of the conference organisers, staff need to be available to support them. When a conference ends and the hotel reverts to providing facilities for holidaymakers, the reception staff will again be needed for their usual duties. This will

need to be reflected in the budgets for Alpaca North. We need to forecast occupancy levels, and consider which costs are fixed and which costs variable. Effective management of these costs will require flexibility, for example, training staff so that they can carry out one role during conferences and another when the hotel is open to regular guests. Structuring staff contracts so that they can be called on only when needed will add flexibility.

These budgets will form the basis of performance measurement, at both hotel and divisional level. Performance targets for hotel and divisional managers need to reflect the impact on revenues and costs of the new conferences.

Section 4

Borrowing versus equity

Alpaca North were expecting this project to be funded with equity and Zoe is proposing to use debt finance in the form of a bank loan.

One implication is that interest charges will have to be paid, which would not be the case with equity finance. The interest payments will be tax deductible which would help to reduce the effective cost of the debt. If the conferences are successful, servicing the debt should not be a problem. If equity had been raised the group would not have been compelled to pay dividends. The loan has a variable interest rate. This will make it slightly more difficult for Alpaca North to prepare forecasts, as they will have to pay a fee equal to the interest payment. The amount of the fee will therefore be uncertain.

Zoe may well have been able to borrow on good terms as Alpaca has plenty of hotel assets which should provide good quality security for lenders. This project will increase Alpaca Group's gearing but not significantly. Alpaca would have to make a case to the lender for the new loan but will have the evidence of the successful pilot conference. It is possible that the lenders may wish to put covenants in place which would restrict Alpaca's future borrowing options or require minimum levels of relevant ratios.

Arranging debt should not be a lengthy process, but it is planned that the work will begin in 2 months' time. It might be appropriate to use the group's cash balance until the new loan is in place. The M\$25 million required could have been funded from Alpaca's cash balance without the need for additional debt but would have required most of this resource which could not then have been used for other purposes, such as any projects Alpaca South or Central wish to carry out. Before making temporary use of the cash balance, Zoe should review the cash flow forecast to ensure that there is sufficient balance available for as long as it is needed.

Alpaca could have raised additional equity by issuing shares. A rights issue could have been considered, which would mean offering shares first to existing shareholders, so that they could contribute equity and not have their shareholding diluted. An equity issue is, however, an expensive undertaking. The professional fees incurred would be high. The amount of funds needed for this project is not really large enough to justify the cost of an equity issue, and the process is quite time consuming and might well not be completed in time for the start of the conversion work. Borrowing the funds will be a quicker and cheaper process.

If the funds had been raised through equity the money would not have been repayable. The loan will need to be repaid to the bank. At the end of the term of the loan, the group will need to either repay the debt from their accumulated cash or by refinancing.

Impact on key performance indicators (KPIs)

Amy may have expected that equity finance would provide the funds required without any charges being made to Alpaca North. Both the conference service and the finance fee will impact on the KPIs.

Occupancy

An important KPI for a hotel group is occupancy. This should improve once the conferences are running, as they will take place in seasons when Alpaca North's hotels are quiet. There may be a delay before this improvement impacts on the results, since

conferences are likely to be scheduled many months in advance and organisers may wish to inspect the newly renovated facilities before committing.

Average length of stay

This is likely to fall, possibly quite significantly, as most conferences will be no longer than 2 or 3 days. At present the actual average is 10 days compared to a budget of 12 days. The target for this KPI should be reduced accordingly or managers will be demotivated as they see the figure falling through no fault of their own.

Operating profit margin

Again, this should improve but not necessarily in the short term. The increased conference bookings should improve the margin, but the interest charge will reduce it. The margin may initially fall, as the finance fee will presumably be payable as soon as the borrowing is in place, but the conference bookings may take time to build up.

Return on capital employed

This is likely to fall in the short term as the investment will increase capital employed before an increase in returns materialises. On the other hand, if the number of conferences increases this should improve.

Visitadvisor guest rating

This indicator could become much more volatile, as each conference could lead to a large number of individual reviews. If a conference runs well, these should be positive, but if there are problems with a conference there could be many negative ones. The overall rating should hopefully improve, we might expect to see slightly better reviews due to the refurbishment work.



Management/Gateway Level Case Study May-August 2020
Marking Guidance
Variant 1

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3. Select a mark within the level

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Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task Weighting (% section time)
Section 1			
(a)	A	Evaluate opportunities to add value.	60%
(b)	B	Implement senior management decisions.	40%
Section 2			
(a)	B	Implement senior management decisions.	40%
(b)	C	Evaluate opportunities to add value.	30%
(c)	E	Manage internal and external stakeholders.	30%
Section 3			
(a)	C	Evaluate opportunities to add value.	60%
(b)	D	Measure performance.	40%
Section 4			
(a)	E	Manage internal and external stakeholders.	40%
(b)	D	Measure performance.	60%

SECTION 1

Task (a) Prepare briefing notes for me to use in my presentation to the Board. Please use Note 1 and consider both financial and non-financial factors.

Trait			
Financial factors	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes the need to make a positive return	1-2
	Level 2	Offers a full discussion of relevant financial factors	3-5
	Level 3	Offers a full discussion of relevant financial factors, with good justification for the points raised	6-8
Non-financial factors	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes the relevance of non-financial factors	1-2
	Level 2	Offers a full discussion of relevant non-financial factors	3-5
	Level 3	Offers a full discussion of relevant non-financial factors, with good justification for the points raised	6-7

Task (b) Using the figures for the gym project, **prepare** notes that I can use in the training session that explain why sensitivity would be useful when presenting this project to the Board. Also discuss whether it would be better to use sensitivity analysis or scenario planning when evaluating the gym proposal.

Trait			
Usefulness of sensitivity analysis	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes the use of sensitivity analysis	1
	Level 2	Offers a full and relevant explanation of the usefulness of sensitivity planning	2-3
	Level 3	Offers a full and relevant explanation of the usefulness of sensitivity planning, with good justification for points	4-5
Comparison of scenario	Level	Descriptor	Marks
		No rewardable material	0



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planning vs sensitivity analysis	Level 1	Describes scenario planning	1
	Level 2	Offers a full and relevant comparison of sensitivity analysis v scenario planning	2-3
	Level 3	Offers a full and relevant comparison of sensitivity analysis v scenario planning, with good justification	4-5

SECTION 2			
Task (a) Discuss how we can make the hotel's managers understand the importance of working as an effective team.			
Trait			
Communication	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies communication as a factor	1
	Level 2	Discusses the manner in which the need for effective teams can be communicated	2-3
	Level 3	Offers a good discussion of the manner in which the need for effective teams can be communicated	4-5
Enforcement	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies enforcement as a factor	1
	Level 2	Discusses the manner in which team effectiveness can be enforced	2-3
	Level 3	Offers a good discussion of the manner in which team effectiveness can be enforced	4-5
Task (b) Discuss how we can decide whether Joe's leadership style is creating a conflict between him and the other managers.			
Trait			
Leadership style	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited description of Joe's leadership style with no application of whether this is creating conflict	1-2
	Level 2	Offers a clear description of Joe's leadership style with some discussion of whether this is creating conflict	3-5
	Level 3	Offers a clear description of Joe's leadership style with full discussion of whether this is creating conflict	6-8



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SECTION 2 (continued)			
Task (c) Discuss how the conflict between Joe and the other managers at GS could be resolved.			
Trait			
Conflict management	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers an explanation of where the conflict arises but does not provide an explanation of how this can be resolved	1-2
	Level 2	Offers a clear explanation of where the conflict arises and offers at least one suggestion of how these may be resolved. Some points may lack clarity	3-5
	Level 3	Offers a clear explanation of where the conflict arises and offers more than one suggestion, clearly expressed, of how these may be resolved	6-7

SECTION 3			
Task (a) Explain how the five performance measures operate within the structure of Alpaca and their relevance to his role if GS becomes part of the Alpaca South division.			
Trait			
Operation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes the five performance measures	1-2
	Level 2	Offers a full explanation of the manner in which the five performance measures operate within Alpaca	3-4
	Level 3	Offers a full and comprehensive explanation of the manner in which the five performance measures operate within Alpaca	5-8
Relevance	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies relevance as an issue	1-2
	Level 2	Offers a full explanation of the relevance of the five performance measures to Ted	3-4
	Level 3	Offers a full and comprehensive explanation of the relevance of the five performance measures to Ted	5-7
Task (b) Explain how any risks arising from the three issues he identified could be managed.			
Trait			
New hotel	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some response to the risk	1
	Level 2	Offers a clear and relevant response to the risk	2-3
	Level 3	Offers a clear and relevant response to the risk, with some justification	4
Early closing	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some response to the risk	1
	Level 2	Offers a clear and relevant response to the risk	2
	Level 3	Offers a clear and relevant response to the risk, with some justification	3

SECTION 3 (continued)			
Visitor tax	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some response to the risk	1
	Level 2	Offers a clear and relevant response to the risk	2
	Level 3	Offers a clear and relevant response to the risk, with some justification	3

SECTION 4			
Task (a) Discuss and conclude, based on part 1 of the review extracts, whether the functional currency of GS is B\$ or M\$.			
Trait			
Accounting principles	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues underlying “functional currency”	1
	Level 2	Provides a clear and logical explanation of “functional currency”	2-3
	Level 3	Provides a clear and logical explanation of “functional currency” and links to the main accounting issues	4
Application	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some argument for a proposed choice of currency	1-2
	Level 2	Offers a clear and comprehensive justification for the proposed currency	3-4
	Level 3	Offers a clear and comprehensive justification for the proposed currency, with clear explanation of the assumptions that are required	4-6
Task (b) Explain , with reasons, what the impact of part 2 of the review extracts will be on the consolidated financial statements of Alpaca. I would like to know the impact on both the computation of goodwill on the acquisition and the post-acquisition profits.			
Trait			
Fixtures and fittings	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies some of the issues associated with accounting for this item	1
	Level 2	Provides a clear and relevant explanation of the treatment of fixtures and fittings	2-3
	Level 3	Provides a clear and relevant explanation of the treatment of fixtures and fittings, with good justification	4-5
Training costs	Level	Descriptor	Marks
		No rewardable material	0

	Level 1	Identifies some of the issues associated with accounting for this item	1
	Level 2	Provides a clear and relevant explanation of the treatment of training costs	2-3
	Level 3	Provides a clear and relevant explanation of the treatment of training costs, with good justification	4-5
Contingent liability	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies some of the issues associated with accounting for this item	1
	Level 2	Provides a clear and relevant explanation of the treatment of contingent liabilities	2-3
	Level 3	Provides a clear and relevant explanation of the treatment of contingent liabilities, with good justification	4-5



Management/Gateway Level Case Study May-August 2020
Marking Guidance
Variant 2

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Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task Weighting (% section time)
Section 1			
(a)	C	Manage performance and costs to aid value creation.	40%
(b)	D	Measure performance.	60%
Section 2			
(a)	B	Implement senior management decisions.	40%
(b)	A	Evaluate opportunities to add value.	60%
Section 3			
(a)	E	Manage internal and external stakeholders.	60%
(b)	D	Measure performance.	40%
Section 4			
(a)	A	Evaluate opportunities to add value.	28%
(b)	B	Implement senior management decisions.	40%
(c)	C	Manage performance and costs to aid value creation.	32%

SECTION 1

Task (a) Evaluate Sam's concerns relating to the three Key Performance Indicators (KPIs).



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Trait			
Employee turnover	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a brief explanation as to why employee turnover is potentially unsuitable	1
	Level 2	Explains why employee turnover is potentially unsuitable	2-3
	Level 3	Offers a clear explanation as to why employee turnover is unsuitable with reference to the business	4
Revenue per employee	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a brief explanation as to why revenue per employee is potentially unsuitable	1
	Level 2	Explains why revenue per employee is potentially unsuitable.	2
	Level 3	Offers a clear explanation as to why revenue per employee is unsuitable with reference to the business	3
Recruitment cost per hire	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a brief explanation as to why recruitment cost per hire is potentially unsuitable	1
	Level 2	Explains why recruitment cost per hire is potentially unsuitable	2
	Level 3	Offers a clear explanation as to why recruitment cost per hire is unsuitable with reference to the business	3
Task (b) Evaluate the impact of each of the risks listed by Sam and recommend how each might be managed.			
Trait			
Impact of risk	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Asserts impact of risk	1
	Level 2	Provides an evaluation of the impact for one or two risks	2-3
	Level 3	Provides an evaluation of the impact for all three risks	4-6
How to manage risk	Level	Descriptor	Marks
		No rewardable material	0

	Level 1	Offers a sound explanation of risk management for one of the risks identified	1-3
	Level 2	Offers a sound explanation of risk management for two of the risks identified	4-6
	Level 3	Offers a clear, logical and comprehensive explanation of risk management for all three risks identified	7-9

Task (a) Identify the key issues that will have to be decided when creating a team to collaborate with Harper Lane's staff and recommend responses to those issues.			
Trait			
Key issues	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes an issue associated with creating a team	1
	Level 2	Offers a description of key issues associated with creating a team	2-3
	Level 3	Offers a description of key issues associated with creating a team, taking account of the need to collaborate with Harper Lane's staff	4-5
Responses	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a suggestion for addressing issues	1
	Level 2	Offers sensible suggestions for addressing issues	2-3
	Level 3	Offers sensible suggestions for addressing issues, with justification	4-5
Task (b) Recommend with justifications an appropriate pricing strategy for the proposed restaurant that would help the hotel meet its objectives.			
Trait			
Strategy 1	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies an appropriate pricing strategy and offers some justification for its suitability	1-2
	Level 2	Identifies an appropriate pricing strategy that takes account of the nature of the restaurant and offers clear and logical justification for its suitability	3-5
	Level 3	Identifies an appropriate pricing strategy that takes account of the nature of the restaurant and offers clear, logical and comprehensive justification for its suitability	6-8
Strategy 2	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies alternative pricing strategies OR expands on justification for Strategy 1	1-2



	Level 2	Identifies alternative pricing strategies and explains why they are unsuitable/how they might be used in conjunction with Strategy 1 OR justifies Strategy 1 in terms of improving occupancy rates and/or average guest spend	3-5
	Level 3	Identifies alternative pricing strategies and explains with good justification why they are unsuitable/how they might be used in conjunction with Strategy 1 OR offers full justification for Strategy 1 in terms of improving occupancy rates and/or average guest spend	6-7

SECTION 3			
Task (a) Recommend with reasons how the potential conflict arising from Harper Lane's concerns could be managed by Alpaca.			
Trait			
Resolution method 1	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited response to overcoming the conflict from Harper Lane's concerns	1-2
	Level 2	Offers a clear and logical response that would overcome the conflict arising from Harper Lane's concerns	3-5
	Level 3	Offers a clear, logical and comprehensive response that would overcome the conflict arising from Harper Lane's concerns	6-8
Resolution method 2	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited response to overcoming the conflict from Harper Lane's concerns	1-2
	Level 2	Offers a clear and logical response that would overcome the conflict arising from Harper Lane's concerns	3-5
	Level 3	Offers a clear, logical and comprehensive response that would overcome the conflict arising from Harper Lane's concerns	6-7
Task (b) Explain the difficulties associated with accounting for Harper Lane's M\$5 million claim for compensation.			
Trait			
Criteria	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies present obligation as a criterion	1
	Level 2	Offers a limited explanation of the relevant accounting standard	2 -3
	Level 3	Explains the accounting standard and the criteria that it imposes	4
Difficulties in application	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited explanation of the difficulties in the application of the accounting standard to the potential claim	1-2
	Level 2	Offers a clear, but partial, explanation of the difficulties in the application of the accounting standard to the potential claim	3-4



	Level 3	Offers a clear and comprehensive explanation of the difficulties in the application of the accounting standard to the potential claim	5-6
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SECTION 4			
Task (a) Identify the difficulties associated with determining the net present value of this investment.			
Trait			
Difficulties	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies determination of cash flows and cost of capital as issues	1-2
	Level 2	Offers a discussion of the need to determine cash flows and cost of capital	3-5
	Level 3	Offers a full discussion of the need to determine cash flows and cost of capital	6-7
Task (b) Recommend with reasons whether the investment should be funded by debt or equity, assuming we decide to proceed.			
Trait			
Discussion	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes debt or equity	1
	Level 2	Describes the factors that affect the suitability of debt or equity	2-3
	Level 3	Offers a full discussion of the factors that affect the suitability of debt or equity	4-5
Recommendation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited justification for the recommended type of finance	1
	Level 2	Offers a justification for the recommended type of finance	2-3
	Level 3	Offers a full and logical justification for the recommended type of finance	4-5

SECTION 4 (continued)			
Task (c) Identify the challenges associated with maintaining the engagement of the staff who will be retained after the installation of the robots, and recommend responses.			
Trait			
Challenges	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies a few challenges with no justification or a single challenge with some justification and a relevant response	1-2
	Level 2	Identifies some challenges and justifies their selection including recommended responses	3-5
	Level 3	Identifies a number of challenges and offers a clear and logical explanation of those challenges, taking into account the workforce skill level and motivational implications including relevant responses	6-8



Management/Gateway Level Case Study May-August 2020

Marking Guidance

Variant 3

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Section 1			
(a)	C	Manage performance and costs to aid value creation.	50%
(b)	E	Manage internal and external stakeholders.	50%
Section 2			
(a)	A	Evaluate opportunities to add value.	40%
(b)	D	Measure performance.	60%
Section 3			
(a)	B	Implement senior management decisions.	30%
(b)	E	Manage internal and external stakeholders.	30%
(c)			40%
Section 4			
(a)	A	Evaluate opportunities to add value.	60%
(b)	C	Manage performance and costs to aid value creation.	40%

SECTION 1			
Task (a) To what extent is the hotel manager justified in making such comments for the disappointing ratios? Recommend , with reasons, three additional measures that might offer a more realistic insight into the performance of our hotel managers.			
Trait			
Manager comments	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited discussion of the hotel performance	1-3
	Level 2	Offers a clear discussion of the hotel performance and the manager's response	4-6
	Level 3	Offers a clear and comprehensive discussion of the hotel performance and the manager's response	6-7
Recommend additional measures	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Suggests additional measures without sufficient supporting reasoning	1-2
	Level 2	Suggests appropriate additional measures with limited explanation for recommendations	3-4
	Level 3	Suggests appropriate additional measures with sound explanation for recommendations	5-6
Task (b) Explain how the new profit centre could impact on the behaviours of the purchasing managers and the hotel managers and also suggest how any problems can be overcome.			
Trait			
Impact on behaviour	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited explanation of the impact on the managers' behaviour	1-2
	Level 2	Offers a sound explanation of the impact on the behaviour of both purchasing and hotel managers	3-5
	Level 3	Offers a clear and comprehensive explanation of the impact on the behaviour of both purchasing and hotel managers	6-8



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Overcoming problems	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers brief suggestion to overcome the problems	1
	Level 2	Offers appropriate but limited suggestions to overcome the problems	2
	Level 3	Offers suggestions to overcome the problems with good justification	3-4



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SECTION 2			
Task (a) Recommend with reasons three relevant sources of data that we might use to forecast demand for the proposed all-inclusive holidays.			
Trait			
Multiple sources	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Briefly identifies problems with forecasting demand	1
	Level 2	Explains the problems with forecasting	2
	Level 3	Gives clear descriptions of the problems and identifies the need to use multiple sources of information	3
Recommended sources	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains a single appropriate source of information	1-2
	Level 2	Explains three sources of information clearly with limited justification for them	3-5
	Level 3	Explains three sources of information clearly with comprehensive justification for them	6-7
Task (b) Evaluate Marcus' arguments concerning revenue recognition and identify the implications that his proposed recognition policy would have on the Alpaca Group's financial statements.			
Trait			
Discussion of Marcus' arguments	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited overview of Marcus' arguments	1-3
	Level 2	Briefly explains the rules relating to revenue recognition and that Marcus is incorrect	4-5
	Level 3	Offers a clear and comprehensive explanation of the rules relating to revenue recognition and why Marcus is incorrect	6-8
Impact on financial statements	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Briefly identifies the impact on the financial statements	1-3



	Level 2	Offers an explanation of the impact of the correct treatment of the revenue on the financial statements	4-5
	Level 3	Offers a clear and comprehensive explanation of the correct treatment of the revenue on the financial statements and the difference between this and Marcus's proposed approach	6-7

SECTION 3			
Task (a) Identify the key matters that our project planning must achieve, giving reasons for your selection.			
Trait			
Key project planning aims	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited discussion of the project planning aims	1-3
	Level 2	Offers a clear discussion including recognition of the need for coordination of work and the importance of timing	4-5
	Level 3	Offers a clear and comprehensive discussion including explanation of the need for coordination of work and the importance of timing	6-8
Task (b) Recommend , with reasons, the approach that should be taken to the management of this project.			
Trait			
Project management approach	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Briefly outlines an appropriate approach to managing the project	1-3
	Level 2	Offers a clear discussion including recognition of the importance of communication and appropriate software	4-5
	Level 3	Offers a clear and comprehensive discussion including explanation of the importance of communication and appropriate software	6-7

SECTION 3 (continued)			
Task (c) Recommend how we might negotiate a favourable response from the town council.			
Trait			
Difference in positions	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited explanation of the difference in position between Alpaca and the council	1-2
	Level 2	Offers a clear explanation of the difference in position between Alpaca and the council	3-4
	Level 3	Offers a clear and comprehensive explanation of the difference in position between Alpaca and the council	5-6
Compromise	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Briefly recognises the need to compromise	1
	Level 2	Briefly explains the need to compromise	2
	Level 3	Clearly explains the need to compromise and the implications of doing so	3-4

SECTION 4			
Task (a) Explain how this information would help us to set an appropriate price.			
Trait			
Market based approaches	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited explanation of market-based approaches to setting prices	1-3
	Level 2	Offers a clear explanation of market-based approaches to setting prices and how the information provided would help set a price	4-5
	Level 3	Offers a clear and comprehensive explanation of market-based approaches to setting prices and explains how the information provided would help set a price	6-8
Cost based approaches	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited explanation of cost-based approaches to setting prices	1-3
	Level 2	Offers a clear explanation of cost-based approaches to setting prices and how the information provided would help set a price	4-5
	Level 3	Offers a clear and comprehensive explanation of cost-based approaches to setting prices and explains how the information provided would help set a price	6-7
Task (b) Recommend with reasons three quality management techniques that might be used in the South Division to ensure that adopting the all-inclusive model does not reduce the quality of our guest experience.			
Trait			
Quality management aims	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited explanation of the aims of quality management	1-2
	Level 2	Offers a clear explanation of the aims of quality management in the context of the introduction of the all-inclusive model	3-4
	Level 3	Offers a clear and comprehensive explanation of the aims of quality management in the context of the introduction of the all-inclusive model	5



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Appropriate techniques	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Recommends appropriate techniques without supporting explanation	1-2
	Level 2	Recommends appropriate techniques and provides a clear explanation to justify them	3-4
	Level 3	Recommends appropriate techniques and provides a clear and comprehensive explanation to justify them	5



Management/Gateway Level Case Study May - August 2020
Marking Guidance
Variant 4

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Management /Gateway Case Study [May - August 2020].

The indicative answers will show the expected or most orthodox approach; however the nature of the case study examination tasks means that a range of responses will be valid. The descriptors within this level-based marking scheme are holistic and can accommodate a range of acceptable responses.

General marking guidance is given below, markers are subject to extensive training and standardisation activities and ongoing monitoring to ensure that judgements are being made correctly and consistently.

Care must be taken not to make too many assumptions about future marking schemes on the basis of this document. While the guiding principles remain constant, details may change depending on the content of a particular case study examination form.

General marking guidance

- Marking schemes should be applied positively, with candidates rewarded for what they have demonstrated and not penalised for omissions.
- All marks on the scheme are designed to be awarded and full marks should be awarded when all level descriptor criteria are met.
- The marking scheme and indicative answers are provided as a guide to markers. They are not intended to be exhaustive and other valid approaches must be rewarded. Equally, students do not have to make all of the points mentioned in the indicative answers to receive the highest level of the marking scheme.
- An answer which does not address the requirements of the task must be awarded no marks.



- Markers should mark according to the marking scheme and not their perception of where the passing standard may lie.
Where markers are in doubt as to the application of the marking scheme to a particular candidate script, they must contact their lead marker.

How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

- For each trait in the marking scheme, read each level descriptor and select one, using a best-fit approach.
- The response does not need to meet all of the criteria of the level descriptor – it should be placed at the level when it meets more of the criteria of this level than the criteria of the other levels.
- If the work fits more than one level, judge which one provides the best match.
- If the work is on the borderline between two levels, then it should be placed either at the top of the lower band or the bottom of the higher band, depending on where it fits best.

3. Select a mark within the level

- Once you have selected the level, you will need to choose the mark to apply.
- A small range of marks may be given at each level. You will need to use your professional judgement to decide which mark to allocate.
- If the answer is of high quality and convincingly meets the requirements of the level, then you should award the highest mark available. If not, then you should award a lower mark within the range available, making a judgement on the overall quality of the answer in relation to the level descriptor.

Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task Weighting (% section time)
Section 1			
(a)	D	Measure performance.	50%
(b)	E	Manage internal and external stakeholders.	50%
Section 2			
(a)	D	Measure performance.	50%
(b)	A	Evaluate opportunities to add value.	50%
Section 3			
(a)	C	Manage performance and costs to aid value creation.	60%
(b)	E	Manage internal and external stakeholders.	40%
Section 4			
(a)	A	Evaluate opportunities to add value.	40%
(b)	B	Implement senior management decisions.	60%

SECTION 1			
Task (a) Explain the product, reputation and operational risks that would be associated with this deal and how we can mitigate these risks.			
Trait			
Explain the risks	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains a limited range of product, reputation and operational risks associated with the deal and the explanations lack depth and clarity	1-2
	Level 2	Explains some product, reputation and operational risks associated with the deal with reasonable depth and clarity	3-4
	Level 3	Explains a wide range of product, reputation and operational risks associated with the deal with depth and clarity	5-6
Risk mitigation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited range of methods to mitigate the risks and they lack clarity or application to the Grand Hotel	1-2
	Level 2	Offers a limited range of methods to mitigate the risks with application to the Grand Hotel	3-4
	Level 3	Offers a wide range of methods to mitigate the risks with application to the Grand Hotel	5-6
Task (b) Explain the challenges associated with communicating with Maylandia Travel if we agree to Flyshift's proposal and suggest a response.			
Trait			
Challenges	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains at least one challenge of communication but there is little reference to Alpaca and Maylandia Travel. Explanations lack clarity or depth	1-2
	Level 2	Explains at least one challenge of communication with reference to Alpaca and Maylandia Travel. Explanations show some clarity and depth	3-5

	Level 3	Explains a range of challenges of communication with reference to Alpaca and Maylandia Travel. Explanations are clear	6-7
Responses	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers at least one response which lacks depth or clarity and makes little or no reference to Alpaca.	1-2
	Level 2	Offers more than one response which show depth and clarity and refer to Alpaca.	3-4
	Level 3	Offers more than two responses which show depth and clarity and refer to Alpaca.	5-6

SECTION 2			
Task (a) Use my schedule of ratios to evaluate Flyshift's suitability as a major customer for Alpaca.			
Trait			
Performance	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers discussion on some of the performance ratios with no evaluation on the suitability. Does not refer to overtrading.	1-2
	Level 2	Offers discussion on most of the performance ratios but with limited evaluation on the suitability. May refer to overtrading.	3-4
	Level 3	Offers discussion and evaluation on all the performance ratios with a clear evaluation on the suitability. Suggests that Flyshift may be overtrading.	5-6
Liquidity and gearing	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers discussion on some of the liquidity and gearing ratios with no evaluation on the suitability. Does not refer to overtrading.	1-2
	Level 2	Offers discussion on most of the performance ratios but with limited evaluation on the suitability. May refer to overtrading.	3-4
	Level 3	Offers discussion and evaluation on all the performance ratios with a clear evaluation on the suitability. Suggests that Flyshift may be overtrading.	5-6
Task (b) Assuming that this may be extended to other hotels in the group, identify the implications that this arrangement will have for Alpaca's business model.			
Trait			
Business model	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Makes reference to the Alpaca business model but gives an overview and does not look at the individual values	1
	Level 2	Makes reference to the Alpaca business model and discusses some of the values	2-3

	Level 3	Makes reference to the Alpaca business model and discusses each of the values	4
Implications	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Discusses the implications the arrangement will have on at least one of the values, but the discussions lack depth and clarity. Not all of the four values are covered.	1-3
	Level 2	Discusses the implications the arrangement will have on at least one of the values, and the discussions are described clearly. Alternatively, all of the four values are covered but the discussions may lack depth.	4-6
	Level 3	Discusses the implications the arrangement will have on all the four values, and the discussions are described clearly.	7-9



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SECTION 3			
Task (a) Explain the issues that we need to consider when managing the relationship between our costs and the price offered by Flyshift.			
Trait			
Manage relationship	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes one technique that can be used to manage the relationship between costs and price. This should include target costing or ABM. Little or no reference is made to Alpaca.	1-3
	Level 2	Describes at least one technique that can be used to manage the relationship between costs and price. This should include target costing and ABM. Descriptions may lack clarity. Some reference is made to Alpaca.	4-6
	Level 3	Describes at least two techniques that can be used to manage the relationship between costs and price. This should include target costing and ABM. Descriptions are clear and refer to the issues raised by Alpaca.	7-9
Cost reduction	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Suggests at least one action to take to reduce costs but explanations lack depth and clarity. Suggestions may be general and do not relate to the schedule of costs.	1-2
	Level 2	Suggests at least one action to take to reduce costs and explanations have depth and clarity. Suggestions relate to the notes to the schedule of costs but may not mention the meals.	3-4
	Level 3	Suggests a range of actions to take to reduce costs and explanations have depth and clarity. Suggestions relate to the notes to the schedule of costs and the meals.	5-6
Task (b) Recommend the approach we might take when negotiating with Flyshift.			
Trait			
Negotiation process	Level	Descriptor	Marks
		No rewardable material	0

	Level 1	Discusses the general stages of the negotiation process but makes little or no reference to Alpaca and Flyshift	1
	Level 2	Discusses the general stages of the negotiation process and refers to Alpaca and Flyshift	2-3
	Level 3	Discusses the general stages of the negotiation process with respect to both Alpaca and Flyshift	4
Application	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies the aim of the negotiation process	1-2
	Level 2	Identifies the aim of the negotiation process and discusses the approach Alpaca should take	3-4
	Level 3	Identifies the aim of the negotiation process and discusses the approach Alpaca should take with clarity and depth	5-6



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SECTION 4			
Task (a) Support my rejection of this proposal including an explanation of the operational issues the proposal would have caused for the hotel management.			
Trait			
Rejection	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers limited discussion of reasons for rejection	1
	Level 2	Discusses reasons for rejection	2-3
	Level 3	Discusses reasons for rejection with good justification	4-5
Operational issues	Level	Descriptor	Marks
		No rewardable material	
	Level 1	Offers limited explanation of operational issues	1
	Level 2	Offers explanation of operational issues	2-3
	Level 3	Offers explanation of operational issues with justification	4-5
Task (b) Explain which characteristics of debt and equity would be most significant when considering how to finance this substantial investment.			
Trait			
Characteristics	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Gives a list of some characteristics of debt and equity with little depth	1-2
	Level 2	Gives a list of some characteristics of debt and equity which are explained in depth. This list may not cover all characteristics.	3-4
	Level 3	Gives a wide range of characteristics of debt and equity which are explained fully	5-6
Applied to investment	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies some of the features of the investment and links these to some of the characteristics of debt and equity. Explanations lack depth and clarity.	1-3



	Level 2	Identifies most of the features of the investment and links these to some of the characteristics of debt and equity. Explanations show some depth and clarity.	4-6
	Level 3	Identifies most of the features of the investment and links these to most of the characteristics of debt and equity. Explanations are clear and full.	7-9



Management/Gateway Level Case Study May-August 2020
Marking Guidance
Variant 5

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Management/Gateway Case Study [May-August 2020].

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General marking guidance

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- An answer which does not address the requirements of the task must be awarded no marks.



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How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

- For each trait in the marking scheme, read each level descriptor and select one, using a best-fit approach.
- The response does not need to meet all of the criteria of the level descriptor – it should be placed at the level when it meets more of the criteria of this level than the criteria of the other levels.
- If the work fits more than one level, judge which one provides the best match.
- If the work is on the borderline between two levels, then it should be placed either at the top of the lower band or the bottom of the higher band, depending on where it fits best.

3. Select a mark within the level

- Once you have selected the level, you will need to choose the mark to apply.
- A small range of marks may be given at each level. You will need to use your professional judgement to decide which mark to allocate.
- If the answer is of high quality and convincingly meets the requirements of the level, then you should award the highest mark available. If not, then you should award a lower mark within the range available, making a judgement on the overall quality of the answer in relation to the level descriptor.

Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task Weighting (% section time)
Section 1			
(a)	C	Manage performance and costs to aid value creation.	52%
(b)	D	Measure performance.	48%
Section 2			
(a)	A	Evaluate opportunities to add value.	40%
(b)	B	Implement senior management decisions.	60%
Section 3			
(a)	D	Measure performance.	44%
(b)	A	Evaluate opportunities to add value.	56%
	C	Manage performance and costs to aid value creation.	
Section 4			
(a)	E	Manage internal and external stakeholders.	60%
(b)	A	Evaluate opportunities to add value.	40%

SECTION 1

Task (a) Explain any concerns you have about using the research report as the basis for our investment appraisal calculations.

Trait			
Subjectivity	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies subjectivity as an issue	1-2
	Level 2	Offers a clear explanation of the possible concerns that could be raised about the authors' subjective judgement	3-5
	Level 3	Offers a clear explanation of the possible concerns that could be raised about the authors' subjective judgement, with good justification of the points made	6-7
Underlying data	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies concerns about the underlying data as an issue	1-2
	Level 2	Offers a clear explanation of the possible concerns that could be raised about the underlying data used	3-4
	Level 3	Offers a clear explanation of the possible concerns that could be raised about the underlying data used, with good justification of the points made	5-6

Task (b) Explain how each risk could be managed and why it is important for Alpaca to manage each of these risks.

Trait			
Accidents	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Suggests a response	1
	Level 2	Offers a logical explanation of the management of the risk and its importance	2-3
	Level 3	Offers a full and logical explanation of the management of the risk and its importance	4

Unpaid access	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Suggests a response	1
	Level 2	Offers a logical explanation of the management of the risk and its importance	2-3
	Level 3	Offers a full and logical explanation of the management of the risk and its importance	4
Equipment damage	Level	Descriptor	Marks
		No rewardable material	
	Level 1	Suggests a response	1
	Level 2	Offers a logical explanation of the management of the risk and its importance	2-3
	Level 3	Offers a full and logical explanation of the management of the risk and its importance	4

SECTION 2

Task (a) Explain, giving financial and non-financial reasons, why the decision should not be based on the evaluation given in the Board minutes.

Trait			
Financial reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies some of the financial issues	1
	Level 2	Offers a logical explanation of the limitations of the board's decision from a financial perspective	2-3
	Level 3	Offers a logical explanation of the limitations of the board's decision from a financial perspective, with good justification for the points	4-5
Non-financial reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies some of the non-financial issues	1
	Level 2	Offers a logical explanation of the limitations of the board's decision from a non-financial perspective	2-3
	Level 3	Offers a logical explanation of the limitations of the board's decision from a non-financial perspective, with good justification for the points	4-5
Task (b) Discuss the advantages and disadvantages to Alpaca of each suggested method of financing of the required M\$20 million.			
Trait			
Fixed rate bond	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies some of the advantages and disadvantages	1-2
	Level 2	Offers a clear and comprehensive of the advantages and disadvantages of bond finance	3-5



	Level 3	Offers a clear and comprehensive of the advantages and disadvantages of bond finance, with good justification of the arguments	6-8
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Rights issue	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies some of the advantages and disadvantages	1-2
	Level 2	Offers a clear and comprehensive of the advantages and disadvantages of a rights issue	3-5
	Level 3	Offers a clear and comprehensive of the advantages and disadvantages of a rights issue, with good justification of the arguments	6-7

SECTION 3			
Task (a) Describe the accounting treatment of both the app creation costs of M\$1,280,000 and the brand name of M\$1,000,000 in the financial statements of Alpaca.			
Trait			
App	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies accounting issues	1-2
	Level 2	Offers a relevant and well supported accounting treatment	3-4
	Level 3	Offers a relevant and well supported accounting treatment, stating assumptions	5-6
Brand name	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies accounting issues	1
	Level 2	Offers a relevant and well supported accounting treatment	2-3
	Level 3	Offers a relevant and well supported accounting treatment, stating assumptions	4-5
Task (b) Explain how Alpaca can benefit from the information that the new app gathers about members of the Health Zone and any issues it may face using this data.			
Trait			
Benefits	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a list of some benefits without explanation	1-2
	Level 2	Offers a limited explanation of a few benefits of app data use	3-5
	Level 3	Offers a clear and logical explanation of two or more benefits of app data use, taking account of cost control and tailored experiences	6-7
Issues	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a list of some issues without explanation	1-2
	Level 2	Offers a limited explanation of a few issues with data use	3-5



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	Level 3	Offers a clear and logical explanation of two or more issues with data use, taking account of data protection laws, implications of data loss and storage	6-7
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SECTION 4			
Task (a) Explain the issues that need to be considered when setting transfer prices for the use of the Health Zone by hotel residents. Please ensure that you cover this from the perspective of each of the two managers and the Alpaca Group.			
Trait			
Managers	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues from managers' perspective	1-2
	Level 2	Offers a clear and comprehensive explanation of the issues from the perspective of the two managers	3-5
	Level 3	Offers a clear and comprehensive explanation of the issues from the perspective of the two managers, with good justification of points made	6-8
Alpaca Group	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues from the group's perspective	1-2
	Level 2	Offers a clear and comprehensive explanation of the issues from the perspective of the group	3-5
	Level 3	Offers a clear and comprehensive explanation of the issues from the perspective of the group, with good justification of points made	6-7
Task (b) Explain the importance of the different leadership approaches adopted by Mark Cranston and by the team leaders that would lead to the successful operation of the Health Zone.			
Trait			
Mark's leadership style	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers an explanation of Mark's leadership style	1
	Level 2	Offers a clear and logical explanation of the importance of Mark's leadership style	2-3
	Level 3	Offers a clear and logical explanation of the importance of Mark's leadership style, with good justification of the points made	4-5



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Team leaders' style	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers an explanation of team leaders' leadership style	1
	Level 2	Offers a clear and logical explanation of the importance of team leaders' leadership style	2-3
	Level 3	Offers a clear and logical explanation of the importance of team leaders' leadership style, with good justification of the points made	4-5



Management/Gateway Level Case Study May-August 2020
Marking Guidance
Variant 6

About this marking scheme

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- An answer which does not address the requirements of the task must be awarded no marks.



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Where markers are in doubt as to the application of the marking scheme to a particular candidate script, they must contact their lead marker.

How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

- For each trait in the marking scheme, read each level descriptor and select one, using a best-fit approach.
- The response does not need to meet all of the criteria of the level descriptor – it should be placed at the level when it meets more of the criteria of this level than the criteria of the other levels.
- If the work fits more than one level, judge which one provides the best match.
- If the work is on the borderline between two levels, then it should be placed either at the top of the lower band or the bottom of the higher band, depending on where it fits best.

3. Select a mark within the level

- Once you have selected the level, you will need to choose the mark to apply.
- A small range of marks may be given at each level. You will need to use your professional judgement to decide which mark to allocate.
- If the answer is of high quality and convincingly meets the requirements of the level, then you should award the highest mark available. If not, then you should award a lower mark within the range available, making a judgement on the overall quality of the answer in relation to the level descriptor.

Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task Weighting (% section time)
Section 1			
(a)	C	Manage performance and costs to aid value creation.	60%
(b)	E	Manage internal and external stakeholders.	40%
Section 2			
(a)	E	Manage internal and external stakeholders.	60%
(b)	D	Measure performance.	40%
Section 3			
(a)	A	Evaluate opportunities to add value.	60%
(b)	C	Manage performance and costs to aid value creation.	40%
Section 4			
(a)	B	Implement senior management decisions.	60%
(b)	D	Measure performance.	40%



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Task (a) Please send me an email that explains , with examples, how we might be able to use target costing to help to determine if the fee offered by FlashFashion is acceptable to Alpaca.			
Trait			
Target costing	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited discussion of target costing and its use in this context	1-3
	Level 2	Offers a clear discussion of target costing and how it could be useful in determining if the fee is sufficient	4-6
	Level 3	Offers a clear and comprehensive discussion of target costing and how it could be useful in determining if the fee is sufficient including explanation of how the profit percentage should be decided.	6-8
Functional analysis	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Briefly discusses functional analysis, value analysis and value engineering.	1-2
	Level 2	Offers a clear discussion of how functional analysis, value analysis and value engineering can be used to reduce costs for the conference.	3-4
	Level 3	Offers a clear and comprehensive discussion of how functional analysis, value analysis and value engineering can be used to reduce costs for the conference.	5-7
Task (b) Please include in your email some advice on what issues we need to consider when negotiating with an activity provider and how we can overcome these.			
Trait			
Preparation and opening	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Briefly identifies the importance of information gathering and the requirements for activities.	1-2
	Level 2	Clearly explains the importance of information gathering and the requirements for activities.	3-4

	Level 3	Offers a clear and comprehensive explanation of the importance of information gathering and understanding the requirements for activities.	5-6
Bargaining and closing	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a brief explanation of the need to negotiate a fee	1-2
	Level 2	Clearly explains the importance of negotiating an appropriate fee and gaining agreement on the details of the service to be provided	3
	Level 3	Clearly and comprehensively explains the importance of negotiating an appropriate fee and gaining agreement on the details of the service to be provided	4

SECTION 2

Task (a) Explain the issues that need to be considered when setting transfer prices for both waiters and other staff.



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Trait			
Alpaca North and Alpaca Central	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Briefly identifies issues relating to setting transfer prices	1-3
	Level 2	Clearly explains the issues relating to setting transfer prices from the viewpoint of both Alpaca North and Alpaca Central	4-6
	Level 3	Offers a clear and comprehensive explanation of the issues relating to setting transfer prices from the viewpoint of both Alpaca North and Alpaca Central	7-8
Alpaca Group	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Briefly identifies the impact of the transfer prices on the Alpaca Group	1-2
	Level 2	Clearly explains the impact of the transfer prices on the Group	3-5
	Level 3	Offers a clear and comprehensive explanation of the transfer price impact on the Group and explains the longer-term impact of the issues	6-7
Task (b) Explain the key risks to Alpaca associated with using an external provider for the team building activities and how these can be mitigated.			
Trait			
Key risks	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited discussion of key risks	1-2
	Level 2	Briefly explains a range of key risks associated with using an external provider	3-4
	Level 3	Offers a clear and comprehensive explanation of the risks associated with using an external provider	5
Mitigation of key risks	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited discussion of risk mitigation	1-2
	Level 2	Briefly explains how the risks could be mitigated	3-4
	Level 3	Clearly explains practical ways in which the risks could be mitigated	5



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SECTION 3			
Task (a) I would like you to explain how the operational impact of hosting conferences could change Alpaca's business model.			
Trait			
Defining value and creating value	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited discussion of the need to define and create value	1-3
	Level 2	Offers a clear discussion including recognition of the need to define and then create value	4-5
	Level 3	Offers a clear and comprehensive discussion including explanation of the need to define and create value in the context of the new conference service	6-7
Delivering value and capturing residual value	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited discussion of the need to deliver value and capture residual value	1-3
	Level 2	Offers a clear discussion of the need to deliver value and capture residual value	4-5
	Level 3	Offers a clear and comprehensive discussion of the need to deliver value and capture residual value in the context of the new conference service	6-8
Task (b) Please also explain how the decision to host conferences would impact on planning and control.			
Trait			
Impact on planning	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Briefly identifies some impact on planning	1-2
	Level 2	Offers a clear explanation of the impact on planning including the application of cost transformation techniques	3-4
	Level 3	Offers a clear and comprehensive explanation of the impact on planning including a discussion of the application of cost transformation techniques	5-6



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Impact on control	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Briefly identifies some impact on control	1
	Level 2	Offers a clear explanation of the impact on control including performance measurement	2-3
	Level 3	Offers a clear and comprehensive explanation of the impact on control including performance measurement	4

SECTION 4			
Task (a) Explain the characteristics of the proposed borrowing and how these differ from the equity funding the Alpaca North management team were expecting.			
Trait			
Interest charges, lending terms	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited explanation of the different characteristics of interest charges rather than dividends	1-3
	Level 2	Offers a clear explanation of the different characteristics of interest charges rather than dividends and a discussion of borrowing terms	4-5
	Level 3	Offers a clear and comprehensive explanation of the different characteristics of interest charges rather than dividends and a discussion of borrowing terms	6-8
Process of fundraising, repayment	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited explanation of the different fundraising approaches for debt and equity	1-3
	Level 2	Offers a clear explanation of the impact of the different fundraising approaches for debt and equity and the need to repay debt	4-5
	Level 3	Offers a clear and comprehensive explanation of the impact of the different fundraising approaches for debt and equity and the need to repay debt	6-7
Task (b) Explain the likely impact of the borrowings and the new conference service on Alpaca North's key performance indicators.			
Trait			
Impact of borrowings	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited explanation of the impact of borrowings on the KPIs	1-2
	Level 2	Offers a clear explanation of the impact of borrowings on the KPIs	3-4
	Level 3	Offers a clear and comprehensive explanation of the impact of borrowings on the KPIs	5



Impact of new conferences	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers a limited explanation of the impact of the new conferences on the KPIs	1-2
	Level 2	Offers a clear explanation of the impact of the new conferences on the KPIs	3-4
	Level 3	Offers a clear and comprehensive explanation of the impact of the new conferences on the KPIs	5