

May and August 2023
Management Case Study
2019 CGMA Professional Qualification
Full post exam support materials

Below are the full post-exam supporting materials for the Management Case Study Exam. Use the links on this page to jump to the documents required.

Pre-seen material

May and August Management Case Study [pre-seen](#).

Examiner's report

The May and November 2023 [examiner's report](#).

Exam variants

- [Variant 1](#)
- [Variant 2](#)
- [Variant 3](#)
- [Variant 4](#)
- [Variant 5](#)
- [Variant 6](#)

Suggested solutions

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

Marking Guidance

- [Marking guidance for variant 1](#)
- [Marking guidance for variant 2](#)
- [Marking guidance for variant 3](#)
- [Marking guidance for variant 4](#)
- [Marking guidance for variant 5](#)
- [Marking guidance for variant 6](#)

If you need any further information please [contact us](#).

Management Case Study Examination

May - August 2023

Pre-seen material



Context Statement

We are aware that there has been, and remains, a significant amount of change globally. To assist with clarity and fairness, we do not expect students to factor these changes in when responding to, or preparing for, case studies. This pre-seen, and its associated exams (while aiming to reflect real life), are set in a context where current and on-going global issues have not had an impact.

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

Contents

Introduction	2
The package holiday industry	3
Tour operators v travel agents.....	4
Package holiday destinations.....	5
Transportation	7
Accommodation.....	8
Travel insurance	9
Booking	9
Dynamic packages.....	9
Major Westlandian tour operators.....	10
Happywell	12
Booking	12
Aircraft	14
Hotels	14
Transfers	15
Customer feedback.....	15
Happywell’s management structure.....	16
Happywell’s resort operations.....	18
Happywell’s Board structure.....	18
Happywell’s business model.....	19
Extracts from Happywell’s annual report.....	20
Extract from Mangusair’s annual report.....	22
News reports.....	24

Introduction

Happywell Holidays (“Happywell”) is a quoted travel company that sells package holidays. The company operates its own flights and hotels and sells related third-party products such as insurance and car hire on behalf of third parties.




Happywell’s administrative base is in Westland. The company sells foreign holidays to Westlandian customers, who fly from their local airports to the destinations served by Happywell.

Westland’s currency is the W\$. Westlandian company law requires companies to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS).

You are a Financial Manager at Happywell’s Head Office. Your primary responsibilities are associated with management accounting, and you report to Irina Juhas, the Senior Financial Manager, who reports directly to the Finance Director.

The package holiday industry

Package holidays usually comprise three core elements that are booked in a single bundle at a total price. Customers booking package holidays do not know the individual cost of each of the three elements of their holidays:

<p>Flights</p> 	<p>Customers choose the dates for their departure and return. They can choose from a range of destinations served by local airports that have flights matching those dates.</p>
<p>Accommodation</p> 	<p>Customers choose a hotel or other accommodation such as a villa at their chosen destination. Arrival and departure dates match the dates of chosen flights.</p>
<p>Transfers</p> 	<p>Customers are met on arrival at their destination airport. A coach or taxi takes them and their luggage to their hotel. They are collected and returned to the airport for their flight home at the end of their holidays.</p>

Package holidays can be booked online or in person by seeking advice from the staff at a local travel agency.

It is possible to book a holiday by buying the separate elements of travel and accommodation separately, but package holidays are usually more convenient. Customers can choose from packages that suit their dates and preferred destinations, knowing that accommodation is available to match the dates of their flights.

Package holidays can be cheaper than the total cost of making separate bookings. Tour operators may own and operate their own aircraft and hotels, or they may make block bookings on flights and hotel rooms from third-party airlines and hotel chains. The associated cost savings can be used to discount the selling price of their package holidays.



Package holiday tour operators offer advice and assistance that may not be available from holidays that have been booked independently. Most tour operators have representatives (or “reps”) based in the holiday resorts that they serve. Reps can provide customers with support and advice throughout their holidays. This can include dealing with any concerns or complaints that might otherwise spoil a holiday, recommending local attractions and assisting in the event of problems such as illness or lost passports.

Package holidays also offer financial safeguards that are not available on other types of booking. Westlandian law requires package holiday operators to be registered with the Westlandian Travel Operator’s Licence scheme (“WTOL”). Tour operators must make a payment in respect of each package holiday that they sell into a fund that is administered by WTOL. The fund is used to refund customers if their tour operator goes out of business before they travel. The fund is also used by WTOL to organise flights to repatriate customers who are stranded overseas if their tour operator goes out of business during their holidays.

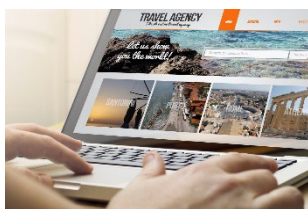
Tour operators v travel agents

Tour operators are entities that combine the separate elements of a holiday into a package that can be sold directly to a customer or can be sold through a travel agent. Tour operators may provide the elements directly through ownership and operation of, for example, hotels and/or aircraft, or they may purchase those elements from third parties.



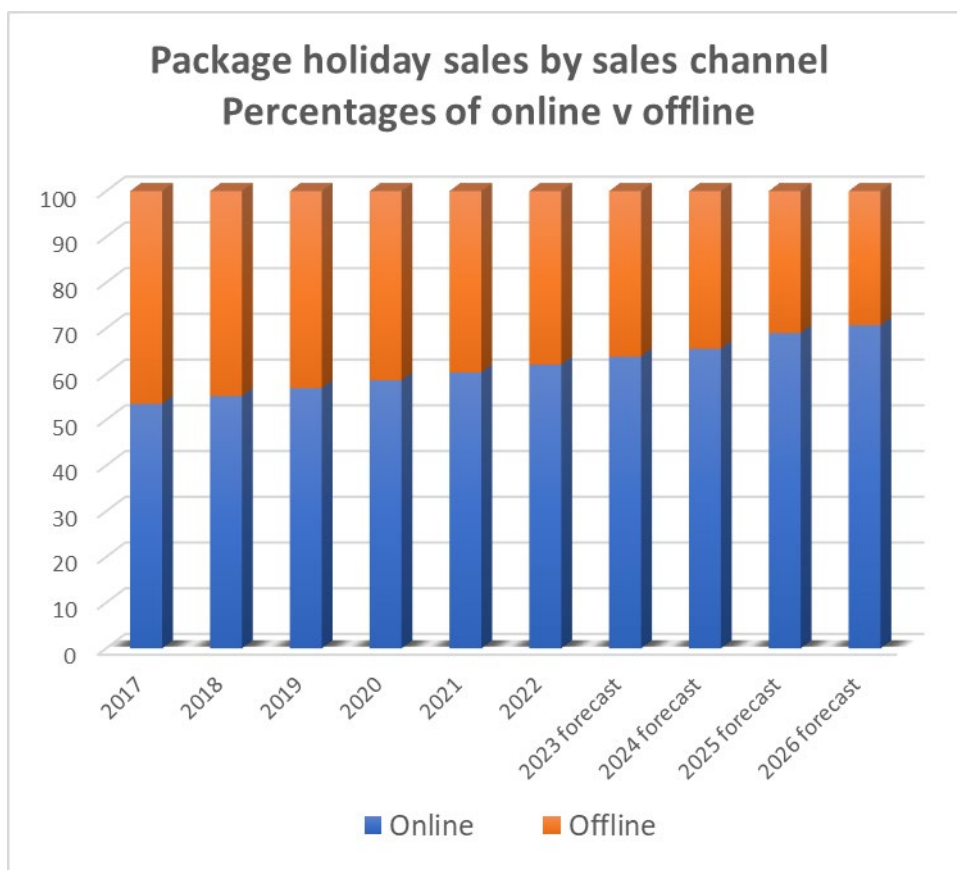
Travel agents are organisations that sell holidays and other travel products such as airline tickets and hotel bookings to customers. Traditionally, travel agencies were retail shops where customers could seek advice from agency staff. Such agencies still exist, but many travel agencies offer online services that enable customers to select and book holidays through travel agency websites.

Some tour operators sell exclusively to customers, either online or through a combination of online and physical shops. Other tour operators permit travel agents to sell their holiday packages in return for a commission.

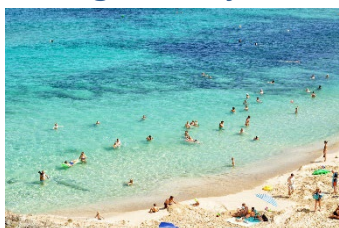


Many tour operators and travel agencies prefer customers to book online because it is cheaper to process online bookings than to operate shops. Online sales are generally based on interactive websites that enable customers to input variables such as their preferred local airports for departure, their preferred type of resort and their price range. Offline sales rely on interaction with a trained travel adviser to guide the customer through the same issues, with

the adviser offering recommendations based on the customer’s preferences. This requires the provision of retail premises and staff salaries.



Package holiday destinations



The most popular type of package holiday sold in Westland is the so-called “sun, sea and sand” (or “3S”) package. Westland has a temperate climate that is cold for much of the year and has mild summers. Many customers for package holidays wish to travel to destinations that offer hot weather and sunny skies. Most customers for 3S holidays are looking for an opportunity to relax on the beach during the day and to enjoy restaurants and other activities at their hotels or in their resorts in the evening.

3S holidays vary significantly depending on the destination and choice of accommodation. For example, customers booking family holidays generally choose holiday resorts and accommodation that are child friendly. They seek places where children can swim safely and that offer activities and attractions to amuse them. Proximity to theme parks is also a consideration.

Adults travelling without children often book “child-free” holidays in quieter locations where they can relax. Some hotels set a minimum age of, for example, 18 years for guests, so that they can guarantee an adult only environment.

Several other factors can affect the choice of 3S holidays:

- Prevailing weather – customers have different preferences for heat and sunshine. Some customers prefer to avoid extreme heat. Others are keen to enjoy sunshine during Westland’s winter months.
- Cost – local economies can affect the costs of accommodation and transfers. Some locations charge more for a higher quality holiday experience. Distance can affect the cost of flights. Customers generally have budgets for the cost of their holiday.

- Attractions – resorts vary in terms of the things that are available to do and see. Some customers may be keen to enjoy sports and adventure activities, while others may be keen to visit historical sites.
- Travel time – some customers dislike long flights, while others may be willing to travel further to reach their preferred destination.
- Culture – some customers prefer resorts that offer food and entertainment that are similar to those at home, while others prefer to experience local traditions.

3S holidays are often referred to as “mass market” by tour operators and travel agents because they are favoured by the majority of customers. Most large tour operators and travel agents offer a wide range of 3S destinations in order to meet the needs of as many customers as possible.

Some holiday destinations are open for business throughout the year. Others have designated “holiday seasons” that coincide with periods where there is sufficient demand for hotels, restaurants and other attractions to operate. It is generally possible to take a package holiday at any time of year, although it may be necessary to travel further for, sunny weather during Westland’s winter than during its summer months.

Some tour companies and travel agents offer alternatives to 3S holidays:

Specialist or niche holidays	<p>Niche holidays offer an alternative to the 3S model. They consist of packages that are usually aimed at niche markets that may be smaller than those for 3S holidays but are still large enough to be profitable. Customers might, for example, wish to ski and would be seeking a package that was based at a ski resort and could manage the transportation of skis and other equipment.</p> <p>Some tour operators specialise in specific niches and offer flights and accommodation, along with arranging the activities themselves. For example, a golfing holiday could include arrangements to transport customers’ golf clubs and also to make reservations for them to play at local golf courses near their hotels.</p> <p>Niche holidays are often offered by small but specialist tour operators.</p>
Tailored	<p>Some tour operators provide tailored holidays that allow customers to specify exactly what they wish in terms of destination and activities. For example, a customer might wish to travel to a remote location in luxury.</p> <p>Tailored holidays are generally much more expensive than mass market holidays. These holidays are usually offered by smaller tour operators who specialise in this market.</p> <p>Customers for tailored package holidays are not necessarily trying to save money. They are more likely to be paying for the convenience of having a holiday package designed to suit their specific needs.</p>

Transportation

Most tour operators use charter airlines to provide flights. A charter airline essentially charters or leases a flight to another entity. Most charter airlines specialise in providing flights for tour operators. A charter airline would sell the entire flight to a tour operator, leaving the tour operator to sell the seats. Charter airlines differ from scheduled airlines, who operate their own flights according to a timetable and sell seats to passengers.



In addition to the aircraft itself, a charter airline will provide a tour operator with the crew and all the administrative and other support needed to complete the flight, such as filing flight plans and making the necessary arrangements with the airports. The tour operator's only responsibility is to sell seats on the flight to its customers.

Charter airlines can operate as independent businesses that do nothing but provide flights, but some tour operators have their own charter airlines that provide an in-house airline.

Charter airlines are cheaper than the scheduled airlines, partly because they do not offer as many services:

- Charter airlines do not usually include meals and drinks in the cost of their flights. Passengers can, if they wish, either prepay for in-flight meals when booking their holidays or they can buy drinks and snacks during their flight.
- Charter airlines do not usually offer different classes of service, unlike scheduled airlines that may offer the ability to book business class and first-class seats on longer flights. Most charter airlines offer a single class of service, although they may have a limited number of seats that have additional leg room that can be booked at an additional charge.
- Charter airlines typically grant passengers smaller baggage allowances than scheduled airlines and charge extra for baggage that exceeds the limit.
- Charter airlines often operate from smaller airports that may be less convenient than the airports used by scheduled airlines.
- Charter airlines usually offer direct flights between the departure airport and the holiday destination. Scheduled airlines often require their passengers to make a stop to change aircraft when travelling to less popular destinations. In principle, a charter airline can arrange a direct flight between any two airports that are within the range of its aircraft.

Package holiday customers will be informed about their flights when they make their bookings. They may also be offered the opportunity to buy "extras" such as:

- Extra legroom seats
- In-flight meals
- Extra luggage allowance
- Preselected seats, guaranteeing that the entire party can sit together and ensuring that preferences for window or aisle seats are satisfied

Most package holidays rely on charter airlines for flights, except for tailored holiday providers who normally use scheduled airlines because their customers are often keen to visit an exclusive destination. Scheduled airlines also offer business class and first-class seats on many flights, which are generally not available on charter flights. Customers for tailored holidays are usually willing to pay extra for greater comfort.



Transportation also includes transfers from the destination airport to the hotel. Most tour operators book 40-seat coaches to meet incoming flights. Coaches collect busloads of passengers, and the coach drivers are given a list of the hotels to which they must be taken. Passengers are then dropped at their hotels, and their luggage is retrieved from the coach's hold. Tour operators may have several flights per day arriving at popular resorts and so may require several coaches, each of which makes a number of journeys each day.

Coach transfers can require customers to endure a long journey if they are unlucky enough to be staying in one of the last hotels on the driver's list. Tour operators often offer customers the opportunity to upgrade, for an extra charge, to "private transfers". Customers who take that option are met at their destination airport by a taxi or a minibus and taken directly to their hotel.

Accommodation

Most tour operators develop long-term relationships with hotels in the various destinations that they serve. Typically, they will rent most, if not all, of each hotel's rooms for the whole of the holiday season. In return, the hotel will permit the tour operator to incorporate its name and logo into exterior signage and will provide space where the tour operator's reps can interact with customers.

Some tour operators own hotels. That clearly gives them greater control over quality.

The cost of hotel accommodation varies in line with local economic factors. Some countries have higher labour costs and so they are more expensive destinations than alternatives with lower costs. Supply and demand can also affect pricing. If a particular resort is very popular, then its hotels will be able to charge more.

Individual hotels vary in terms of the level of comfort that they offer. More luxurious hotels with larger rooms and nicer public areas can charge more than basic hotels. Pricing can also be affected by location. Customers will pay more to be located close to the sea or to shops and restaurants.

When customers are booking, they will have a choice of rooms within any given hotel. It will cost more to book a room that features a balcony or a sea view.

Customers must also choose the meals that they wish to have included in their bookings. The choices typically on offer are:

- Breakfast only
- Half board (breakfast and dinner)
- Full board (breakfast, lunch and dinner)
- Fully inclusive (all meals, plus unlimited drinks and snacks)

Some hotels offer additional features such as swimming pools, beauty spas, organised children's activities and evening entertainments. These may involve an additional charge that can either be prepaid at the time of booking or paid for at the hotel. Alternatively, they may be offered as an element of the overall holiday package and not charged separately.

Travel insurance

It is advisable to buy travel insurance before travelling abroad. Travel insurance provides cover against unexpected costs incurred while on holiday. For example, if a policyholder is injured or becomes unwell, then the insurer will offer advice and will pay for any medical care that is required.

Travel insurance can also refund the cost of a holiday if the policyholder is prevented from travelling because of illness. Uninsured customers usually forfeit the cost of their holidays if they are forced to cancel.

Travel insurance can provide limited cover in the event of the failure of the tour operator, which complements the safeguards provided by WTOL. For example, a customer who is stranded overseas by the failure of their tour operator can reclaim any costs for food and accommodation incurred while waiting for a repatriation flight, from the travel insurance company.

The cost of travel insurance is affected by the risks that are insured. A customer who is more likely to claim because of age or previous health issues will pay more than a younger and healthier customer.

Travel insurance can often be purchased from the travel agent or tour operator as part of a package holiday. The insurance cover is provided by an insurance company, and the travel agent or tour operator acts as an intermediary in arranging the cover in return for a commission.

Customers can buy their insurance directly from an insurance company. Some customers buy annual travel insurance policies that cover them for all trips taken during the year. Some banks provide their customers with travel insurance as a service that is paid for as part of the fee linked to their bank accounts.

Booking



The duration of most package holidays is set as a multiple of seven nights, with most customers booking for 14 nights (or two weeks). This makes it easier for tour operators to fill every flight that it charters by having each plane operate on a weekly schedule.

For example, Happywell has an aircraft based at Westland's Newtown Airport. Every Monday morning, that aircraft flies a load of passengers from Newtown to Suntown Airport in Sunland. It offloads those passengers and their luggage and returns with the passengers who have just spent either one or two weeks holidaying in Suntown. The same aircraft makes a similar return journey to a different resort every Monday afternoon and operates two return flights each day to different locations for the rest of the week.

Customers usually have to pay a deposit at the time of booking their holidays to secure those bookings. The tour operator might cancel the booking and sell the holiday to another customer if the deposit is not paid. The balance of the cost of the holiday must be paid several weeks before the date of travel. Tour operators do not permit customers to travel unless their holiday has been paid in full.

Dynamic packages

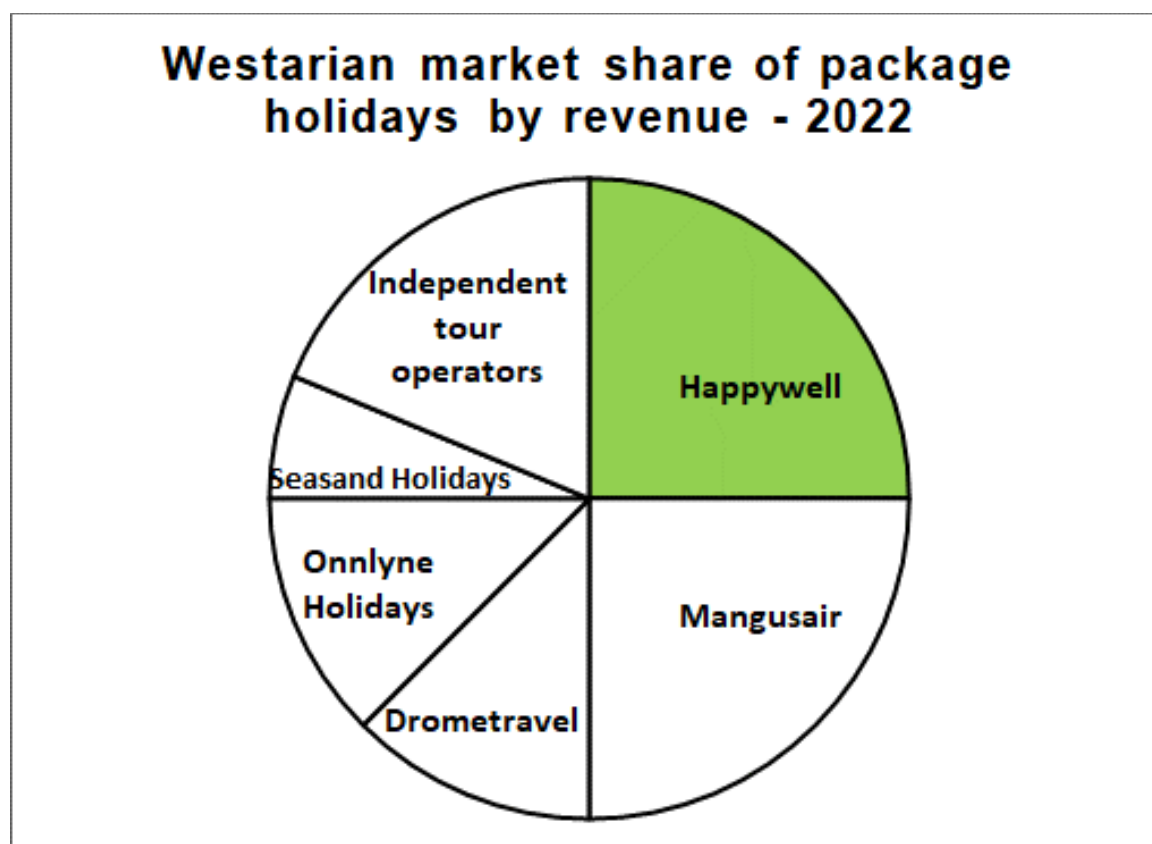
Dynamic packages are created when customers buy their holiday flights and accommodation as separate elements but from a single supplier. The fact that they are not sold as a single package means that they are not package holidays. For example, the websites of many scheduled airlines offer customers the ability to book hotels and other services such as car hire when they are purchasing flights.

Dynamic packages may offer greater flexibility than package holidays because they may offer a greater choice of destinations and flight times. A customer could wish to spend, for example, three days in a foreign city to sightsee and participate in cultural events.

Dynamic packages are popular, but there is a risk that customers may believe that they have purchased a package holiday even though they have not done so. If the purchase does not fall within the legal definition of a package holiday, then customers will not be protected by WTOL and so their payment could be at risk if their airline or hotel goes out of business.

Major Westlandian tour operators

Westland's package holiday industry is dominated by two major tour operators: Happywell and Mangusair.



Happywell and Mangusair are the largest companies in terms of revenue share in this market. Both companies own and operate a large fleet of aircraft. Happywell also owns a large number of hotels in a variety of destinations, while Mangusair rents accommodation from hotels.

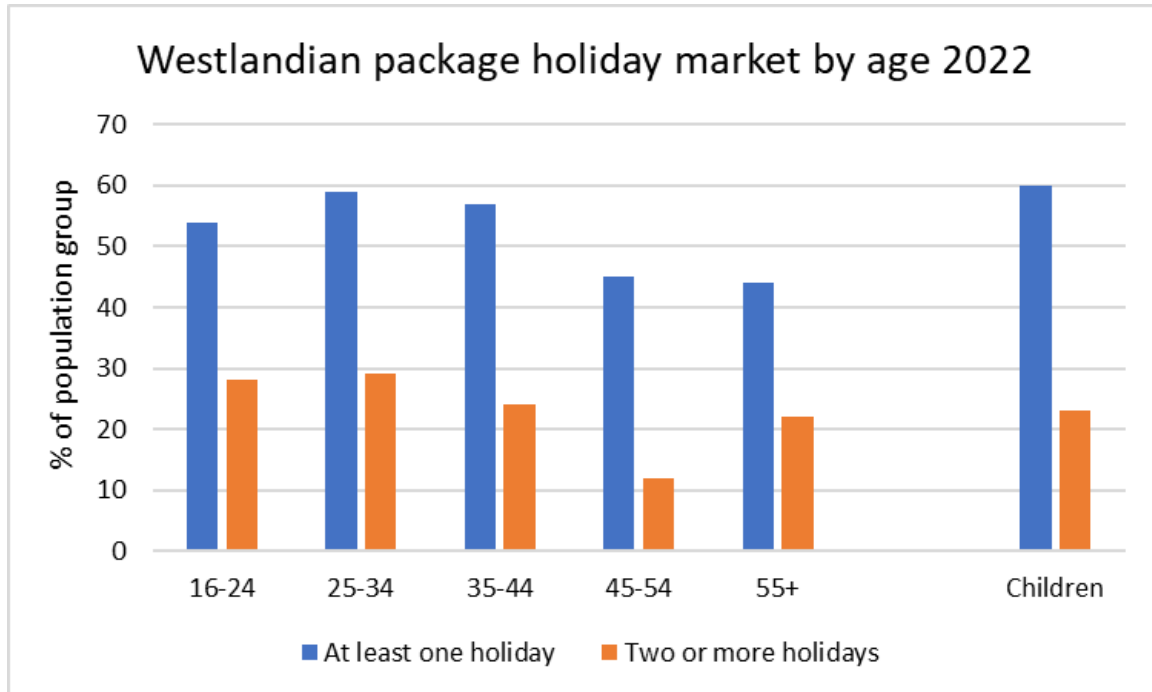
Seasand Holidays, Onnlyne Holidays and Drometravel use charter flights and rented accommodation to create package holidays.

All five of the above companies concentrate on the 3S mass market holiday market.

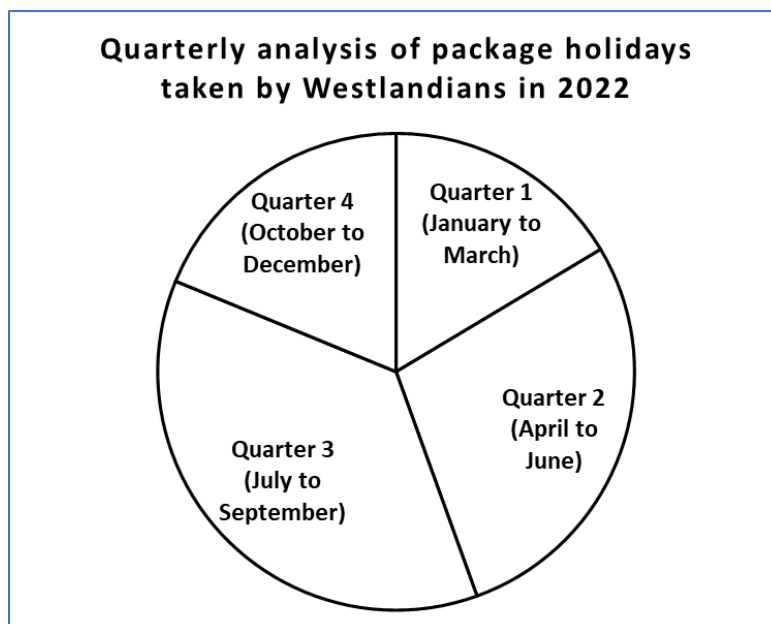
Independent tour operators tend to specialise in local departures. For example, Neast Travel is a relatively small tour operator that sells 3S package holidays to customers based in the north east of Westland. Its charter flights depart from three airports located in that part of the country.

Some independent tour operators provide specialised packages, while others focus on tailored holidays.

Demand for package holidays is strong. Most adults between the ages of 16 and 35 took a package holiday in 2022, and a significant minority of older adults also took a package holiday. Many took two or more holidays. 60% of children travelled on package holidays.



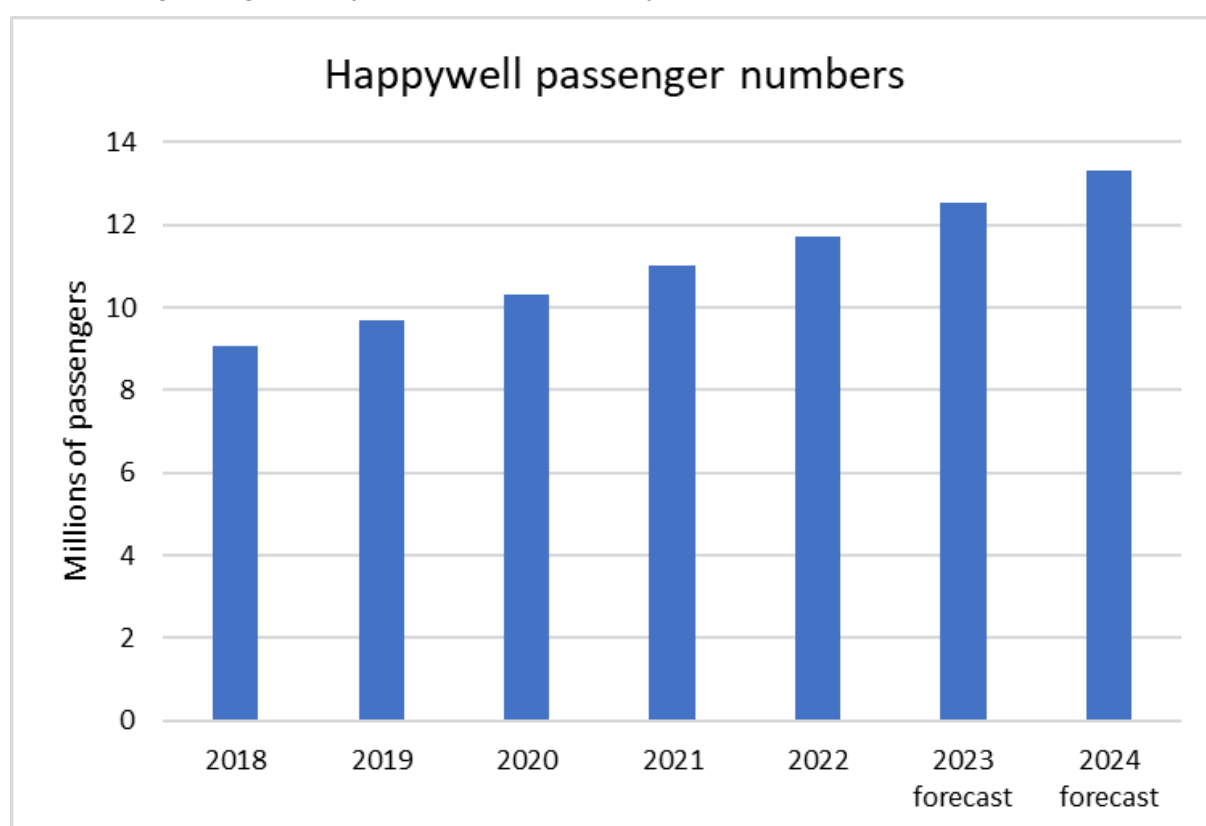
Demand for package holidays is seasonal, although there is always a significant demand even during quieter periods of the year:



Happywell

Happywell was founded in the early 1970s, when foreign package holidays started to become popular in Westland. Previously, most families were unable to afford foreign holidays and had their holidays in seaside tourist resorts in Westland. Happywell's founders started by chartering two aircraft and booking blocks of rooms in a popular foreign holiday resort. The company sold package holidays comprising flights from Central City Metropolitan Airport, transfers from the resort airport and half board hotel accommodation.

The boom in foreign package holidays was fuelled by the deregulation of air travel in Westland, and Happywell was not the only operator to enter this market. Many tour operators failed because of high operating costs. Happywell succeeded by concentrating on the quality of its holiday packages and of its customer support. The company continues to provide customers with a good quality experience. Its holidays are regarded as offering value for money, even though they are not necessarily the cheapest. Passenger numbers have been growing steadily despite the availability of cheaper tour operators:



Happywell now flies from 32 airports in Westland to 83 destinations in 28 countries. All of Happywell's holiday destinations are located within a five-hour flight time from their departure airport.

Booking

Happywell is the only major tour operator to provide customers with the option of booking their holidays through a retail shop. Happywell has 311 shops in Westland, covering most towns and cities. Each shop is staffed by travel advisers who have been trained to advise customers and to manage the booking process. Travel advisers also receive generous staff discounts, so they can also offer advice based on their own experiences of travelling on Happywell packages. The shops sell only Happywell packages.

The shops take 35% of Happywell's bookings. The remaining 65% are made through the company's website, which has been designed to be attractive and easy to use. Customers can browse through all the packages that are available or they can simplify their search by inputting as many variables as they wish from the following:

- departure airport
- departure date (either a specific date or a range of dates)
- duration of holiday (usually 7 or 14 nights)
- type of hotel (e.g., adult only or family friendly)
- type of resort (e.g., quiet and peaceful or with a bustling nightlife)
- maximum price
- location (a country, resort or even a specific hotel)

The booking process uses statistical models to price each holiday individually, taking account of demand and availability to maximise revenue. Families with school-age children may be unable to travel outside of school holidays, and so it may be cheaper to book holidays during school terms when demand is lower. Prices increase at hotels when they get close to capacity on certain dates and decrease when there is spare capacity. Pricing can also be affected by the timing of the booking. It is sometimes possible to make savings by booking late, close to the date of departure, because tour operators might otherwise be left with unsold capacity. Booking late can, however, also create the risk that there is limited availability, and so it may be necessary to pay more to book a package that might not even be the customer's preferred choice.

Demand is seasonal. At the height of the summer season, Happywell's flights and hotels are often full. There is less demand during the winter months, although most of the resorts served by the company have pleasant weather even during the winter months, and so there is demand for winter breaks. It remains cost-effective to offer holidays throughout the year, even though flights and hotels will not be at full capacity during the winter season.

Customers are required to pay a 10% deposit at the time of booking and to make a final payment at least 2 weeks before the departure date. Customers wishing to travel within 2 weeks of booking must pay in full immediately.

Happywell's booking procedures and IT systems are designed to maximise the revenue from each booking. Shop staff and the company website are designed to upsell by offering a number of paid extras to the booking:

- Flight upgrades such as extra legroom or additional luggage
- Better hotel rooms, with features such as balconies or a sea view
- Better dining options, such as half board instead of breakfast only
- Taxi transfers from the airport instead of coach transfers

The procedures also allow for cross-selling by offering additional products. Some of those are provided by Happywell itself, but most are offered by third parties who pay Happywell a commission, for example:

- Travel insurance
- Car hire
- Parking at the departure airport
- Leisure facilities at the hotel, such as beauty spa treatments

- Trips and other activities around the resort, such as transportation and entry to local theme parks

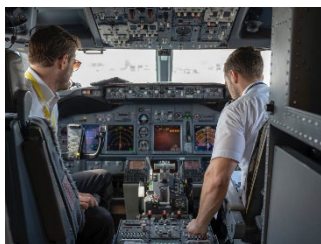
When customers are booking either online or in a Happywell shop, they are required to select a flight, transfer and hotel before they are given a total price. Happywell's systems determine the price that will be charged for each element but withholds that information from the customer. When customers decide to proceed with a booking, then they are offered a range of upgrades for their flight, transfer and hotel along with additional products such as travel insurance. Happywell has a long-standing arrangement with Toorcover, a major independent provider of travel insurance. The prices of those upgrades are stated and are added to the total package price if they are selected.

Aircraft



Happywell owns a fleet of 97 Speedconfort 411 aircraft. This aircraft can carry 210 passengers and has sufficient range to reach the destinations served by Happywell, even when carrying a full load of passengers and their luggage. Using a single model of aircraft simplifies operations because any of

Happywell's planes can be flown by any of its pilots. Cabin crews are also interchangeable because they are all qualified to operate the 411. Maintenance is also more efficient because all engineers are trained on this model, and it is unnecessary to hold inventories of parts for different aircraft.



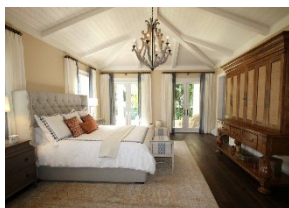
The aircraft and their crews are based at their departure airports in Westland. Each aircraft is scheduled to make two return flights per day. Outbound flights carry departing passengers who are starting their holidays and inbound flights carry returning passengers on their journey home. Each aircraft has three crews, each comprising two pilots and four members of cabin crew. Each round trip requires a fresh crew, and a "spare" crew creates capacity for crew rest days and flexibility in the event of any crew

member's absence.

Each aircraft is subject to careful checks before each flight. There is also an opportunity to conduct maintenance and repairs overnight after each aircraft returns from its second flight of the day. Aircraft are taken out of service at regular intervals to undertake more significant checks and maintenance at Happywell's engineering hangar at Viewel Airport. Viewel is a large airport in Westland that is used for passenger flights by many airlines, including Happywell.

Hotels

Happywell owns 314 hotels that are spread across the 83 resorts that the company serves. These hotels are all designed to offer good quality accommodation and an enjoyable holiday experience.



Customers choose their hotel and the type of room at the time of booking. It is possible to specify a hotel that is close to the beach or that is equipped with a swimming pool or gym. It is also possible to specify a room that has a balcony or a private terrace. Customers are encouraged to book early in case their preferred hotel and room type is fully booked for the dates when they wish to travel.

The choice of accommodation can have a significant impact on the total cost of a package holiday. Happywell sets higher prices for the hotels that offer better facilities and more

comfortable rooms. It also charges more for nicer rooms. Prices reflect availability, which helps to maximise occupancy rates because customers will pay less for hotels and room types that are less popular.



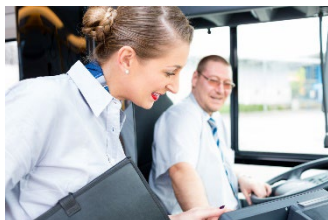
Hotels also provide the meals specified in each customer's booking. Customers often eat most of their meals at their hotels, so the quality of the food and the ambience of the restaurant can be important factors in ensuring a pleasant stay.

Some hotels offer shows and other entertainments. These can range from children's activities in family-friendly hotels to stage shows for adults in the evenings. Entertainment can enhance customers' holidays. It also encourages them to stay in the hotel and to spend money on snacks and drinks.

Hotels provide facilities for tour company reps to meet with customers, usually in the hotel's reception area. There is a daily schedule in each hotel so that customers know when a rep will be available. Customers often address any complaints to reps and expect them to provide a solution. For example, customers might be unhappy with their accommodation or feel that they have not received the facilities that they paid for when they booked. Reps are trained to deal with customer complaints and with the practical problems that can arise on holiday.

Happywell requires its reps to develop a good knowledge of their resorts. This ensures that they can offer informed recommendations about, for example, local restaurants or the location of the best beaches. It also gives reps an opportunity to cross-sell activities such as trips and visits to theme parks that will earn revenues and commissions for Happywell.

Transfers



Happywell pays local coach and taxi companies to provide transfers to and from airports. This is an important part of the holiday because travel can often be stressful and the use of competent contractors is important.

Happywell's reps meet incoming flights and direct arriving customers to their coach or taxi. A rep usually rides on each coach and uses the journey time to brief customers on important information relating to their resort and the procedures on arrival at their hotel. Reps also accompany coachloads of departing customers back to the airport, offering advice about checking in for their return flights.

Reps maintain records of arriving and departing customers to ensure that everyone is accounted for. It is important to ensure that all customers are collected upon arrival or departure.

Customer feedback

Happywell collects detailed feedback from customers at the conclusion of their holidays. Customers are emailed a link to an online survey that seeks customers' opinions about every aspect of their holiday, starting with the booking process and ending with their return flight home.

The Board is keen to identify any problems and to address them as quickly as possible. Ideally, customers will have good reason to make repeat bookings with Happywell. It is also important to minimise the number of unhappy customers, who might post negative reviews of their holiday on social media sites.

Feedback is analysed to provide Happywell with details concerning:

- Ease of booking
- Flights, including experiences at the airport
- Transfers
- Hotels, broken down by accommodation, meals, reception and any entertainment
- Reps

Feedback is also requested on the holiday package as a whole, including whether it offered value for money and overall enjoyment.

Happywell’s management structure

Happywell’s Head Office management team is organised into the following departments:

Aviation	<p>Aviation is responsible for all aspects of the operations of the company’s fleet of aircraft. That includes routine flight operations and compliance with all applicable regulations. It is a cost centre.</p> <p>Pilots and cabin crew must be trained and licenced to operate the Speedconfort 411 airliner that is flown by Happywell. The aircraft must also be certified by an engineer who is qualified on that model.</p> <p>The Aviation Department must maintain detailed records relating to each aircraft and must ensure that all requirements for inspections and servicing are met. Any faults with an aircraft must be rectified unless it can be shown to be minor and unlikely to affect flight safety.</p> <p>The Aviation Department maintains a close relationship with Speedconfort, the manufacturer of its aircraft. Happywell is a major operator of the Speedconfort 411 airliner, and Speedconfort is always keen to assist with any technical matters that arise. Speedconfort is also keen to sell additional aircraft as replacements or additions to the Happywell fleet.</p> <p>The Aviation Department is also responsible for liaising with departure and arrival airports and for the management of staff who work at departure airports:</p> <ul style="list-style-type: none"> • Check-in staff are responsible for checking in passenger’s luggage and for issuing boarding passes • Baggage handlers load luggage onto departing aircraft and unload baggage from arriving aircraft for collection by passengers • Gate staff check that all departing passengers have valid boarding passes before they board their flights • Despatchers deal with administrative and safety issues, such as checking passenger numbers before departure and checking that all necessary clearances have been obtained • Engineers conduct technical checks and carry out repairs, both immediately prior to departure and overnight after flight operations have ceased for the day <p>Happywell uses third-party service companies to fulfil the above roles at arrival airports, primarily to deal with return flights bringing customers home</p>
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	<p>at the ends of their holidays. The Aviation Department is responsible for selecting and working with those companies.</p>
Hotels	<p>Happywell owns its own hotels. The Hotels Department is responsible for all aspects of the running of Happywell's hotels. That includes accommodation, meals and the maintenance of the buildings and their grounds. It is a cost centre.</p> <p>The Hotels Department is responsible for ensuring that all hotels meet applicable standards for safety and cleanliness. Happywell has a policy of complying with the higher of local regulations and those that would apply in Westland. In some cases, that means that Happywell exceeds the minimum requirements set by host governments, but it reduces the risk of customers being upset if they are disappointed or concerned. For example, the fire safety precautions in Happywell's Sunland hotels exceed the requirements set by Sunlandian law.</p>
Local Experience	<p>The Local Experience Department is responsible for a range of activities that affect the quality of customers' holidays and the management of cross-selling activities. It is a cost centre.</p> <p>Local Experience is responsible for the overall management of reps at Happywell's holiday destinations. In addition to supervision, Local Experience also supports reps with a 24-hour help desk at Head Office that can offer email and telephone assistance with any difficulties that the reps do not feel confident to handle themselves.</p> <p>Local Experience manages transfers between airports and hotels, working with local coach and taxi operators to ensure that customers are not kept waiting and that their transfers are as efficient as possible.</p> <p>Local Experience also manages relationships with third parties whose services and products are sold by Happywell in return for a commission. These include small, local businesses such as boat operators who sell trips that can be booked through Happywell's reps.</p>
Marketing	<p>The Marketing Department is responsible for the promotion of Happywell's brand and also for managing the booking process, both within the retail shops and online.</p> <p>Marketing also monitors customer feedback and maintains email contact with customers after their return in the hope of obtaining a repeat booking.</p>
Human Resources	<p>The Human Resources Department manages all issues of human resourcing across Happywell. Recruitment, training and staff retention are important matters for the company because many roles require specialised skills and qualifications.</p> <p>Human Resources must also ensure that all employment regulations are complied with. That can be complicated because many staff are employed overseas as reps or as hotel staff. Reps are often Westlandians, who are usually required to have work permits before they can be employed in foreign countries. Hotel staff are often employed locally, and their contracts and terms of employment must comply with local requirements.</p>
Information Technology	<p>The Information Technology Department is responsible for maintaining and updating Happywell's information technology (IT) systems. These include collaborating with the Marketing Department to ensure that the information on the website is up to date.</p>

Finance	The Finance Department is responsible for all aspects of management accounting, financial reporting and treasury management for Happywell.
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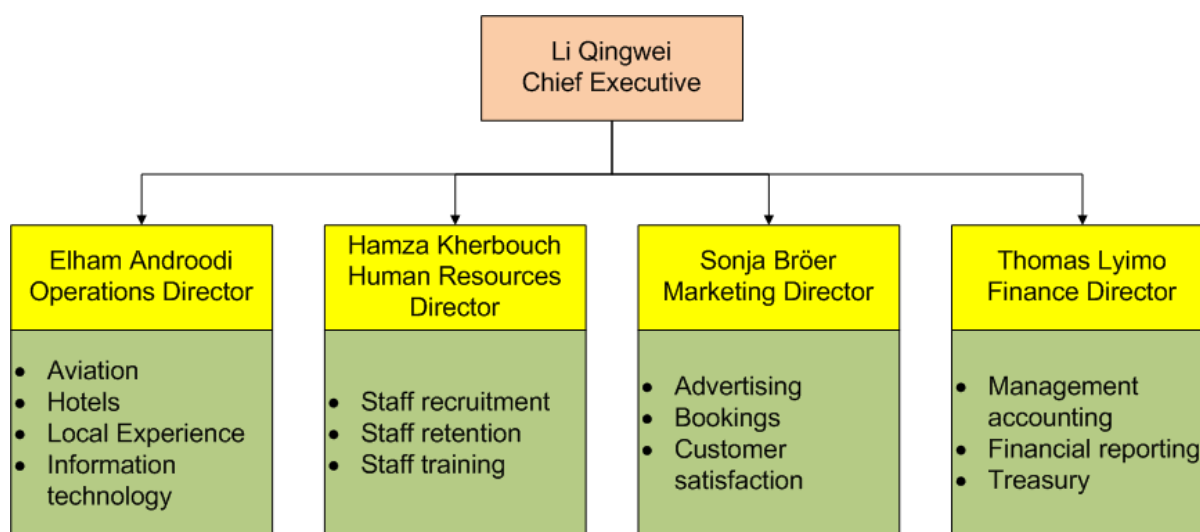
Happywell’s resort operations

At a local level, each hotel has its own management team. The Hotel Manager is in overall charge, supported by managers who are responsible for accommodation, food, entertainment, maintenance and cleaning. Hotel managers report directly to the Hotels Department at Head Office.

Each resort also has a team of reps, one of whom is designated as the Resort Manager. The Resort Manager is responsible for setting work rotas and scheduling the duties for the reps within the team. This can be complicated because reps must be available to accompany customers on coach transfers to and from the airport and to ensure that each hotel has a rep on duty in reception for at least an hour every day. Resort managers report to Local Experience Department staff at Head Office.

To simplify compliance with local rules and regulations, Happywell has a 100% subsidiary in each country in which it operates. The subsidiaries own the hotels and other assets located in these host countries and are legally responsible for all employment issues relating to hotel staff and reps. As indicated above, all hotel managers and rep resort managers report directly to Happywell’s Head Office in Westland.

Happywell’s Board structure

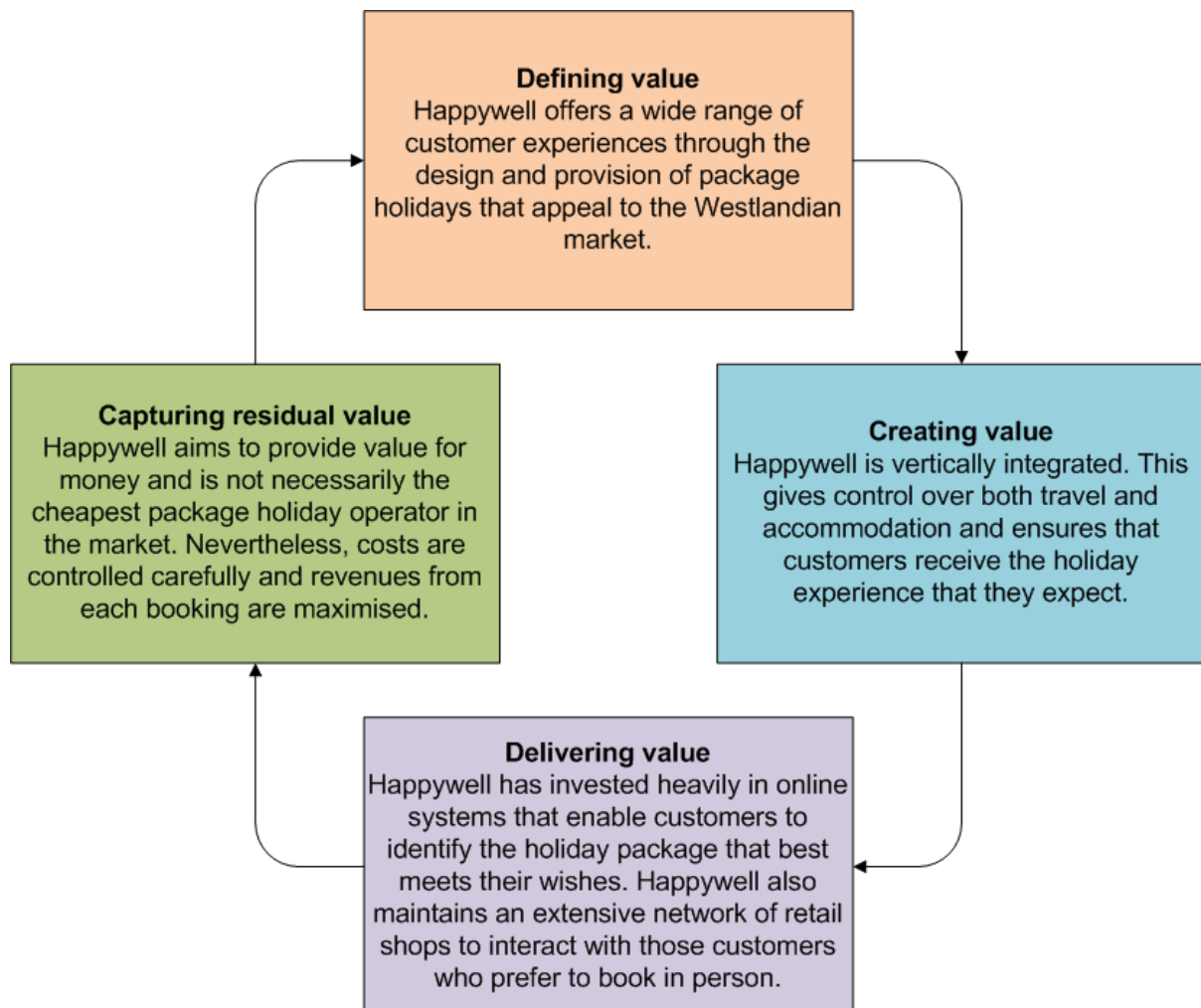


Happywell’s Board also includes the following non-executive directors:

- Lotta Salling – non-executive chair
- Stefan Kutsarov
- Isabel García Ponce
- Ken McDonagh
- Morgane Bertacco

Happywell's business model

Happywell aims to compete on quality rather than price. It retains control over product quality by owning both aircraft and hotels. This also offers control over costs.



Extracts from Happywell's annual report

Happywell Group

Consolidated statement of profit or loss

For the year ended 31 December

	2022	2021
	W\$ million	W\$ million
Revenue	22,698.2	21,376.0
Cost of revenues	(19,504.6)	(18,045.8)
Gross profit	3,193.6	3,330.2
Administrative expenses	(907.9)	(961.9)
Selling and advertising	(1,361.9)	(1,111.6)
Operating profit	923.8	1,256.7
Finance costs	(147.0)	(138.2)
Profit before tax	776.8	1,118.5
Tax	(170.9)	(246.1)
Profit for year	<u>605.9</u>	<u>872.4</u>

Happywell Group

Consolidated statement of changes in equity for the year ended 31 December 2022

	Share capital and premium	Retained earnings	Foreign currency	Total
	W\$ million	W\$ million	W\$ million	W\$ million
Balance at 31 December 2021	2,500.0	1,945.5	1,072.2	5,517.7
Profit for the year		605.9		605.9
Dividends		(321.5)		(321.5)
Foreign currency difference			(226.4)	(226.4)
Balance at 31 December 2022	<u>2,500.0</u>	<u>2,229.9</u>	<u>845.8</u>	<u>5,575.7</u>

Happywell Group
Consolidated statement of financial position
As at 31 December

	2022	2021
	W\$ million	W\$ million
Non-current assets		
Intangible assets	2,648.3	2,771.4
Property, plant and equipment	8,750.3	8,010.4
	<u>11,398.6</u>	<u>10,781.8</u>
Current assets		
Inventory	132.5	128.1
Trade receivables	328.7	326.4
Bank	947.2	938.7
	<u>1,408.4</u>	<u>1,393.2</u>
Total assets	<u><u>12,807.0</u></u>	<u><u>12,175.0</u></u>
Equity		
Share capital and share premium	2,500.0	2,500.0
Retained earnings	2,229.9	1,945.5
Foreign exchange	845.8	1,072.2
	<u>5,575.7</u>	<u>5,517.7</u>
Non-current liabilities		
Loans	2,100.0	1,800.0
Current liabilities		
Trade payables	1,560.4	1,515.8
Advance payments	3,404.7	3,099.5
Tax	166.2	242.0
	<u>5,131.3</u>	<u>4,857.3</u>
Total equity and liabilities	<u><u>12,807.0</u></u>	<u><u>12,175.0</u></u>

Notes

- Inventory comprises consumables used in aircraft maintenance or in hotel operations.
- Trade receivables are largely commissions payable by third parties for whom Happywell has made sales.
- Advance payments are deposits and payments made in advance by customers for holidays that have not yet taken place.

Extract from Mangusair’s annual report

Mangusair is a tour operator based in Westland that is Happywell’s largest direct competitor. Mangusair owns and operates its own aircraft but does not own any hotels. Mangusair has an ongoing arrangement granting it the exclusive use of all of the rooms in 306 hotels. The hotels are branded as if they belong to Mangusair, with signs bearing Mangusair’s logo in all public areas.

Mangusair Group

Consolidated statement of profit or loss

For the year ended 31 December

	2022	2021
	W\$ million	W\$ million
Revenue	21,336.3	20,948.5
Cost of revenues	(19,295.8)	(19,187.3)
Gross profit	2,040.5	1,761.2
Administrative expenses	(426.7)	(523.7)
Selling and advertising	(1,066.8)	(1,026.5)
Operating profit	547.0	211.0
Finance costs	(42.0)	(39.5)
Profit before tax	505.0	171.5
Tax	(111.1)	(37.7)
Profit for year	393.9	133.8

Mangusair Group

Consolidated statement of changes in equity for the year ended 31 December 2022

	Share capital and premium	Retained earnings	Foreign currency	Total
	W\$ million	W\$ million	W\$ million	W\$ million
Balance at 31 December 2021	1,000.0	1,023.8	569.3	2,593.1
Profit for the year		393.9		393.9
Dividends		(204.8)		(204.8)
Foreign currency difference			(124.1)	(124.1)
Balance at 31 December 2022	1,000.0	1,212.9	445.2	2,658.1

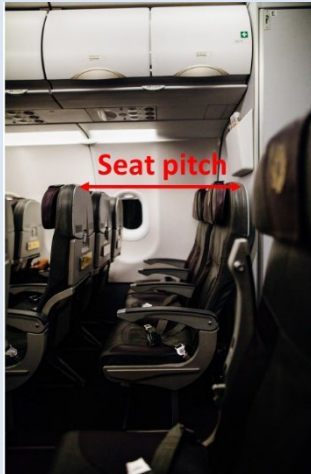
Mangusair Group
Consolidated statement of financial position
As at 31 December

	2022	2021
	W\$ million	W\$ million
Non-current assets		
Intangible assets	1,028.2	1,324.6
Property, plant and equipment	5,858.2	5,168.2
	<u>6,886.4</u>	<u>6,492.8</u>
Current assets		
Inventory	68.8	64.1
Trade receivables	311.3	307.4
Bank	842.1	811.6
	<u>1,222.2</u>	<u>1,183.1</u>
Total assets	<u><u>8,108.6</u></u>	<u><u>7,675.9</u></u>
Equity		
Share capital and share premium	1,000.0	1,000.0
Retained earnings	1,212.9	1,023.8
Foreign exchange	445.2	569.3
	<u>2,658.1</u>	<u>2,593.1</u>
Non-current liabilities		
Loans	600.0	400.0
Current liabilities		
Trade payables	1,543.7	1,611.7
Advance payments	3,200.4	3,037.5
Tax	106.4	33.6
	<u>4,850.5</u>	<u>4,682.8</u>
Total equity and liabilities	<u><u>8,108.6</u></u>	<u><u>7,675.9</u></u>

News reports

Westland Business Daily

Airlines criticised over seat pitch



Seat pitch is the name given to the measurement between the back of a seat and the back of the seat in front of it. Seat pitch gives a rough indication of the amount of space that a passenger will have on a long flight, although the cushion on the back rest takes up some of that space.

In theory, seat pitches can be adjusted because airliner seats are fixed to tracks that run the length of the fuselage. It would be possible to remove rows of seats and use the space that would be created to move some or all of the remaining seats further apart.

The length of the seat pitch can have a significant impact on passenger comfort, particularly on a long flight. Even a few centimetres can make the difference between sitting in reasonable comfort and having one's knees jammed into the seat in front. Unfortunately, airlines are not always willing to grant those few centimetres because even a small concession to passenger comfort could result in the loss of a row or two of seats that could otherwise be sold to fare-paying passengers on every flight.

On short-haul flights of up to three hours, the seat pitch should be at least 71cm. On mid-haul flights of three to six hours, the minimum seat pitch is likely to be 81cm. Long-haul flights of six hours or more might offer 86cm. These are not mandatory. The regulations governing seat pitch focus more on passenger safety than on comfort.

Many airlines turn the discomfort of narrow seat pitches to their commercial advantage by selling so-called "extra legroom" seats. Those are generally very popular even if they do increase the cost of the flight to the passenger.

Westland Daily News

Travel column – Tailored package holidays



Tailored package holidays are becoming increasingly popular. They offer their customers the flexibility to design their own holiday rather than simply choosing between the packages that are on offer from the traditional package tour operators.

I conducted an informal consumer test by logging onto Dreemsky's website and planning a holiday. I input a departure date, specifying a luxury beach holiday and the maximum price that I was willing to pay. I quickly received an email that there were no packages available in my price range. I tried again, removing the upper limit on price, and was soon offered a package that would cost four times as much I would usually spend on a family holiday.

Sadly, the Editor would not allow me to use my company credit card to book the holiday.

Westland Daily News

Travel column – Travel insurance



Make sure that you have adequate travel insurance when you go on holiday. Travel insurance provides cover in case of holiday disasters.

Foreign visitors have to pay for medical treatment in most countries and that treatment is usually expensive.

Travel insurance covers the cost of replacing belongings that are lost or stolen while on holiday.

Costs associated with cancelled holidays can also be recovered. If a customer cannot travel because of illness or the holiday is cancelled because the resort hotel has had to close because of health and safety concerns, then the insurance company will refund any lost deposits or payments.

Insurance premiums are set according to the insured risk. For example, elderly passengers are often charged more because there is a higher risk that they will require medical attention.

Insurance companies always include exclusions in the wording of their policies. These are effectively warnings that certain risks are not covered by the policy. For example, a customer who participates in a hazardous activity such as motor racing while on holiday is unlikely to be covered for any medical treatment required as a result of crashing a racing car.

Insurance companies will also refuse to make payments in the event of a pre-existing condition. For example, if you book a holiday in a destination where frequent bad weather can result in long flight delays, then it is unlikely that you will be compensated if you lose 2 days of your holiday because the weather delayed your flight.

Westland Daily News

Travel column – Escape airport stress at a lounge



Airports are busy and often stressful places. Travellers leave early for the airport in case they are delayed on their journey, only to discover that they have nothing to do for 2 hours after they have checked in for their flight. Departure lounges can be crowded and noisy and do not lend themselves to relaxing before boarding the aircraft.

Many airports offer an escape in the form of “airport lounges”. These are basically quiet spaces that offer comfortable places to sit and relax. They also serve unlimited drinks and snacks at no additional cost to users.

Some airport lounges are operated by specific airlines who restrict entry to their own first class and business class passengers. Others are open to all, but there is a substantial fee for admission. High entry fees enhance profits and help ensure that the lounges do not become overcrowded. For example, Westland Relax charges W\$35 per person for access to the lounges that it operates at most of Westland’s largest airports.

Always check your booking carefully if you are travelling on a premium ticket because some airlines provide access to a lounge at no additional cost to the passenger.

Happy Comic

Readers' questions

Question: We have just returned from holiday. Our return flight was late getting us home because the aircraft had been delayed by technical problems in Westland before it could come and get us. When we finally boarded, one of the cabin crew told us that the aircraft makes two flights almost every day and that the technical delay was because a small part had to be replaced after a warning light came on in the cockpit. Is it safe for planes to fly so often?

Maurice, age 11



Answer: I hope that you enjoyed your holiday, even if you were a little late in getting home. You were perfectly safe because every aircraft is checked carefully by its pilots and an aeronautical engineer before it is allowed to take off. Most charter airliners make two flights each day, getting back to their home base late in the evening. That leaves several hours for the airline's engineers to make additional checks before the next day's flights. The engineers can also complete simple tasks such as topping up lubricants and hydraulic fluids and replacing small parts that are worn or damaged.

Aircraft are very reliable, which is a good thing because airlines cannot afford to have planes standing by at every airport as spares. If an aircraft has to be taken out of service for technical reasons, then its flights usually have to be delayed or even cancelled until the problem has been corrected.

Airlines do, however, have a few spare aircraft so that a small number of planes can be taken out of service at any time for major repairs or scheduled maintenance. For example, Mangusair's engineering hangar at Westland's Central Airport has all the necessary staff, parts and equipment to handle work that cannot be completed at local airports. Each of the airline's planes will spend some time at the hangar at least once or twice every year.



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

Irina Juhas, Happywell's Senior Financial Manager, stops by your workspace:

"I have brought you an extract from a proposal that has been circulated to the Board.

Thomas Lyimo, our Finance Director, has asked me to draft some notes before he briefs the Board, and I need your help with the following:

- Firstly, evaluate Jack's use of internal rate of return (IRR) and the 12% hurdle rate to financially appraise the project and identify issues that should be considered.

[sub-task (a) = 60%]

- Secondly, explain how future changes in the relative strengths of currencies will affect the reported performance of the Happywell Group after we invest an additional W\$750 million in our foreign subsidiaries. Any necessary finance will be raised here in Westland by the parent company and invested in the subsidiaries as equity."

[sub-task (b) = 40%]

The extract from the proposal brought by Irina Juhas can be found by clicking on the Reference Material button above.

Luxury holidays

Executive summary

Prepared by Jack Paterson, Senior Marketing Manager.

Happywell's existing holiday packages offer good quality at a reasonable price. The Marketing Department believes that it would be possible to create a luxury brand of package holidays that could be sold alongside existing packages at a premium price. It is proposed that these holiday packages should be sold through Happywell's website and existing shops under the HappGold brand name, with separate branding and advertising.

- The top floor of each of 25 of our best hotels will be remodelled for the exclusive use of HappGold customers. The remodelled rooms will be decorated and furnished to a very high standard.
- The hotels will be extended to create an exclusive HappGold dining room that will serve top quality meals.
- HappGold customers will have priority check-in desks at airports. They will be allocated extra legroom seats and be provided with special meals on flights.
- Executive chauffeur services will provide airport transfers.

These holiday packages will be sufficiently luxurious for us to charge three times the price of our existing packages. Happywell will have to invest W\$30 million in the alterations to each of the selected hotels, at a total cost of W\$750 million. It has been estimated that this project will have an internal rate of return (IRR) of 18%. Happywell usually accepts projects that have an IRR exceeding 12%.

Reference Material

Pre-seen

Provide your response to Irina's requests in the box below.



A rich text editor toolbar with the following icons: a document icon, a scissors icon, a copy icon, a paste icon, a left arrow, a right arrow, a link icon, a bold icon (B), an italic icon (I), an underline icon (U), a strikethrough icon (ABC), a subscript icon (x₂), a superscript icon (x²), and a text color icon (I_x). Below these are two rows of alignment and list icons: a paragraph dropdown, a table icon, four text alignment icons (left, center, right, justified), a bulleted list icon, a numbered list icon, and two indent/outdent icons.

Reference Material

Pre-seen

A few days later, Irina Juhas stops by your workspace:

"I have brought an extract from the minutes of a recent Board meeting. The Finance Director has asked for my advice, and I am interested in your opinion.

- Firstly, discuss the advantages and disadvantages of HappGold being a separate profit centre.
[sub-task (a) = 60%]
- Secondly, evaluate the impacts that the HappGold packages might have on Happywell's business model."
[sub-task (b) = 40%]

The extract from the Board minutes referred to by Irina Juhas can be found by clicking on the Reference Material button above.



Extract from Board minutes

The Board discussed some implementation issues associated with the proposal to sell luxury holiday packages under the “HappGold” brand.

Sonia Bröer, Marketing Director, explained that HappGold would open up a new market by offering greater luxury than was available from any of Happywell’s direct competitors. She believed that HappGold would be popular with customers who would otherwise have booked with a tailored package operator. These customers would be attracted by the quality of the accommodation and other services that would be offered.

Sonia proposed that HappGold should be managed as a separate profit centre, under the management of Jack Paterson, the Senior Marketing Manager who had developed the proposal.

Thomas Lyimo, Finance Director, reminded the Board that the Aviation and Hotels Departments are organised as cost centres.

Reference Material

Pre-seen

Provide your response to Irina's requests in the box below.



A rich text editor toolbar with the following icons: a document icon, a scissors icon, a copy icon, a paste icon, a left arrow, a right arrow, a link icon, a bold icon (B), an italic icon (I), an underline icon (U), a strikethrough icon (ABC), a subscript icon (x₂), a superscript icon (x²), and a text color icon (I_x). The second row contains a paragraph dropdown menu, a table icon, four text alignment icons (left, center, right, justified), a bulleted list icon, a numbered list icon, and two indent/outdent icons.

Reference Material

Pre-seen

A few days later, you receive the following email:

From: Irina Juhas, Senior Financial Manager
To: Financial Manager
Subject: FWD: HappGold

Hi,

I have forwarded an email that I received from the Finance Director.

- Firstly, identify the main challenges associated with managing the project to modify the hotels at which we will offer HappGold packages and recommend suitable responses to those challenges, stating reasons.
[sub-task (a) = 60%]
- Secondly, evaluate the advantages and disadvantages of reflecting the impact of HappGold on Happywell's intellectual capital as disclosed in our integrated report.
[sub-task (b) = 40%]

Regards
Irina

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

From: Thomas Lyimo, Finance Director
To: Irina Juhas, Senior Financial Manager
Subject: HappGold

Hi Irina,

I have been thinking about some of the challenges that implementing HappGold will create for Happywell. I would appreciate your advice on two matters:

- First of all, we will have to make significant changes to 25 of our best hotels, remodelling the rooms on their top floors and adding additional dining rooms to serve HappGold customers. These will be significant upgrades that will cost W\$30 million for each hotel.
- Secondly, we will have to communicate the impacts that HappGold will have on our business to the shareholders. Perhaps we could use our integrated report to help with this.

Regards
Thomas

Reference Material

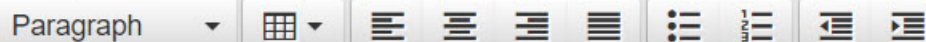
Pre-seen

Provide your response to Irina's requests in the box below.

From: Financial Manager

To: Irina Juhas, Senior Financial Manager

Subject: FWD: RE: HappGold



Reference Material

Pre-seen

It is now February 2024. It is several months since the Board decided to proceed with HappGold. During that time, HappGold rooms have been created in 25 of Happywell's hotels. Happywell's Board has agreed that HappGold will operate as a profit centre.

Irina Juhas asks you to join her in a meeting room:

"We have been promoting HappGold since September 2023, and we have been accepting bookings since then. Despite that, bookings have been disappointing so far. I have brought you a report on advance bookings at the Dune Hotel for the third quarter of 2024. It is representative of the situation of all hotels at which we are offering HappGold packages.

Elham Androodi, Operations Director, has asked for the unsold HappGold rooms to be released for sale by Happywell as the accommodation element of its package holidays at the prices included for standard rooms. Sonia Bröer, Marketing Director, reminded the Board that HappGold is a separate profit centre. She said that Jack Paterson, the manager responsible for HappGold, is insisting that Happywell should credit HappGold with the full price for any HappGold rooms that are released.

HappGold's prices are three times those of Happywell's.

I need your help with two matters:

- Firstly, identify and evaluate the difficulties associated with setting transfer prices for HappGold rooms that will encourage their release in a manner that will be acceptable to both Elham Androodi and Jack Paterson, while being optimal for Happywell overall.

[sub-task (a) = 60%]

- Secondly, explain how Happywell's weighted average cost of capital (WACC) is likely to be affected in the event that sales of HappGold packages remain at their current low level."

[sub-task (b) = 40%]

The report on advance bookings referred to by Irina can be found by clicking on the Reference Material button above.

Dune Hotel, Suntown, Sunland**Advance booking report for the third quarter of 2024 (July to September 2024)**

40 HappGold rooms

260 standard rooms

	HappGold	Standard
Available room bookings	240	1,560
Bookings made	53	1,435
% of available	22%	92%
Price per package	W\$ 15,600	W\$ 5,143

Report prepared February 2024

Notes

- The third quarter is the busiest time of year for tour operators. Most bookings for the third quarter are made by the end of January, but bookings can continue until the departure date.
- Customer bookings are binding contracts. Customers pay a 10% deposit to guarantee their bookings.
- The standard rooms are sold as part of Happywell packages.
- HappGold is a profit centre and is separate from the usual reporting arrangements of Happywell. HappGold is responsible for the profit generated from the sale of holiday packages sold under the HappGold brand. The packages include flights, hotel rooms and transfers.
- Bookings for standard rooms at Happywell's other hotels vary between 88% and 96% of capacity.
- Bookings for HappGold rooms at other hotels vary between 17% and 26% of capacity.

Reference Material

Pre-seen

Provide your response to Irina's requests in the box below.



A rich text editor toolbar with the following icons and functions:

- Document icon
- Cut icon
- Copy icon
- Paste icon
- Undo icon
- Redo icon
- Table icon
- Bold (B) icon
- Italic (I) icon
- Underline (U) icon
- Strikethrough (ABC) icon
- Subscript (x_2) icon
- Superscript (x^2) icon
- Text color (I_x) icon
- Paragraph dropdown menu
- Table dropdown menu
- Text alignment icons: Left, Center, Right, Justify
- Bulleted list icon
- Numbered list icon
- Decrease indent icon
- Increase indent icon



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) 40% (b) 60%
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.

You receive the following email:

From: Irina Juhas, Senior Financial Manager
To: Financial Manager
Subject: **FWD:** Aviation Engineering

Hi,

I have attached an email that I received from Thomas Lyimo, Happywell's Finance Director.

I need your advice on two matters:

- First, evaluate the arguments for and against the assertion that Agnar, the manager in charge of the engineering hangar, has too much authority.

[sub-task (a) = 60%]

- Second, discuss the issues that should be considered in deciding whether we should continue to charge emergency repairs to other airlines' aircraft at cost.

[sub-task (b) = 40%]

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

From: Thomas Lyimo, Finance Director
To: Irina Juhas, Senior Financial Manager
Subject: Aviation Engineering

Hi Irina,

Happywell has a fleet of 97 Speedconfort 411 aircraft. Many charter airlines use this aircraft because it is reliable and economical.

Happywell has engineering teams at each of the airports from which its flights depart. These teams are equipped to carry out minor maintenance and repairs between flights and overnight when aircraft are parked at their airports.

Major maintenance and repair work requires aircraft to be flown to Happywell's engineering hangar at Viewel Airport. Each aircraft requires major maintenance every few months, and the Aviation Department schedules that work. Happywell can take a small number of aircraft out of service at any one time for repairs and maintenance without disrupting flights.

The engineering hangar is staffed and equipped with the necessary machinery and spare parts to carry out major work on Happywell's aircraft. The hangar uses any spare capacity to provide paid engineering services on other airlines' Speedconfort 411 aircraft.

The engineering hangar is managed by Agnar Helgason, an aviation engineer. The Head of the Aviation Department has expressed some concern about Agnar's management of the hangar:

- Agnar frequently lends spare parts to engineers from rival airlines that operate Speedconfort 411 aircraft from Viewel airport. This reduces delays when the airlines do not have spares immediately available. The other airlines always return identical parts to Happywell within 24 hours.
- Agnar sometimes undertakes major repair work on other airlines' aircraft without seeking prior permission. Yesterday he took a Mangusair aircraft into Happywell's hangar and replaced an undercarriage tyre that had burst when the aircraft landed. He invoiced Mangusair for the cost of the replacement tyre and the wages of hangar engineering staff.

It is common practice for engineering teams from different airlines to provide one another with informal support. The Head of Aviation has only just discovered the extent of the support that the engineering hangar provides and has brought this to the Board's attention.

Agnar claims that he has done nothing wrong because informal assistance is only provided to other airlines when their aircraft develop unexpected problems and when there is spare capacity to help without disrupting Happywell's flights.

Thomas

Reference Material

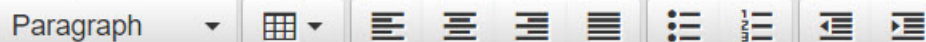
Pre-seen

Provide your response to Irina's request in the box below.

From: Financial Manager

To: Irina Juhas, Senior Financial Manager

Subject: FWD: RE: Aviation Engineering



Reference Material

Pre-seen

Two weeks later, Irina Juhas stops by your workspace:

"I have brought you a copy of a document that is being discussed by the Board.

Thomas Lyimo has asked for a briefing. I need the following from you:

- First, explain how the principles of business process re-engineering could have been used to justify and implement the use of Speedconfort's new range of engineering equipment by the Aviation Department.
[sub-task (a) = 40%]
- Second, explain how the proposed leasing arrangement for this equipment would be recognised in Happywell's financial statements, and explain how the acquisition of the equipment in this way would affect the interpretation of Happywell's accounting ratios by its shareholders."
[sub-task (b) = 60%]

The Board document referred to by Irina can be found by clicking the Reference Material button above.

Half-yearly maintenance checks: business process re-engineering

Prepared by Chris Yew, Head of Aviation

The Aviation Department is responsible for all maintenance activities carried out on our fleet of 97 Speedconfort 411 aircraft. Most of these activities fall under two categories:

Line maintenance	Line maintenance is carried out while aircraft are parked in the open air at the airport. This includes inspections, replacement of consumable items such as oil and hydraulic fluid and minor repairs. There is ample time for line maintenance because aircraft are parked overnight between each day's flights. Line maintenance is carried out in addition to the safety inspections that are conducted by our engineers before every flight departing from Westland. These checks include visual inspections of wheels and brakes and checks on levels of oil and hydraulic fluid.
Half-yearly checks	Each aircraft is flown to Happywell's engineering hangar at Viewel Airport once every 6 months. Over a 48-hour period, approximately 150 labour hours are spent on several detailed inspections of structural components including wings and fuselage, the landing gear and the aircraft engines. These inspections are separate jobs, but they are scheduled at the same time to minimise the number of times each aircraft has to visit the hangar.

Speedconfort has developed a new range of engineering equipment that can conduct half-yearly checks in the open air, alongside line maintenance. If we acquire this equipment, then we could schedule the separate inspections included in half-yearly checks so that they could be carried out at different times to each other. We would still need the engineering hangar to deal with any major repairs and any servicing that cannot be conducted in the open air.

It would cost W\$450 million to equip half of our Westlandian departure airports with this new equipment. It is unnecessary to equip each of our departure airports because we can exchange aircraft between airports that do not have the equipment with those that do so that all necessary testing is carried out regularly.

Speedconfort has offered to lease us sufficient sets of equipment to equip half of our airports for 8 years at an annual charge of W\$75 million. The equipment's expected useful life slightly exceeds 8 years.

Reference Material

Pre-seen

Provide your response to Irina's request in the box below.



A rich text editor toolbar with the following icons: a document icon, a scissors icon, a copy icon, a paste icon, a left arrow, a right arrow, a link icon, bold (B), italic (I), underline (U), strikethrough (ABC), subscript (x₂), superscript (x²), and a subscripted x (I_x). The second row contains a paragraph dropdown menu, a table icon, four text alignment icons (left, center, right, justified), a bulleted list icon, a numbered list icon, and two indent/outdent icons.

Reference Material

Pre-seen

A few days later, Irina invites you to join her in a meeting room:

"I have printed out an email that I received from Chris Yew, Happywell's Head of Aviation.

I need your advice on two matters before I take Chris' revised proposal to Thomas Lyimo:

- First, discuss the difficulties in predicting the cash flows from the proposed sale of inspection services to other airlines to be used when calculating the proposal's net present value. **[sub-task (a) = 60%]**

- Second, identify two major difficulties associated with negotiating the sale of Chris' proposed service to other airlines and recommend possible solutions." **[sub-task (a) = 40%]**

The email received from Chris referred to by Irina can be found by clicking the Reference Material button above.



From: Chris Yew, Head of Aviation Department
To: Irina Juhas, Senior Financial Manager
Subject: Proposed acquisition of engineering equipment

Hi Irina,

We have been discussing the possibility of equipping our engineering teams at our Westlandian departure airports with equipment that would enable them to carry out detailed half-yearly inspections of our aircraft alongside day-to-day line maintenance that they conduct while our aircraft are parked overnight.

Our initial plan was to equip half of our departure airports, but an alternative would be to equip all 32 of our departure airports and to sell inspection services to other airlines who operate the same Speedconfort 411 aircraft as we do. It is a popular aircraft and so there should be demand.

We have between two and four aircraft based at each airport. The test equipment would have sufficient capacity to inspect up to ten aircraft during each half-year period.

Chris

Reference Material

Pre-seen

Provide your response to Irina's requests in the box below.



A rich text editor toolbar with the following icons from left to right: a document icon, a scissors icon, a copy icon, a paste icon, a left arrow, a right arrow, a link icon, a bold icon (B), an italic icon (I), an underline icon (U), a strikethrough icon (ABC), a subscript icon (x₂), a superscript icon (x²), and a text color icon (I_x). Below these are two rows of alignment and list icons: the first row contains a paragraph dropdown, a table icon, and four text alignment icons (left, center, right, justified); the second row contains two list icons (bulleted and numbered) and two indent icons (left and right).

Reference Material

Pre-seen

Six months later, the Board is still considering the acquisition of test equipment. You receive the following email:

From: Irina Juhas, Senior Financial Manager

To: Financial Manager

Subject: Engineering inspections

Hi,

I have attached an extract from the minutes of a recent Board meeting.

I need to brief Thomas Lyimo, and I need your advice on two matters:

- First, explain with reasons how Happywell's investment in Dromeeng should be accounted for in the Happywell Group's consolidated financial statements.

[sub-task (a) = 40%]

- Second, evaluate Elham Androodi's proposal that Mangusair, Blooair and Happywell should create a procedure to agree on additional investments in Dromeeng.

[sub-task (b) = 60%]

Regards
Irina

The Board minutes referred to by Irina can be found by clicking on the Reference Material button above.

Extract from Board minutes

Li Qingwei, Chief Executive, informed the Board that an important agreement had been reached with the airlines Mangusair and Blooair:

- The two airline companies will join with Happywell in funding Dromeeng, a company that will acquire engineering test equipment to enable detailed half-yearly inspections of Speedconfort 411 aircraft alongside day-to-day line maintenance.
- This equipment will be installed at 32 airports across Westland, which are used as departure airports by all three airlines.
- The three companies will invest a total of W\$920 million, to cover the cost of the equipment and initial start-up costs.
- Happywell's investment will be W\$276 million, giving it 30% of Dromeeng's equity.
- Dromeeng will provide inspection services independently of any individual airline. It will employ its own engineers. Inspections will be priced to cover costs and allow for a small contingency. Any surplus will be distributed to the three owners at the year end.

Elham Androodi, Operations Director, proposed that the three airlines should create a procedure for Happywell, Mangusair and Blooair to agree whether to make additional investments in Dromeeng to extend its capabilities.

Reference Material

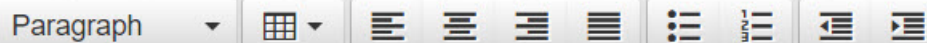
Pre-seen

Provide your response to Irina's requests in the box below.

From: Financial Manager

To: Irina Juhas, Senior Financial Manager

Subject: RE: Engineering inspections





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) 40% (b) 60%
3	45	1	2	(a) 40% (b) 60%
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

Irina Juhas, Happywell's Senior Financial Manager, stops by your workspace:

"I have brought you an extract from a document that has been circulated to the Board.

I have to brief Thomas Lyimo, Happywell's Finance Director, before this document is discussed by the Board. I need your help with two matters:

- Firstly, evaluate whether this proposal is consistent with Happywell's business model.

[sub-task (a) = 60%]

- Secondly, identify a product reputation risk and a contractual inadequacy risk that could arise from Happywell's Sandsurf package holidays as detailed in the proposal, and explain why each of those risks would be difficult for Happywell to manage."

[sub-task (b) = 40%]

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

Proposal to offer package holidays on Sandsurf – executive summary

Prepared by Andrew Johnston, Senior Marketing Manager

Sealand is Happywell's most popular destination. We are keen to increase our capacity in that country and to offer a wider choice of resorts there.

Most of Sealand's tourist resorts are on large islands to the south of the country. Each of those islands has an international airport and many hotels.

We do not have a presence on the Sealandian island of Sandsurf. Historically, Sandsurf has been popular with tourists from Flattland and so most charter flights to the island originate from there. Flattland is a developed country with a high standard of living.

Members of the Marketing Department have visited Sandsurf and confirmed that it is an attractive destination that would appeal to Westlandian customers. The Marketing Department has had preliminary discussions with several excellent hotels about selling block bookings of rooms to Happywell that would enable us to sell accommodation on Sandsurf as part of a Happywell package. The Aviation Department has confirmed that the island's airport could accept Happywell flights from Westland.



Reference Material

Pre-seen

Provide your response to Irina's requests in the box below.



A rich text editor toolbar with the following icons: a document icon, a scissors icon, a copy icon, a paste icon, a left arrow, a right arrow, a link icon, a bold icon (B), an italic icon (I), an underline icon (U), a strikethrough icon (ABC), a subscript icon (x₂), a superscript icon (x²), and a text color icon (I_x). Below these are two rows of alignment and list icons: a paragraph dropdown, a table icon, four text alignment icons (left, center, right, justified), a bulleted list icon, a numbered list icon, and two indent/outdent icons.

Reference Material

Pre-seen

Three months later, Irina Juhas asks you to join her in a meeting room:

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

I need your assistance with two matters:

- First, identify the challenges associated with determining the goodwill on acquisition of Sandsurf Hotels by the Happywell Group and recommend responses to those challenges, stating reasons. *[sub-task (a) = 40%]*
- Second, evaluate the arguments for and against making an immediate investment in the extension of the newly-acquired hotels." *[sub-task (b) = 60%]*

The Board minutes referred to by Irina can be found by clicking on the Reference Material button above.

Extract from minutes of Board meeting

Li Qingwei, Chief Executive, informed the Board that Happywell had acquired 100% of the equity of Sandsurf Hotels, a company that owns seven large hotels on the island of Sandsurf. Happywell will use those hotels to offer the accommodation element of package holidays on the island. Happywell's existing fleet of aircraft has sufficient spare capacity to provide flights between Westland and Sandsurf. Happywell will be the only Westlandian tour operator offering holidays on Sandsurf.


The Board was asked to note the following:

- Happywell paid W\$800 million for 100% of Sandsurf Hotels' equity.
- Sandsurf Hotels' property has a book value, based on cost less accumulated depreciation, totalling S\$700 million, which is equivalent to W\$560 million at current exchange rates.
- Sandsurf Hotels had accepted bookings from package tour operators. After Happywell's acquisition, the company cancelled those bookings and returned the equivalent of W\$15 million that had been accepted as deposits from the tour operators.
- Each of the hotels has a lot of open land around it and has a design that would make it possible to add a substantial extension. Extensions would be expensive and would take several months to complete, although it would be possible to extend the hotels without disturbing customers.

Reference Material

Pre-seen

Provide your response to Irina's requests in the box below.



A rich text editor toolbar with the following icons: a document icon, a scissors icon, a copy icon, a paste icon, a left arrow, a right arrow, a link icon, a bold icon (B), an italic icon (I), an underline icon (U), a strikethrough icon (ABC), a subscript icon (x₂), a superscript icon (x²), and a text color icon (I_x). The second row contains a paragraph dropdown menu, a table icon, four text alignment icons (left, center, right, justified), a bulleted list icon, a numbered list icon, and two indent/outdent icons.

Reference Material

Pre-seen

A further six months has passed. You receive the following email:

From: Irina Juhas, Senior Financial Manager

To: Financial Manager

Subject: FWD: Sandsurf Hotels

Hi,

I have forwarded an email from Thomas Lyimo. He has asked me for my opinion on two matters, and I would like to hear your views:

- First, evaluate the suggestion that Total Quality Management (TQM) should be adopted at Sandsurf Hotels.
[sub-task (a) = 40%]
- Second, explain how the fact that the S\$ has strengthened in relation to the W\$ will affect the consolidated financial statements of the Happywell Group and how that will affect the interpretation of the Group's consolidated financial statements.
[sub-task (b) = 60%]

Regards,
Irina

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

From: Thomas Lyimo, Finance Director
To: Irina Juhas, Senior Financial Manager
Subject: Sandsurf Hotels

Hi Irina,

Our recently acquired hotels on the island of Sandsurf have been operating under the Happywell brand for the past 3 months. All customers staying at the hotels have come from Westland. Feedback from those customers has been disappointing, with complaints about both accommodation and food.

Sandsurf has traditionally been a popular holiday destination for tourists from Flattland, who appear to have different expectations concerning holiday accommodation. They do not expect their hotel rooms to be cleaned every day, and they expect hotel restaurants to serve local food. Westlandians expect housekeeping staff to clean their rooms every day and wish to be offered Westlandian food in the restaurant. The hotel staff are taking some time to adjust to the needs of customers from Westland. I wonder whether we should introduce total quality management (TQM) to the management of our hotels in Sandsurf.

Another consequence of acquiring this subsidiary is that it gives the Happywell Group an additional 100% subsidiary in the country of Sealand. This was a significant addition. Sealandian companies prepare their financial statements in S\$, in accordance with IFRS. The S\$ has strengthened heavily against the W\$ in recent months, and this is expected to persist.

Regards
Thomas

Reference Material

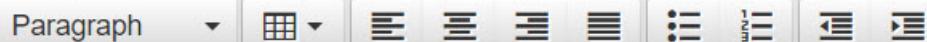
Pre-seen

Provide your response to Irina's requests in the box below.

From: Financial Manager

To: Irina Juhas, Senior Financial Manager

Subject: FWD: RE: Sandsurf Hotels



Reference Material

Pre-seen

Two months later, you receive the following email:

From: Irina Juhas, Senior Financial Manager

To: Financial Manager

Subject: Expansion on Sandsurf

Hi,

I have attached a scanned copy of a letter that has been circulated to the Board.

We plan to invest W\$400 million in a major expansion of our seven hotels on Sandsurf. We cannot proceed unless we can obtain permission from the Sandsurf Island Authority's (SIA's) Planning Department, and they are required by law to consult with all interested parties before reaching a decision.

The Board plans to establish an office in Sandsurf's main town. It will be staffed by a team of senior managers who will report to Elham, Happywell's Operations Director. Their task will be to obtain permission for our planned expansion. We expect them to be in place for at least 6 months before the Planning Department meets to make its decision.

I need your advice on two matters:

- First, recommend with reasons the arguments that Happywell should present to the SIA Tourist Department, existing hotel owners and the public before the SIA's Planning Department meets to consider Happywell's application.

[sub-task (a) = 40%]

- Second, recommend with reasons the types of information that should be requested by the Board in order to track the progress of the team of senior managers on a week-by-week basis.

[sub-task (b) = 60%]

Thanks

Irina

The letter referred to by Irina can be found by clicking on the Reference Material button above.

Sandsurf Island Authority
Planning Department

Ms Elham Androodi,
Operations Director,
Happywell.

Dear Ms Androodi,

Proposal to extend hotels

I am writing to confirm our recent discussions concerning your wish to extend the hotels owned by the Happywell Group on our island.

Any such development would require the permission of the Sandsurf Island Authority (SIA) Planning Department. We would have to take account of any objections from interested parties such as the SIA Tourist Department, existing hotel owners and the public.

We regard your proposal as significant:

- Your hotels are already amongst the largest on the island.
- You plan to increase the capacity of each hotel by 60% to 80%.
- You cater exclusively for customers from Westland. Sandsurf has traditionally been a holiday destination for tourists from Flattland.

Yours sincerely,

Georgios Lekakos

Head of Planning

Reference Material

Pre-seen

Provide your response to Irina's email in the box below.

From: Financial Manager

To: Irina Juhas, Senior Financial Manager

Subject: RE: Expansion on Sandsurf

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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) 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

You receive the following email:

To: Financial Manager
From: Irina Juhas, Senior Financial Manager
Subject: Flight disruptions

Hi,

I have attached a news report that has just gone online.

Almost all of Happywell's flights fly across Southland when departing from or returning to Westland. Our aircraft do not have sufficient range to take alternative routes.

We are still taking bookings for the forthcoming summer period which will start in just a few weeks, although most of our flights and hotels are already close to capacity.

I need your help with two matters before I brief Thomas Lyimo, our Finance Director:

- First, identify and explain the business risks arising from this disruption.

[sub-task (a) = 60%]

- Second, identify and evaluate the difficulties associated with setting an appropriate level of authority for the holiday reps at our resorts to assist customers who are stranded because of these strikes.

[sub-task (b) = 40%]

Regards

Irina

The news report referred to by Irina can be found by clicking on the Reference Material button above.

Westland Business Daily

Disruption in the air





Air traffic controllers in the country of Southland have threatened strike action during the summer months. That will severely disrupt flights that use Southlandian airspace, even if they are simply crossing the country in transit to another destination.

The strikes have been timed to coincide with the busiest time of year for holiday charter flights. Tour operators are faced with the possibility of delayed and cancelled flights, leaving some customers unable to depart for their holiday destination and others unable to return home.

Strikers are threatening a series of 24- and 48-hour strikes. Each strike will be announced 12 hours in advance so that flights can be diverted or cancelled as appropriate.

A spokesperson for Mangusair warned that most holiday flights departing from and returning to Westland must fly across Southlandian airspace and so holiday flights would definitely be disrupted. She expressed concern that strikes by Southland's air traffic controllers are becoming an almost annual occurrence. She assured customers that Mangusair would do everything possible to minimise any disruption.

 Reference Material Pre-seen

Provide your response to Irina's requests in the box below.

To: Irina Juhas, Senior Financial Manager

From: Financial Manager

Subject: RE: Flight disruptions

Reference Material

Pre-seen

Three days later, Irina Juhas stops by your workspace and hands you a document:

"I have brought you a copy of a letter from Toorcover Insurance ("Toorcover"). We recommend Toorcover to our customers when they book their holidays. We receive 20% of the amount paid by our customers for Toorcover holiday insurance as a commission when our customers buy their insurance through Happywell's website.

The air traffic controllers might not strike at all, or they might not start to strike until after our financial year end, which is 31 December 2023. That might complicate the preparation of the financial statements for the financial year ended on that date.

I need to brief Thomas Lyimo, and I need the following from you:

- First, evaluate the arguments for and against accepting a reduced commission from Toorcover. *[sub-task (a) = 60%]*
- Second, discuss the challenges associated with accounting for claims for refunds and other related costs from customers due to strike action by the air traffic controllers and recommend responses." *[sub-task (b) = 40%]*

The letter referred to by Irina can be found by clicking on the Reference Material button above.

Toorcover Insurance

Ms Sonja Bröer,
Marketing Director,
Happywell.

Dear Sonja,

Southland air traffic control strike

Southland's air traffic controllers have agreed not to strike this summer but are now threatening a series of 24- and 48- hour strikes between September 2023 and March 2024. That is usually a busy time for holidays and so any such strikes could delay outward and return flights and might cause some holidays to be cancelled.

Any new policies that are sold to cover holidays between September 2023 and March 2024 will not cover the cost of losses or delays arising from air traffic control strikes. Customers will either bear such costs themselves or seek a refund from Happywell.

The threatened strike action will still leave Toorcover exposed to significant additional expense. We are going to have to ask Happywell to accept a reduced commission of 5% of the value of any Toorcover insurance policies sold. Doing so will enable us to maintain adequate service for customers while remaining competitive with rival insurers.

Yours sincerely,

Lee Morrison

Managing Director

Reference Material

Pre-seen

Provide your response to Irina's requests in the box below.



A rich text editor toolbar with the following icons and functions:

- File icon
- Cut icon
- Copy icon
- Paste icon
- Undo icon
- Redo icon
- Table icon
- Bold (B)
- Italic (I)
- Underline (U)
- Strikethrough (ABC)
- Subscript (x_2)
- Superscript (x^2)
- Text color (I_x)
- Paragraph dropdown
- Table dropdown
- Text alignment: Left, Center, Right, Justify
- Bulleted list and Numbered list
- Decrease indent and Increase indent

A month later, you receive the following email:

To: Financial Manager
From: Irina Juhas, Senior Financial Manager
Subject: Aircraft modification

Hi,

I have forwarded an email that I received from the head of our Aviation Department. If we have these new fuel tanks fitted to our aircraft, then we could operate flights even if Southland's air traffic controllers strike.

Thomas Lyimo has asked me to brief him later today, and I need the following from you:

- First, recommend with reasons the approach that Happywell could take to negotiate priority for the installation of the new fuel tanks on its aircraft.

[sub-task (a) = 60%]

- Second, identify and evaluate the characteristics of debt and equity that are relevant to the decision as to how the modification of our aircraft should be financed.

[sub-task (b) = 40%]

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

Email Task

To: Irina Juhas, Senior Financial Manager
From: Martin Bootsma, Head of Aviation Department
Subject: **FWD:** Aircraft modification

Hi Irina,

Happywell uses a single type of aircraft, the Speedcomfort 411. A friend in Speedcomfort's Technical Department has told me that they have developed a long-range fuel tank that would enable Happywell's aircraft to reach most of our destinations without having to fly over Southland, so they would not be delayed by the threatened air traffic control strikes.

This modification has only just been certified as safe by the aviation authorities. The fuel tank must be installed by trained engineers at Speedcomfort's factory in Westland. They have the capacity to modify up to ten aircraft at once, with installation taking 5 days.

My contacts say that Speedcomfort plans to approach the largest airlines that operate the 411. We have 97 aircraft, but there are several airlines that have 200 or more.

The modification will cost W\$12 million for each aircraft.

Elham Androodi, Operations Director, has asked me to pass this information on to the Finance Department.

Regards

Martin

Reference Material

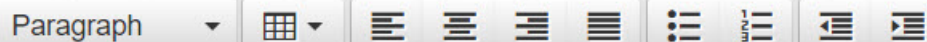
Pre-seen

Provide your response to Irina's request in the box below.

To: Irina Juhas, Senior Financial Manager

From: Financial Manager

Subject: RE: FWD: Aircraft modification



Reference Material

Pre-seen

Three days later, Irina Juhas asks you to join her in a meeting room:

"I brought you an extract from the minutes of a Board meeting that had been called specifically to discuss the availability of a modification to extend the range of Happywell's aircraft.

No decision was reached at the meeting. I plan to discuss this with Thomas Lyimo, and I need the following from you:

- First, identify major areas of uncertainty and evaluate their potential impact on the decision to modify our aircraft. Please ensure you explain the difficulty we would have when trying to quantify their impact.

[sub-task (a) = 60%]

- Second, evaluate the quality of the leadership demonstrated by the Operations Director in her decision to delegate the recommendation concerning the fuel tanks to the managers in the Aviation Department."

[sub-task (b) = 40%]

The extract referred to by Irina can be found by clicking on the Reference Material button above.

Extract from Board minutes

Li Qingwei, Chief Executive, informed the Board that Speedconfort had just developed long-range fuel tanks that it could install on Happywell's aircraft so that they would have sufficient range to reach all holiday destinations without crossing Southland airspace. That would prevent flights from being disrupted if Southland's air traffic controllers take strike action. There have been strikes in the past, and the controllers are threatening to strike again over the next few months.

It would cost W\$12 million to upgrade each of Happywell's aircraft, or W\$1,164 million to upgrade the entire fleet.

Elham Androodi, Operations Director, said that she would instruct the managers in her Aviation Department to offer a recommendation to the Board on whether or not to purchase these fuel tanks. She did not feel qualified to offer her own recommendation because she was neither a pilot or an engineer.

Reference Material

Pre-seen

Provide your responses to Irina's requests in the box below.



A rich text editor toolbar with the following icons: a document icon, a scissors icon, a copy icon, a paste icon, a left arrow, a right arrow, a link icon, a bold icon (B), an italic icon (I), an underline icon (U), a strikethrough icon (ABC), a subscript icon (x₂), a superscript icon (x²), and a text color icon (I_x). Below these are a paragraph dropdown menu, a table icon, four text alignment icons (left, center, right, justified), a bulleted list icon, a numbered list icon, and two indent/outdent icons.



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

You receive the following email:

From: Irina Juhas, Senior Financial Manager

To: Financial Manager

Subject: Long-distance holidays

Hi,

I attach a document that has been circulated to the Board.

The Marketing Department has conducted research that indicates that Happywell has a large number of loyal repeat customers who would be willing to pay twice as much for their summer holiday if we offered an exotic location.

I need to brief Thomas Lyimo, our Finance Director, on some issues arising from the Marketing Department's proposal, and I need your advice on two matters:

- First, explain whether the Marketing Department's proposal to offer long-distance holidays on Mopingo is consistent with Happywell's business model.

[sub-task (a) = 60%]

- Second, identify and evaluate the product risk and the contractual inadequacy risk associated with the proposal.

[sub-task (b) = 40%]

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

Proposal to introduce long-distance holidays – executive summary

Prepared by Andrew Johnston, Senior Marketing Manager

Happywell's holiday destinations are all within a 5-hour flight time from departure airports in Westland. Our market research indicates that some of our older customers would travel further and pay more to visit exotic holiday destinations.

The Marketing Department has identified an opportunity in the island of Mopingo, which attracts affluent tourists from many countries, including Westland. The island requires a 10-hour flight from our departure airports.

The Marketing Department has contacted Esternsun Hotels, which owns several large hotels on Mopingo. Esternsun has offered Happywell the exclusive use of 700 double rooms for the period from July to December 2024. This could prove highly profitable for us:

Potential customer numbers	18,200
Average revenue from each customer	W\$4,000
Potential revenue	W\$72.8 million
Potential profit, after allowing for W\$23 million payment to Esternsun, cost of transportation and other expenses	W\$14.5 million

Reference Material

Pre-seen

Provide your response to Irina's requests in the box below.

From: Financial Manager

To: Irina Juhas, Senior Financial Manager

Subject: RE: Long-distance holidays

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

Paragraph



Reference Material

Pre-seen

Two days later, Irina Juhas stops at your workspace and hands you a document:

"I have brought you a further extract from the proposal document relating to our plans to sell long-distance holidays.

I need to brief Thomas Lyimo later today, and I require your advice on the following:

- First, recommend with reasons how the project to achieve the four action points identified by Andrew Johnston should be organised and managed. *[sub-task (a) = 60%]*
- Second, evaluate the arguments for and against capitalising the expenditures incurred on achieving these action points as intangible assets in Happywell's financial statements." *[sub-task (b) = 40%]*

The extract referred to by Irina can be found by clicking on the Reference Material button above.

Proposal to introduce long-distance holidays – action points

Prepared by Andrew Johnston, Senior Marketing Manager

It is now August 2023. We plan to have customers departing for the island of Mopingo in July 2024, which means that we will have to start making plans and practical arrangements immediately. We will require project teams both here at Head Office and on the island itself.

We need the following:

- We will require promotional materials so that we can advertise these holidays on our website, on television and radio and in newspapers and magazines.
- We will need reps in place, ready to greet our first customers. They will have to be ready to answer questions about tourist activities and practical matters.
- Transport arrangements will have to be made, including the scheduling of flights and the provision of airport transfers.
- We will need to liaise with Esternsun Hotels about the accommodation that they will provide, including rooms and meals, for our customers.

The above preparations will require a significant investment from Happywell.

Reference Material

Pre-seen

Provide your response to Irina's requests in the box below.



A rich text editor toolbar with the following icons from left to right: a document icon, a scissors icon, a copy icon, a paste icon, a left arrow, a right arrow, a link icon, a bold icon (B), an italic icon (I), an underline icon (U), a strikethrough icon (ABC), a subscript icon (x₂), a superscript icon (x²), and a text color icon (I_x). Below these are two rows of alignment and list icons: the first row contains a paragraph dropdown, a table icon, and four text alignment icons (left, center, right, justified); the second row contains two list icons (bulleted and numbered) and two indent/outdent icons.

Reference Material

Pre-seen

Two weeks later, you receive the following email:

From: Irina Juhas, Senior Financial Manager

To: Financial Manager

Subject: Long-distance holidays

Hi,

I have attached a further extract from the proposal document relating to our plans to sell long-distance holidays.

I need your help with the following matters:

- First, evaluate the potential usefulness of value analysis, and the challenges associated with its application, in deciding on the transportation issues identified by Andrew Johnston.

[sub-task (a) = 60%]

- Second, recommend with reasons the bargaining points that Happywell could use when negotiating the annual fee it should pay Westland Relax to allow our customers travelling to Mopingo to access Westland Relax ("Relax") lounges at departure airports.

[sub-task (b) = 40%]

Regards,

Irina

The extract referred to by Irina can be found by clicking on the Reference Material button above.

Proposal to introduce long-distance holidays – transportation issues

Prepared by Andrew Johnston, Senior Marketing Manager

The following information will inform some of the decisions that will have to be made with regard to transportation for our holiday package on the island of Mopingo:

- Our Speedconfort 411 aircraft are configured to carry 210 passengers. By adding or removing rows of seats, we can reduce the capacity to 186 (with more room for each passenger) or increase it to 228 (with less room). The engineering teams at our departure airports need only a few hours to make these adjustments.
- Our aircraft are currently configured to operate only a light snack service. If we offer a full meal service on this 10-hour flight, then we will have to remove 12 seats to create space for meal trolleys, regardless of how the aircraft is configured.
- Catering companies at all major airports can provide in-flight meals that are delivered to the aircraft before departure and can be kept hot for several hours. The cost of an in-flight meal varies from W\$12 to W\$40, depending on the quality of the food. Meal choices affect the cost of both outward and return journeys.
- Transfers between Mopingo International Airport and hotels can be made by coach or taxi. If we include transfers in the basic price of the holiday, then an executive coach transfer will cost W\$8 per passenger and a taxi will cost W\$50 per passenger.
- We could arrange for our customers to have access to Westland Relax's lounges at our departure airports. We would have to pay a fixed annual fee for this service, regardless of the number of customers who actually make use of this. Westland Relax charges W\$35 per passenger for a visit to one of its lounges.

We hope to have around 18,000 customers taking these holidays during 2024.

Reference Material

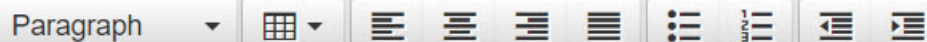
Pre-seen

Provide your responses to Irina's requests in the box below.

From: Financial Manager

To: Irina Juhas, Senior Financial Manager

Subject: RE: Long-distance holidays



Reference Material

Pre-seen

Three weeks later, Irina Juhas stops by your workspace and hands you a document:

"I have brought you an extract from the minutes of a Board meeting that was held this morning.

The Marketing Department has reported strong demand for these new holidays, despite the fact that we are insisting on 50% deposits from customers to secure bookings. We could have deposits totalling W\$40 million by the end of the current financial year.

I require your advice on two matters arising from this report.

- First, recommend with reasons a basis for setting internal charges from Hotels for Aviation's use of empty hotel rooms on Mopingo, and explain how your recommended basis will ensure that the interests of those departments are aligned with the overall interest of Happywell.

[sub-task (a) = 60%]

- Second, discuss the impact that accepting large deposits from customers will have on the key accounting ratios based on the financial statements for the year ended 31 December 2023, and evaluate the arguments for and against including an explanation of that impact in the notes to the financial statements."

[sub-task (b) = 40%]

The extract referred to by Irina can be found by clicking on the Reference Material button above.

Extract from minutes of Board meeting

Elham Androodi, Operations Director, informed the Board of a dispute between the heads of the Aviation and Hotels Departments. These departments are cost centres.

Holidays on Mopingo will require a 10-hour flight in each direction. Flight crews taking customers to Mopingo will need to have a night's sleep before they can safely operate aircraft returning to Westland. Each crew will need six hotel rooms for one or two nights, depending on the timing of their return flight. Aviation will bear the cost of overnight accommodation.

The Head of Hotels has offered to permit flight crews to use empty rooms that are not required by paying customers. Even at full capacity, rooms will often be vacant for a night or two. A room vacated by a customer who returns home on, for example, a Monday might be booked to a replacement customer who will not arrive until the following Wednesday, leaving the room unoccupied for two nights. The Head of Hotels wishes to charge Aviation the full daily customer rate for those rooms, with the charge being credited against the Hotels Department's operating costs. The Head of Hotels believes that this compensation is necessary because hotel rooms have to be cleaned thoroughly for each new guest, even if the guest is a member of a flight crew who stays for only one night.

The Head of Aviation objects to paying full price for these rooms and plans to pay to book crews into other hotels. Alternatively, Aviation might book replacement crews as passengers on outward flights. Those crews could then operate the return flights while the outward crews were flown home as passengers.

Sonia Bröer, Marketing Director, informed the Board that there had been such significant interest in the new holidays that it had been decided to commence sales in September 2023, even though the holidays would not depart until July 2024 or later.

Reference Material

Pre-seen

Provide your responses to Irina's requests in the box below.



A rich text editor toolbar with the following icons and functions:

- File icon
- Cut icon
- Copy icon
- Paste icon
- Undo icon
- Redo icon
- Table icon
- Bold (B) icon
- Italic (I) icon
- Underline (U) icon
- Strikethrough (ABC) icon
- Subscript (x₂) icon
- Superscript (x²) icon
- Text color (I_x) icon
- Paragraph dropdown menu
- Table dropdown menu
- Text alignment icons: Left, Center, Right, Justify
- Bulleted list icon
- Numbered list icon
- Decrease indent icon
- Increase indent icon



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:

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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

Irina Juhas, Senior Financial Manager, stops by your workspace and hands you a document:

“I have brought you the executive summary of a report that has been prepared by Happywell’s Marketing Department.

I have to brief Thomas Lyimo on some of the implications of this report, and I need your assistance with the following:

- First, identify and evaluate the challenges that inconsistencies in customer feedback can create in the implementation of Happywell’s business model.

[sub-task (a) = 60%]

- Second, evaluate the impact that the concerns stated in Andrew’s report relating to customer feedback might have for the reporting of social and relationship capital in Happywell’s integrated report.”

[sub-task (b) = 40%]

The summary referred to by Irina can be found by clicking on the Reference Material button above.

Report on investigation into anomalies in customer feedback – executive summary

Prepared by Andrew Johnston, Senior Marketing Manager

All customers are asked to provide detailed feedback after they return from their holidays. Our questionnaire seeks responses by category:

- Booking process
- Flights, including experiences at the airport
- Transfers
- Hotels, including accommodation, meals, reception and entertainment
- Reps

While feedback is generally positive, there have been concerns that responses are potentially misleading. The following are examples of those concerns:

- Younger customers tend to be more negative about all aspects of their feedback than older customers.
- Negative responses to one question seem to affect answers to subsequent questions. For example, customers who had a bad experience when arriving at the airport often give the cabin crew on their flight a poor score.
- Many customers provide contradictory and even illogical responses. For example, customers might choose a hotel that is described as designed for families with young children and then complain that it was always noisy or that the swimming pool was always busy.

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

Provide your responses to Irina's requests in the box below.

Reference Material

Pre-seen

A month later, you receive the following email:

To: Financial Manager
From: Irina Juhas, Senior Financial Manager
Subject: FWD: Customer feedback

Hi,

I have forwarded an email that I have just received from a senior manager in the Marketing Department.

I am preparing a briefing for Thomas Lyimo, and I require your help with two matters:

- First, explain why the biased and unhelpful feedback described in Andrew's email makes it difficult for Happywell to manage quality.

[sub-task (a) = 60%]

- Second, recommend with reasons the membership of a team that will be established to further investigate customer feedback and to develop improvements.

[sub-task (b) = 40%]

Regards

Irina

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

To: Irina Juhas, Senior Financial Manager
From: Andrew Johnston, Senior Marketing Manager
Subject: Customer feedback

Hi Irina,

My investigation into customer feedback is still at an early stage. I have extended it by reviewing customer histories.

There is a very weak relationship between customer feedback and subsequent bookings. Over the past 5 years, many of the customers who have given negative feedback on their holidays have booked to travel with Happywell again. Some have rebooked annually despite submitting negative reports about each holiday with us. Conversely, customers who submit positive reviews often fail to book again with Happywell.

Happywell's reps submit a report on each complaint made to them by customers during their holidays. Customers who make such complaints often submit negative reviews on all aspects of their holidays, even those that are unrelated to the subject of the complaint.

I am becoming increasingly concerned that our customer feedback may be biased and unhelpful. I plan to recommend to the Board that they should establish a team to investigate customer feedback further and to offer alternatives.

Regards

Andrew

Reference Material

Pre-seen

Provide your responses to Irina's requests in the box below.

To: Irina Juhas, Senior Financial Manager

From: Financial Manager

Subject: RE: FWD: Customer feedback

Paragraph

Empty text area for response.

Reference Material

Pre-seen

A month later, Irina stops by your workspace and hands you a document:

"I have brought an extract from the minutes of this morning's Board meeting.

We will both have to assist Thomas prepare to brief the Board. He and I have agreed that you will assist with the following:

- First, identify and evaluate the difficulties associated with predicting the cash flows to be used in a net present value calculation when deciding whether we should invest in an improved system for obtaining customer feedback.

[sub-task (a) = 60%]

- Second, recommend whether the costs incurred in the creation of this scheme can be capitalised."

[sub-task (b) = 40%]

The extract referred to by Irina can be found by clicking on the Reference Material button above.

Extract from Board minutes

The Board discussed a recent report from Happywell's Marketing Department that offered evidence that the system for obtaining customer feedback is unreliable.


Sonia Bröer, Marketing Director, informed the Board that she had held an initial meeting with a consultancy firm that specialises in market research. The firm had offered to assign a team of consultants to work closely with Happywell's senior management in order to develop a system that would gather useful feedback from customers. The consulting firm had offered to design an online questionnaire that customers would find easy to complete. The questionnaire would be administered using software that checked responses for consistency and excluded inconsistent responses from analysis. The consulting firm would charge a fee based on the daily rates of the consultants and programmers who would develop and test the questionnaire and the software.

The Board agreed that no decision should be taken on this proposal until the Finance Director had the opportunity to prepare a briefing for the Board. It was agreed that a further meeting would be held at a later date.

Reference Material

Pre-seen

Provide your responses to Irina's requests in the box below.



A rich text editor toolbar with the following icons from left to right: a document icon, a scissors icon, a copy icon, a paste icon, a left arrow, a right arrow, a link icon, a bold icon (B), an italic icon (I), an underline icon (U), a strikethrough icon (ABC), a subscript icon (x₂), a superscript icon (x²), and a text color icon (I_x). Below these are two rows of alignment and list icons: the first row contains a paragraph dropdown, a table icon, and four text alignment icons (left, center, right, justified); the second row contains two list icons (bulleted and numbered) and two indent/outdent icons.

Reference Material

Pre-seen

A month later, you receive the following email:

To: Financial Manager
From: Irina Juhas, Senior Financial Manager
Subject: FWD: Managing customer satisfaction

Hi,

I have forwarded an email.

I will be briefing Thomas Lyimo later today, and I need your help with the following two matters:

- First, evaluate the argument that using Holtrak for feedforward is likely to be more effective in managing customer satisfaction than responding to feedback collected from customers.

[sub-task (a) = 60%]

- Second, evaluate the challenges associated with determining the fair value of Holtrak for the purpose of consolidating Lazar Consulting into the Happywell Group.

[sub-task (b) = 40%]

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

To: Irina Juhas, Senior Financial Manager
From: Andrew Johnston, Senior Marketing Manager
Subject: Managing customer satisfaction

Hi Irina,

I have just met with Veronica Lazar, the owner of a consultancy firm that specialises in managing customer satisfaction in the holiday industry. She advised me that the problems that we have had in obtaining credible feedback from our customers is common to all package tour operators. She recommends managing customer satisfaction using feedforward information rather than waiting for feedback and then taking action.

Veronica's consultants have developed a system called "Holtrak" that tracks factors that have been found to affect customer satisfaction with their holidays. Holtrak processes data and sends recommendations via smartphones and email to aircraft cabin crew, hotel staff and reps as appropriate. Some factors are general. For example, if the W\$ is weak, then customers may be unable to afford to buy many activities and so it may be sensible to reduce reps' sales targets to reduce the risk of causing offence through aggressive selling. Other factors will be localised. For example, if an outward flight is delayed, then hotel managers will be prompted to assigning additional staff to the reception desks to avoid making already stressed customers queue for checking in.

Holtrak has been tested on a small scale with a small tour operator based in Eastland. The operator reported a significant increase in the proportion of customers who rebooked for the following year.

Veronica has a company called Lazar Consulting. The company employs several experienced consultants, and it owns the Holtrak system. The company requires additional equity to enhance the system.

Elham Androodi, Happywell's Operations Director, believes that Happywell would benefit from having exclusive use of Holtrak. She recommends offering W\$4 million for a 60% interest in the company.

Regards

Andrew

Reference Material

Pre-seen

Provide your responses to Irina's requests in the box below.

To: Irina Juhas, Senior Financial Manager

From: Financial Manager

Subject: RE: FWD: Managing customer satisfaction

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

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

May 2023 & August 2023

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

Internal rate of return

The fact that this investment's IRR exceeds the required rate of return suggests that it has a positive net present value. In that case, it would be worth investing the W\$750 million. There is, however, a concern that the 12% hurdle rate is used to evaluate all projects. It may not be appropriate in this case. The 12% threshold is, presumably, a suitable rate for evaluating investments in Happywell's existing line of business, taking account of the risks of expanding in that area. The proposed investment is in a new market that lies outside of Happywell's experience. It should be evaluated on the basis of a required rate of return that takes account of the risks associated with this new venture. Given the margin between 12% and 18%, there may be little need to consider whether the luxury holiday business is likely to be more risky than the current business.

The IRR criterion is only suitable for evaluating projects that stand alone and can be considered in isolation. That does not necessarily apply in this case. The proposed investment is effectively mutually exclusive with alterations and expansions that might be made to the regular holiday business. It would be preferable to evaluate the net present value of the investment in luxury holidays with the NPVs of the alternative investments that might use resources such as bedrooms and space for extensions. NPV is an absolute value that reflects the impact of an investment on shareholder wealth. It is an appropriate basis for comparing mutually-exclusive investments. It is possible that alternative investments could have a lower IRR but a higher NPV and so be superior to the launch of the HappGold brand.

The returns from the investment in HappGold could be difficult to separate because it will be difficult to identify the impact on the existing holiday business. It is unclear how many HappGold customers will be diverted from normal holidays sold by Happywell

as a whole. Customers who would otherwise have bought a traditional Happywell holiday will still yield a greater revenue, but the net benefit to the Group will be less. Existing customers could also be unhappy because there will be fewer rooms in the best hotels, and it may be impossible to book extra legroom flights because they have been allocated to HappGold customers. The IRR will also be inflated by the fact that many of the resources being made available to HappGold have already been created by Happywell. For example, the website and shops are already there and simply require some updating for this new venture.

Currency changes

Most, if not all, of the investments will be recognised as additions to property, plant and equipment at cost. They will be reflected in their respective subsidiary financial statements at the exchange rate in place when the purchases were made. At the year end, the assets will be translated at the closing rate in order to prepare the consolidated financial statements for the Happywell Group. If the W\$ strengthens, then the book value of the assets will decrease when translated to W\$ for consolidation and so there will be a loss on translation.

The loss (or gain if the W\$ weakens) on translation will be taken to a currency reserve in the statement of financial position and so there will be no direct impact on reported profit. The movements could still have an impact on the interpretation of the financial statements because equity has an impact on key ratios. A currency loss would reduce equity and so enhance return on equity and return on capital employed. Unfortunately, it would also reduce equity in comparison to debt and so the gearing ratio would increase.

The impact of currency movements would be affected by the accounting treatment of the investments in the subsidiary financial statements. Some of the cost of decorating the rooms could be deemed to be revenue expenditure and so it would be written off as a cost. That cost would be translated at the average rate for the year in the consolidated financial statements and so it would be less likely to be affected by large swings in exchange rates.

The ongoing impact on the consolidated financial statements would also be reduced by the fact that the investments that are recognised as assets will be reduced year by year because of depreciation.

There could also be a decrease in impact if the investments are spread across different countries. In that case, the different currencies could move in different directions and so reduce the overall effect.

SECTION 2

Profit centre

Advantages

If the new venture is a separate profit centre, then it will be clearer whether or not it is contributing to the overall profitability of Happywell as a whole. That is important because it would be relatively straightforward to withdraw from the luxury holiday market and return the upgraded rooms to the existing holiday business. Tracking profitability will assist the Board in making decisions about the options that are available to them. It will also ensure that there is a designated management team whose responsibility is to maximise profits from luxury holidays. It will be easier for the Board to supervise this venture if it is clear who is accountable for it.

Establishing HappGold as a separate profit centre will mean that it will have its own management team who will be able to make decisions in a consistent and coordinated manner. The management team will be able to develop plans and budgets that can be evaluated on their likely impact on profits and will be able to justify any requests for resources that are required. The management teams in charge of Aviation, Hotels and Local Experience will be less likely to resent the relative freedom that HappGold's managers will have as a profit centre. They may be less likely to withhold resources and cooperation if HappGold is seen to be contributing to overall profitability.

Disadvantages

Establishing HappGold as a separate profit centre could lead to friction between its management team and the managers in charge of the Aviation, Hotels and Local Experience Departments. HappGold will be making heavy use of their resources and so there could be need to recognise charges for those services. This will lead to the need for transfer prices. For example, the Head of Hotels might feel that HappGold customers benefit from facilities such as hotel pools and gardens. There could also be concerns with respect to a scarcity of resources, such as concerns about selling extra legroom seats to Happywell customers when there is a possibility that HappGold customers might wish to book that same flight.

Establishing HappGold as a separate profit centre could also lead to confusion about the management of operations. At present, operational matters are handled by three separate departments, each of whom has a separate set of responsibilities. The Aviation Department manages flights and so on. It may be difficult for a single profit centre that is managed by a marketing manager to coexist with the three operational departments.

Business model

Happywell defines value in terms of the wide range of packages that it offers to customers. HappGold will extend the choice that is available through the provision of expensive luxury holidays. That change may benefit some customers who wish to spend more in order to obtain a more exciting experience. Those customers who cannot or will not pay that much will not notice any real difference.

Happywell creates value through its vertical integration. That integration will be evident on HappGold holidays because all elements of the packages will be under HappGold's direct control. The integration will be even more evident because the packages have been designed as a separate product, with accommodation being created specifically for HappGold customers.

Happywell delivers value through the use of online systems that enable customers to choose the holiday package that suits them best. That will still be the case, although HappGold will offer a much more limited choice of destinations because only 25 hotels will be upgraded to this standard. In the event that this holiday proves popular, it may also prove difficult to book holidays at busy times. The target market includes customers who would otherwise have booked tailored packages and so those customers might find the choice of destinations offered by HappGold to be quite restrictive.

Happywell captures residual value by controlling costs and maximising revenue. HappGold is not necessarily minimising costs because it is aiming to create a sense of luxury. Running the packages in parallel with Happywell holidays will keep costs under control to a certain extent. It will be cheaper to make use of existing flights and hotels than to make separate arrangements. Revenues are maximised in the sense that a high price is being charged for these packages, although those prices appear to include "extras", such as inflight meals and better rooms.

SECTION 3

Project

Happywell has no prior experience of providing this standard of accommodation and dining and so it will have to take care that it is capable of meeting customer expectations. The senior management team will not necessarily have the necessary expertise to commission designs for the alterations and to review the results. Simply spending a large amount on each of the 25 hotels will not be sufficient to create the HappGold brand. One response would be for the project team to study the websites of luxury hotels to develop a better understanding of how their competitors attract customers, identifying the features that are promoted. Happywell should also recruit a manager with experience of running a luxury hotel to act as an adviser on the adjustments that will have to be made to attract the target market.

Each hotel is in a different location and each will require its own unique design work for the alterations. There will, however, be a need to ensure that there are some common elements to create an ambience that fits the HappGold brand identity. The work at each hotel will then have to be completed on time and to the same high standard so that HappGold holidays can be launched with maximum impact. Happywell's Marketing Department should establish a team, bringing in consultants if required, to develop key design features that will be common to all hotels. It will be easier to create a brand if all rooms use, for example, similar lighting schemes. Once those decisions have been made, it would be helpful to create a local project team to be based on site at each hotel. That will ensure that the work on each hotel is monitored and completed to the required standard. The local project teams should appoint their own architects and interior designers who are experienced in dealing with the relevant regulations and standards.

Remodelling rooms and building new dining rooms will require decisions to be made concerning ongoing bookings. Customers are likely to be unhappy if their holidays are disrupted by building work. There may also be concerns about health and safety if building work is being carried out in hotel grounds. Happywell's hotels generally operate throughout the year, so they are unlikely ever to be completely unoccupied, particularly because the work is being done on the company's best hotels. One possibility would be to plan the construction work so that it can be completed as quickly as possible, with the potential disruption restricted to the shortest possible period. That plan could be combined with inviting customers who will be affected by the work the opportunity to have an upgraded holiday in an alternative hotel. Perhaps offering an inducement such as a room with a sea view or an upgraded meal service.

Integrated report

Happywell will have to create intellectual property in the form of brand names, logos and promotional materials for this venture. The costs associated with those will have to be written off as expenses, with no immediate increase in revenue to justify those expenses. Describing this new intellectual property in the integrated report will help the shareholders to appreciate that they are likely to benefit from this expenditure in the medium-term future.

Happywell could claim that its ability to create and launch the HappGold brand is a form of organisational capital that reflects the company's ability to exploit potential openings in the market. Including such a statement in the integrated report would signal confidence on the part of the Board, which could prove reassuring to the shareholders.

Disclosing this activity under intellectual capital could create problems if the new luxury holiday venture fails. The discussion in the intellectual report will create the expectation that the new holidays will succeed. If that statement has to be retracted, then the shareholders may lose even more confidence in the Board than if they had simply developed the brand quietly. The report could also help competitors to respond more quickly and with better information about what they have to do.

Any disclosures about organisational capital could increase the risk of competitors attempting to identify and recruit experienced managers who are currently employed by Happywell. Claims about expertise in key areas could make the company vulnerable to recruitment agencies attempting to identify the managers who possess those skills.

SECTION 4

Transfer prices

Releasing rooms from HappGold to Happywell will only happen if both profit centres benefit from such a transaction, which may be difficult in this situation. From Happywell's point of view, the ideal scenario would be that HappGold sells all of its rooms directly to customers. HappGold's selling prices are higher. HappGold's management team will also wish to sell the rooms at HappGold's full retail price and could take the view that customers may buy holidays at any time, right up until the day before departure. HappGold may take the view that it is too soon to release the rooms for anything less than their full retail price. They will still be able to release them to Happywell at a later date. Given that this is a new venture, it may be that initial sales will be slow and that HappGold customers will book their holidays closer to the departure date.

Setting transfer prices that are acceptable to both HappGold (Jack Peterson) and Happywell (Elham Androodi) is complicated by the fact that the opportunity costs affecting the two profit centres are different. Happywell cannot sell flights and transfers unless it has accommodation so that it has complete packages. Happywell will be left to bear the full cost of operating flights and transfer coaches with empty seats if HappGold does not release rooms. If HappGold withholds rooms, then Happywell will be forced to cover the costs of operating flights and transfer coaches with unoccupied seats that could otherwise have been sold, with no revenue to offset against those costs. HappGold will bear very little in the way of operating costs if it holds a room and so the only loss will be the opportunity cost of lost revenues, which may not be reported as a cost. HappGold has significantly higher retail selling prices than Happywell, so HappGold's management team could be tempted to delay the release of rooms for as long as possible, with little concern for whether that may leave Happywell with unsold packages.

There is a potential reputational cost to the management team at HappGold if it releases rooms to Happywell. The performance of this new venture will be scrutinised closely in this first year. It may be preferable for HappGold's management team to risk allowing the rooms to remain empty than for them to accept a minimal credit from Happywell. There is a significant upside risk for HappGold's management if it does so because it could sell the rooms at any time prior to the departure date. The downside risk may be similar in terms of career progression whether the rooms are released or left empty. Happywell would have to demand a significant discount that would probably be unacceptable to HappGold. Happywell cannot make a profit unless HappGold discounts its retail prices by at least 66% and probably more. HappGold may prefer to risk the loss of any revenue rather than generate a guaranteed profit that was unacceptably small.

WACC

WACC is the weighted average of the costs of equity and debt finance. The cost of equity can be calculated in several different ways, but it is essentially the rate of return that shareholders require from investing in shares. The fact that Happywell has invested in a new venture and that the initial performance is weak would suggest that

this is a riskier investment, which implies an increase in the cost of equity. If the cost of equity increases, then the share price will decrease. That decrease will persist unless the market is reassured by future performance. It may not be sufficient for sales of HappGold packages to increase in the short term. The market might remain uneasy until there has been a consistent improvement. This was a significant investment by Happywell, so there could be a substantial impact on the company's equity finance.

The poor returns could also have an adverse impact on the cost of debt. If lenders are concerned that Happywell will have weaker cash flows, then they will expect a higher return from its debt. That will not affect Happywell's cash flows with regard to servicing that debt, but it could mean that the company will have to pay more to borrow in the future. Fortunately, Happywell has not borrowed heavily. Before the investment, gearing was $2,100.0 / (2,100.0 + 5,575.7) = 27\%$. At that level, most of the risk associated with this new venture will be borne by the shareholders and lenders are unlikely to be concerned that they will face greater risk. Unfortunately, that also means that any increase in the cost of equity will be more heavily weighted.

MANAGEMENT CASE STUDY

May 2023 & August 2023

EXAM ANSWERS

Variant 2

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SECTION 1

Authority

Agnar's actions could have jeopardised the safety of Happywell's flights and could have disrupted flight operations. Issuing parts to other airlines could create the risk that the replacement parts returned by rivals have been damaged or might even be counterfeit. It is also possible that parts could have been issued that were subsequently needed to maintain a Happywell aircraft that could then be delayed in its return to service. Agnar did not seek permission for these actions, which implies that he realised that he was taking excessive authority upon himself.

It could be argued that Agnar has too much authority over the engineers who are working at the hangar. Clearly, Agnar is lending inventory and providing engineering support to rival airlines with the knowledge and support of the engineers and other staff who work at the hangar. The fact that colleagues will release expensive spares and will conduct large-scale work on aircraft suggests that they are prepared to accept instructions from Agnar even though he is not technically able to permit such actions. The fact that engineers have not queried some of Agnar's instructions by seeking confirmation from senior management should concern the Head of Aviation.

It could be argued that Agnar does not have too much authority. The question is whether there has been too little supervision of the workings of the engineering hangar. The fact that the Head of Aviation has objected to Agnar's behaviour suggests that he had not authorised him to provide this degree of informal support to other airlines. The Aviation Department's senior management should have clarified the limits of Agnar's authority with regard to the use of the hangar and its facilities and should have put checks in place to ensure that those limits are respected. Issues and returns

of spares should have been logged on the hangar's inventory systems and so they should have been accessible by the Aviation Department.

It may be that Agnar's behaviour is important to ensure the hangar's operations in support of Happywell's flight operations. By investing in maintaining a good relationship with other airlines at Viewel Airport, he has created potential goodwill that could be valuable in the event that he ever requires assistance to complete a repair quickly. Also, he knows which parts he can afford to lend without risking being left without a vital item that is needed for one of Happywell's aircraft.

Pricing emergency repairs

If Happywell does not make any profit from emergency repairs, then it can justify delaying work on rivals' aircraft until there is spare capacity. If rivals are paying full commercial prices for repairs, then they might attempt to argue for a faster service, which could disrupt scheduled repairs on Happywell's aircraft.

Agreeing to support rival airlines through emergencies, such as the burst tyre, could assist Happywell when it needs assistance at airports where it has only a limited engineering presence. Happywell's engineers will have contacts at other airlines and those contacts will make it easier to arrange informal assistance to get damaged aircraft back into service.

If Happywell provides emergency repairs at cost, then it may have the opportunity to give its engineers experience of working on different conditions that might affect Happywell aircraft in the future.

Offering low prices on emergency repairs could discourage rival airlines from maintaining full service and repair facilities at Viewel Airport. There is little point in creating such a capability if Happywell will provide it at cost. This could give rivals a cost advantage over Happywell because the hangar is staffed and equipped to deal with major problems and that will be expensive both in terms of salaries and in maintaining parts inventories.

It could be argued that it benefits Happywell when aircraft belonging to rival airlines need emergency repairs, possibly delaying rivals' flight schedules. Offering emergency repairs at cost will minimise those delays and so prevent Happywell from obtaining any benefit.

The fact that these are emergency repairs suggests that rival airlines would be forced to pay substantially more than cost in order to put an aircraft back into service. There is an opportunity cost to Happywell because it could make a significant profit on the sale of this service.

SECTION 2

Aircraft maintenance

The Aviation Department would have to start by setting out the objectives of these changes. Objectives such as flight safety and the need to prolong the service lives of aircraft will not be affected by the proposed re-engineering of these inspections. Aviation will have to define the improvements that it expects, probably in terms of reducing inspection costs while increasing aircraft availability.

Aviation will have to be clear about the extent to which the inspection process can be redesigned. It will have to be possible to eliminate the half-yearly inspections for this to be worthwhile, otherwise aircraft will still have to be taken out of service for visits to the engineering hangar. It is also important for Aviation to address the impact of scheduling aircraft operations so that each aircraft can be inspected at an airport equipped with this machinery.

It is important to review the existing procedures for visits to the hangar to establish whether there is genuine scope for savings from conducting inspections alongside line maintenance. It may be that inspections frequently identify problems that require rectification at the engineering hangar or that the hangar routinely carries out other work such as deep cleaning passenger cabins that would otherwise still require aircraft to be taken out of service.

The Aviation Department will have to ensure that it has the required IT infrastructure to enable aircraft to be serviced without requiring aircraft to make empty flights between airports that have the new equipment to enable them to be inspected. This might be difficult because the inspections usually take 48 hours, so there might have to be several smaller inspections carried out in stages alongside line maintenance.

It is important to ensure that the new process is both practical and acceptable to third parties such as the aircraft manufacturer and the government agencies who are responsible for regulation. Happywell would have to present all such parties with a detailed proposal in order to seek confirmation that all relevant rules are complied with.

Lease

The lease should be accounted for under the terms of IFRS 16 *Leases*. This lease effectively gives Happywell the right to acquire the inspection equipment for most, if not all, of the equipment's useful life and so it should be accounted for as an acquisition that is effectively funded by a loan. In the first instance, the equipment should be accounted for as a right-of-use asset costing W\$450 million. There will be a corresponding lease liability of W\$450 million, being the present value of the lease payments.

Over time, the equipment will be depreciated over the 8-year period for which Happywell will have the right to use it. The lease liability will be accounted on the basis of the interest rate implicit in the eight annual payments of W\$75 million in relation to the loan of W\$450 million. The interest component of the annual payment will be charged to Happywell's statement of profit or loss, and the closing balance will be adjusted to show the capital sum outstanding. That capital sum will be broken down

between current and non-current liabilities, with the current liability being the capital sum that will be payable during the next 12 months.

Acquiring the equipment by a lease is effectively the same as taking out a loan, so the lease will affect the gearing ratio. Gearing will increase from $2,100.0 / (5,575.7 + 2,100.0) = 27\%$ to $2,550.0 / (5,575.7 + 2,550.0) = 31\%$. The increase is not massive, but it will have an impact on shareholders' perceptions of financial risk and it will reduce the capacity for further borrowings in the future.

The lease will have an immediate impact on Happywell's return on capital employed (ROCE). In the short term, capital employed will increase because of the lease liability and so ROCE is likely to decrease, making Happywell appear less profitable. In the longer term, operating costs should decrease because of more efficient inspections of aircraft and so the increased profit will hopefully outweigh the increased capital employed and the ROCE will increase, which will benefit the shareholders.

The current liability associated with the capital repayment due within 12 months will reduce the current ratio, making the company appear to be less liquid.

SECTION 3

Predicting cash flows

Demand for this service could prove difficult to predict:

The airlines that Happywell hopes to sell this service to are already operating their Speedconfort 411 aircraft. They would not be permitted to carry passengers if their aircraft were not being tested to the satisfaction of regulators. Happywell intends to offer this service as a commercial enterprise and so it may not offer potential airline customers sufficient savings to motivate them to switch. These inspections are a critical part of ensuring that aircraft are safe and permitted to fly, so airlines may be reluctant to risk a new approach.

Happywell plans to equip the 32 Westlandian airports that it uses as departure points. Those are not the only airports in Westland which could create problems for other airlines who wish to use this new service. Other airlines that use different combinations of airports may be unable to service some of their aircraft without taking them out of service and flying them to one of the airports used by Happywell. It could prove cheaper for airlines to use their existing inspection methods if the availability of the equipment forces them to make flights without carrying passengers.

It cannot be guaranteed that the airlines that operate the Speedconfort 411 aircraft will continue to do so. It is possible that this model will be replaced by an alternative aircraft that is not compatible with the test equipment and so revenues could be curtailed. There is also a risk that demand for air travel will decrease because of economic or other factors and so airlines may ground their aircraft or sell them to foreign buyers, again reducing demand for inspections.

A competitor could enter the market:

Happywell is not the only major operator of the Speedconfort 411 aircraft. A rival airline could follow Happywell's lead and invest in this same equipment. Presumably, there would be nothing to prevent a larger airline from offering inspections at a lower price and so undercutting Happywell. Smaller airlines who are impressed by the new equipment might decide to buy their own inspection kits and stop paying Happywell for this service.

Staff costs might be difficult to predict:

Happywell will have to recruit and train sufficient qualified engineers who are certified to operate this new equipment at 32 airports. It may be expensive to retain these employees, particularly if it becomes attractive for rival airlines to recruit them to operate their own inspection equipment. There could also be a surplus of engineers at the engineering hangar at Viewel Airport who may have to be made redundant if they are required to relocate to work at Happywell's other locations.

Negotiations

The other airlines will be in a very strong bargaining position with regard to the price of this service. They know that Happywell plans to buy the equipment for its own use and so they might argue that any amount that they pay will offset Happywell's acquisition and operating costs. Happywell is not necessarily offering the airlines

anything that they cannot do for themselves already. At best, they may be able to offer a cost saving.

Happywell could deal with this problem by using its own knowledge and experience of carrying out inspections using conventional methods to estimate the costs being borne by the other airlines. Happywell is a major user of the Speedconfort 411 aircraft and so it should be able to make a realistic assessment of whether it is offering a worthwhile saving at any given price. Ideally, negotiations should take place before Happywell commits itself to buying the new equipment, so that it could always threaten to place a smaller order for the inspection equipment.

Airlines could be concerned that Happywell will have only limited capacity to offer servicing. Happywell's own aircraft will require 20% to 40% of the capacity of the inspection equipment at each of the 32 airports. Airlines will demand assurances that their aircraft will be inspected in accordance with the requirements established by regulations, otherwise they might risk being forced to take aircraft out of service. Clearly Happywell will not wish to grant priority to a rival's aircraft if it is at risk of taking its own aircraft out of service.

Happywell might agree not to accept responsibility for more than, for example, nine aircraft at any given airport. That would give some spare capacity to deal with any emergencies, such as equipment breaking down. In addition, Happywell might agree to rotate its own aircraft between airports so that they can be inspected on schedule without forcing other airlines to be inconvenienced.

SECTION 4

Investment

This investment will have to be considered in terms of IAS 28 *Associates*. It may be that Dromeeng falls within the definition of an associate. If it does not, then the investment will have to be accounted for as an asset, with adjustments for impairment if required. Happywell's 30% ownership exceeds the 20% threshold set by IAS 28, which implies that Dromeeng is an associate. It is also necessary to consider whether Happywell can exert significant influence over Dromeeng, which may be difficult to prove because the remaining 70% is divided between only two other investors. If Mangusair and Blooair each own less than a controlling interest, then it could be argued that all three companies are in a position to exert influence over Dromeeng and so it would be possible for all three to treat it as an associate.

Happywell will recognise its investment in Dromeeng as an associate in its statement of financial position. That investment will be carried into the Happywell Group's consolidated statements. All services purchased from Dromeeng will be accounted for as operating expenses in the same manner as any services bought from third parties. Happywell will recognise its share of any profits or losses reported by Dromeeng in its consolidated statement of profit or loss. These will be recognised regardless of whether they are distributed. Those adjustments will be reflected in the value of the investment in associate. If Dromeeng distributes any surplus, then that will be offset against the investment in associate.

Follow on investment

The airlines are not competing with one another with regard to safety inspections and repairs. It would be advantageous to all to be able to share additional facilities that could be installed at airports. The lack of a mechanism for arranging additional investments could slow down any decision that has to be made on future expansion opportunities. Once operations at Dromeeng are under way, then the airlines might discover that there is insufficient equipment at all 32 airports and so it would be convenient to be able to arrange additions quickly. There could also be new or improved equipment that could be used to extend the capacity or the quality of the work that can be undertaken at the airports and that would benefit all three airlines. Having a mechanism in place would ensure that opportunities are not missed and that the three airlines could help to maintain this arrangement.

There could be a concern that any formal mechanism might lead to one of the three airlines being forced into making additional investments that are undesirable. Happywell's share of the latest investment was W\$276 million and the other airlines' shares were even larger, so unscheduled expansion at Dromeeng this could create cash flow problems for any dissenting airline. The airlines might disagree about how best to acquire new capabilities that become available. For example, Happywell might decide that it wishes to expand the capabilities of its engineering hangar rather than sharing new equipment locally with the other airlines. The needs of individual airlines might change because of expansion or contraction of their fleets or because of the purchase of a new model. It may be preferable for further opportunities to be evaluated on their merits.

The fact that there are only three airlines in this arrangement means that there is nothing to prevent them from meeting to discuss any future opportunities and deciding them on their merits. The staff at Dromeeng and the engineering staff employed by the three airlines will be able to recommend new equipment that might be shared. There is nothing to prevent any of the airlines from calling a meeting to discuss any such recommendations. The initial investment at Dromeeng was possible because it was to the advantage to each of the three airlines. Future investments that meet that same criterion will be agreed. In some cases, it may be preferable to create a separate company that will be structured differently, possibly with different shares or with additional partners. It is unnecessary for Dromeeng to be the only vehicle for cooperation on maintenance.

MANAGEMENT CASE STUDY

May 2023 & August 2023

EXAM ANSWERS

Variant 3

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SECTION 1

Business model

Happywell defines value in terms offering a wide range of customer experiences that appeal to the Westlandian market. This proposal expands the range of experiences on offer, but not necessarily in a manner that will appeal to the market. The fact that this island appeals to tourists from Flattland could suggest that it has a different ambience from Sealand's other islands, which might appeal to some Westlandian customers, but it could also fail to meet their expectations. Presumably, the Flattlandian culture is different from that of Westland, which could affect the suitability of holidays on Sandsurf. For example, the island could have a hotter climate than Sealand's other islands, which could be attractive to Flattlandians but not Westlandians. Westlandian customers might also feel uncomfortable being in a resort that is heavily populated by tourists from another country, with shops and restaurants catering for the interests of the majority in terms of signage and the food choices on offer.

Happywell creates value by being vertically integrated, which gives the company control over the holiday experience that it offers its customers. Happywell is sacrificing this integration because it plans to rent accommodation from third parties rather than acquiring its own hotels on the island. There is a danger that repeat customers who are used to a certain standard of care from Happywell could be disappointed by the accommodation on Sandsurf. The hotels are used to accommodating customers from Flattland, whose expectations could be different from those of Happywell's customers. Happywell is, however, experienced in managing its own hotels and in responding to customer feedback, so it should be possible to visit the hotels that will be used on Sandsurf and to brief them on its expectations and the expectations of its customers.

Happywell delivers value through its use of online sales and advisers in retail shops to enable customers to select holiday packages that meet their needs. Adding Sandsurf as a destination will simply require the website and other sales material to be updated. This information will, however, have to be checked carefully to ensure that customers are not misled. The fact that this is a new destination means that Happywell is selling packages without having had the opportunity to review customer feedback. Holidays are expensive in terms of pricing and the need to take annual leave. Disappointed customers who feel that they have been misled could leave negative feedback on social media, so harming Happywell's reputation. It would be difficult to ensure that draft promotional materials are realistic unless Happywell invests a significant amount of time in visiting the island and gathering information.

Happywell captures residual value through providing value for money. It controls costs and maximises revenues. It could be difficult to do so in this case because there are many complicating factors. The tourist economy on Sandsurf could differ from that of the other islands in Sealand because the prosperity of Flatland will affect the ability of most tourists to relax and enjoy themselves. Local experiences such as trips could be too expensive for Happywell's customers. The pricing of accommodation will also be different because Happywell is having to recover payments made to third-party hotels, which could be more than the operating costs of its own hotels.

Product reputation and contractual inadequacy risks

The fact that this is a completely new holiday destination for Westlandian customers suggests that it will have to be promoted heavily. Happywell will wish to send as many customers as possible to Sandsurf, otherwise press coverage could be negative, with journalists commenting on empty seats on flights. The launch of any new product can create high expectations from its customers and so there is a significant risk that customers will be disappointed by their holidays. There are many unknowns in creating a holiday experience in an environment in which Happywell has no prior experience and so Happywell cannot be certain that it will live up to its promises. Any such disappointment could lead to the loss of repeat business from previously loyal customers, affecting sales of holidays to traditional destinations.

Contractual inadequacy risk arises from the fact that Happywell is entering into contracts with local hotels to provide accommodation. There could be problems associated with enforcing those contracts. The tourist industry can be volatile and so a holiday hotel could run into financial difficulty. In that case, Happywell could be unable to provide the accommodation that its customers have chosen and paid for. The contracts will also specify the standard of accommodation that the hotels will provide, but it may be difficult to ensure that both parties understand what has been agreed. Customers could be unhappy with meals or the cleanliness of rooms despite the hotel believing that both were acceptable. Even if the terms can be communicated clearly, there is little point in having a contract that can be breached because Happywell's customers will already be unhappy. The hotels are unlikely to accept significant penalties that would apply in the case of any alleged breach.

SECTION 2

Goodwill

IFRS 3 *Business combinations* requires the group to take account of the fair value of the identifiable assets and liabilities of the newly-acquired subsidiary. The fair value of the hotels will be difficult to determine because each hotel is unique, both in terms of the property itself and its location. The fair value of a building will be affected by its size, physical condition and suitability to potential buyers. It is unlikely that hotels are bought and sold frequently, so there is no observable fair value. Comparisons with other recent sales will be complicated by the fact that a tourist hotel's value could be affected by the distance to the nearest beach or to the shops.

There is also the question of the fair value of the liability due to package tour operators. That liability will have to be valued. The liability could be worth more than W\$15 million because the company is breaking a contract. The associated loss may be far more than the value of the deposits paid in advance.

Happywell should review any reports obtained from local property experts before it purchased the subsidiary. The reports should indicate estimates of the values of each of the hotels. These values should be updated by comparing them with any hotel sales that have been made recently on the island. The values should be linked to objective factors such as price per square metre of floor space in order to check that they are credible.

The value of the liability should be checked by having a lawyer study the contracts between the subsidiary and the tour companies who have submitted deposits. The lawyer should establish the terms of any breach of the contract. The lawyer should also study the correspondence relating to the cancellation in order to establish whether any claims are being pursued.

Further investment

It would be logical for Happywell to promote holidays on Sandsurf heavily in preparation for the launch. There could be considerable interest in an island that has not previously been open to Westlandians. Happywell is the first Westlandian tour operator to offer packages to Sandsurf. If these prove popular, then it would be ideal to be able to take full advantage of the demand that will be created. If the extension work is delayed, then Happywell could miss the forthcoming busy period and the whole opportunity to take the fullest advantage of the launch could be lost. In the worst case, Happywell could offer holidays departing from Flattland or could permit Flattlandian tour operators to rent any surplus capacity that is created.

The additions to the hotels could be designed to better suit the needs of Westlandian customers. The existing areas and guest rooms may have been designed to suit the tastes of Flattlandian guests. The work should be completed in time for customers to make bookings for next year's busy period, which would enable Happywell to display the new sections of the hotels in the promotional material. The extensions would also enable Happywell to make good use of its experience in managing its existing hotels.

The company knows which features are best appreciated and which add value to a holiday. The extensions should, therefore, attract bookings. Happywell could even attempt to prioritise those features that can be added quickly to maximise this impact.

The obvious argument against making this additional investment is that there is no guarantee that the hotels will be popular with Happywell's customers and so the additional capacity may not be required. It would be less risky to wait and see whether there is a demand for this destination so that there is evidence that it would be worth making further investment in adding to the capacity of these hotels. Happywell will still have an advantage over any rival tour operators that attempt to establish themselves in this market because they will have to spend heavily in order to secure accommodation. The fact that the island is popular with its original market and now has growing demand from Westland will mean that incoming tour operators will have to pay a great deal to make the necessary investment.

It is also a concern that Happywell has made a major investment in the hotels. It has not been stated whether that acquisition was funded with debt or equity, but it could appear rash to make a further investment soon after acquiring the hotels. This could put a considerable strain on Happywell's cash flows and on its ability to raise further funding. It may also worry shareholders, who could feel that they are over exposed in the Sandsurf market.

SECTION 3

TQM

TQM is consistent with meeting customer needs and preventing unhappy customers. As is usually the case, the cost of preventing problems is usually less than the cost of correction. Unhappy customers might post negative reviews about their holiday experiences on social media and that could be harmful to Happywell's reputation, particularly with regard to hotels on Sandsurf. Even if these complaints are addressed immediately, it could take some time for sufficient positive reviews to be posted to offset the initial negative feedback.

Happywell is in a strong position to encourage continuous improvement. It owns more than 300 hotels and so it is likely to have documented operating policies that could be used to inform staff at Sandsurf Hotels about its expectations. That documentation could be used to inform hotel staff about Happywell's standards, which will help them have an informed discussion about the plans to improve performance.

TQM may not be entirely suitable for this particular situation because it is more a case of modifying hotel operations rather than necessarily improving quality. It appears that Sandsurf Hotels already had procedures in place in terms of cleaning and menu choice that suited Flattlandian guests. Increasing the frequency of room cleaning and adapting the menu are not necessarily matters that require TQM.

It will always prove difficult to set realistic quality standards for a hotel because some guests are more demanding than others. It is desirable to prevent complaints, but it will not always be cost-effective to do so. TQM would require close supervision and management to ensure that standards are being met and that will prove expensive. Staff may also resent the fact that they are being closely supervised when they may have been working independently without problems.

Currency gains and losses

Currency movements will have to be accounted for in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*. The net assets of each of the Group's foreign subsidiaries will have to be retranslated at each year end using the closing rate in effect at that time. The goodwill on the subsidiaries' acquisition will also have to be retranslated, again, at the closing rate. Changing exchange rates will affect the value of the assets, including goodwill, that will appear in the consolidated statement of financial position. That will result in gains or losses on currency movements.

Currency gains and losses will be taken directly to a currency reserve, which will accumulate a debit or credit balance which will show the net impact of currency gains and losses over time. Currency gains and losses are not recognised in the consolidated statement of profit or loss and so they do not affect reported profit. Happywell had a net credit balance on its currency reserve, which means that it has accumulated currency gains. The decrease for the year ended 31 December 2022 indicates a currency loss.

The net balance on Happywell's currency reserve suggests that the W\$ has weakened over time since the investments in foreign subsidiaries was first made. The W\$ has not weakened consistently because there was a currency loss during the year ended 31 December 2022. The additional investment in a new Sealandian subsidiary and the heavy strengthening of the S\$ against the W\$ suggests that there will be a gain in the year ended 31 December 2023.

The balance on the currency reserve is important because it will affect ratios used in the interpretation of financial statements. A gain will not affect the operating profit for the year, but it will increase equity, so the return on equity and return on capital employed ratios will decrease. The Group will appear less profitable even if operating profit increases.

There could be similar issues with the gearing ratio because large currency changes could affect gearing ratios. Currency losses will decrease both equity and the value of PPE in the statement of financial position. That will increase the gearing ratio and make the company appear to be a less attractive proposition for lenders.

SECTION 4

Interested parties

This is essentially a negotiation between Happywell and the parties who might be affected by the expansion of these hotels.

Happywell should attempt to persuade the SIA Tourist Authority that an influx of tourists from Westland will benefit the local tourist industry. Increasing demand for accommodation will enable restaurants and other tourist-related businesses to charge more. Having a new market for tourism on the island will offer some protection against an economic downturn in Flattland. New ventures that are intended to appeal to Westlandian tourists could be of interest to Flattlandians also and so the island could be even more attractive to its traditional market. The influx of Westlandians will also provide the SIA Tourist Authority with a fresh role and so its management might be able to justify an expansion.

Existing hotel owners will be reluctant to encourage Happywell's venture to expand still further, possibly giving Happywell greater influence over the local tourist industry. Happywell might start by pointing out that it would also have the ability to object to any planning applications that are made by existing hotel owners. If Happywell cannot extend its hotels, then it could seek to grow in some other way, such as through the acquisition of more hotels on the island, which could be a less desirable outcome for the existing hotel owners. Accommodating more Westlandians in extended hotels may do less to alter the character of Sandsurf than having a larger number of hotels catering for that market.

Members of the public will have different reasons for objecting to the extension of hotels. Happywell will have to start by establishing what those concerns might be. There will be some generic arguments that could be made. The proposed investment in the hotels will create employment for construction workers and hotel staff. Happywell could aim to use as many local people for work on the hotels, so that there is a source of employment. The investment will also create local benefits because of tax and other inputs into the local economy. Stressing the benefits might counter concerns.

Performance indicators

The Board should monitor all media coverage of the proposed extension, downloading news articles, social media posts and any television news or documentary footage. The documents should be analysed to determine whether they are positive or negative and classified to identify the basic themes, such as the possibility that the existing tourist economy could be damaged. The Board should review press releases prepared by the management team as well as favourable media coverage that can be attributed to the management team. It is important to ensure that the public is positive because that will have an impact on the decisions taken by local and national politicians who can affect the outcome of the planning process.

The Board should be provided with a summary of all formal and informal meetings held with potentially influential people on the island. The reports should indicate the reasons for having the meeting, its location and the matters that were discussed. The

Board needs to know whether the management team is being proactive in negotiating and working with decision makers and influencers. It is also important to track any changes in individuals' positions over time in order to establish whether the management team is being effective.

The Board should receive regular reports from expert advisers who are being paid to advise the management team and to work towards a favourable planning decision. The experts should be asked for their opinions on the likelihood of success and of their evaluations of the key matters that could affect the outcome. These reports will enable the Board to understand the compromises that have to be made in order to succeed. It may also be necessary to change the direction of the application process if there are serious problems that must be addressed.

The Board should be provided with a detailed breakdown of all costs incurred by the management team. This application process will be expensive, but the team should not be permitted to waste money by overspending. The Board will also have to ensure that Happywell can be accused of bribing local contacts by meeting in expensive restaurants.

MANAGEMENT CASE STUDY

May 2023 & August 2023

EXAM ANSWERS

Variant 4

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SECTION 1

Business risks

Happywell faces severe operational risks if the strike action goes ahead. The biggest concern is that flights may not be available to fly customers home at the end of their holidays. The customers themselves will be significantly inconvenienced if they need to return to work and they will expect Happywell to make arrangements to get them back to Westland as quickly as possible. In the meantime, Happywell may have to arrange accommodation for customers. Happywell will have to bear the costs associated with these arrangements because it will be unable to pass the costs on itself. There will also be the need to make arrangements for the customers whose departures are delayed, some of whom may still come to their departure airports because they are unaware that their flights have been delayed or cancelled.

Disrupted flights could cause Happywell significant product reputation risks. The company has been continuing to sell holiday packages despite the possibility of holiday flights being disrupted by the strike action. That will be viewed as cynical and unacceptable. Customers whose holidays are disrupted may feel that they have been misled into paying for a holiday that was subject to cancellation or delay. If customers cannot reschedule their annual leave, they may be unable to book alternative holidays with Happywell outside the period affected by the strike. Happywell could lose business for a long time if customers feel unsure whether their holiday will go ahead. It will not matter that the reasons for any disruption are outside the company's control.

The uncertainty could lead to a product risk. The possibility of strike action is being reported in the press and so some customers may be reluctant to book Happywell holidays because most would be disrupted by strike action. That could lead to increased demand for rival tour operators' holidays that do not cross Southlandian

airspace and so rivals will be able to charge more. Conversely, Happywell's reduced demand may force it to lower prices in order to attract customers who are prepared to take the risk in return for a cheaper holiday. The overall impact is that Happywell may suffer a severe loss of revenue, even if the industrial action is limited or cancelled altogether.

The uncertainty and Happywell's ongoing actions could lead to contractual inadequacy risk because the company may not be able to provide its customers with a satisfactory service. If there are frequent strikes during the busy summer period then Happywell could find itself in serious breach of contract with a large number of customers. It may owe more than it can afford to pay in refunds. The terms of sales contracts may not provide Happywell with sufficient protection in the case of such serious disruption.

Empowering reps

Empowering reps may prove counterproductive if customers are informed that their local rep team has been empowered to assist them and the reps are then unable to resolve their concerns. Customers will be looking for firm commitments about their return flights and no level of empowerment will equip reps to be able to make realistic promises. Reps may then find themselves under pressure if customers believe that they are involved in resolving matters rather than simply passing on information distributed by Head Office. If reps are empowered to make decisions locally, such as allocating seats on flights home once they become available, they may find themselves confronted by angry customers who believe they deserve priority.

Reps may not have the necessary skills to handle the logistical aspects associated with making arrangements for unhappy customers who are stranded by the strike action, so they may not be able to make effective use of any authority that is delegated to them. The reps are skilled at dealing with small groups of customers, advising on problems and recommending ways to enjoy their holidays. They do not necessarily require to be empowered in any way to continue in that role. Larger decisions can be taken by Head Office and information can be passed to customers via their reps if necessary.

Reps are operating independently without direct supervision from Head Office and so they may abuse any authority that is given them for the duration of the strike action. For example, the power to issue meal vouchers could be abused by reps who use the vouchers themselves or who issue vouchers to customers who do not meet the criteria to receive them. It could be easier to grant concessions to angry customers simply to avoid having to deal with them and so the costs of empowering reps could be excessive.

SECTION 2

Reducing commission

The decision about the commission is essentially a pricing decision. The commission charged by Happywell is essentially the price charged to Toorcover for signing up each customer. The total price for insurance is then charged to Happywell's customers as an element of the holiday package. If Toorcover increases its prices by a significant amount then the total price of a holiday booked through Happywell could be excessive and so sales of holiday packages might be lost. Customers might be unwilling to pay the increased cost of insurance or they may be unable to afford adequate cover. Alternatively, customers might decide to buy cheaper insurance that offers less cover or even travel without insurance. That could put Happywell in a very difficult position if customers have problems that are not properly insured.

If Happywell makes an adequate profit from the basic package elements of travel and accommodation then any commission taken from Toorcover is an additional source of revenue. Presumably, it does because there is no compulsion to buy a Toorcover policy. Customers may make their own arrangements with another insurer, with no direct benefit to Happywell. Happywell offers its customers an opportunity to purchase Toorcover insurance through its website when they buy a holiday package so there is very little cost associated with earning the commission. Happywell will still make a profit from the sale of insurance policies even if it reduces its commission to 5%.

There is a possibility that Toorcover is simply trying to negotiate a better commission rate from Happywell by threatening to increase its selling prices to customers. Toorcover faces a commitment to compensate customers who bought insurance policies before the strike was announced, but it does not plan to accept liability for losses during the strikes on new policies. Toorcover's losses are restricted to the costs of compensating customers who already hold policies and who are affected by flight disruption. It is unclear how significant those losses will be. Policies written in the future will not cover the effects of strike action and so there is no justification for seeking to negotiate a reduced commission.

Happywell should consider the fact that its packages are effectively sold as a product bundle and that maximising profit requires it to charge as much as it can for each element. Accepting a smaller commission from each insurance policy sold will reduce the revenue from each customer. Toorcover could be bluffing about the need to reduce the prices of insurance cover.

Claims for refunds

The challenges arise from the lack of uncertainty that will affect the preparation of the financial statements for the year ended 31 December 2023. Any holidays that are cancelled prior to that date will require the company to refund the deposits and any final payments made by customers, with any unpaid refunds being accrued in the financial statements. There could be a further complication if customers seek additional compensation and those claims are not settled before the year end. If there is a realistic possibility of any such payment being made then it should be accrued in

the same manner as for a refund. The amounts may be uncertain, but the number of cancellations will be known so the only missing information is the amount payable on each. Happywell should be able to resolve this by reviewing previous cases in which it has had to compensate customers whose holidays were cancelled for operational reasons.

The bigger problem will be with respect to the possible impact of strikes that affect holidays that were booked before the year end. Happywell will have taken payments from customers and it will be unclear whether it will have to offer refunds or compensation because it is unclear whether the threatened strike action will proceed. Happywell should account for the possibility of such disruption by applying the requirements of IAS 37 *Provisions, contingent assets and contingent liabilities*. If the information released by the air traffic controllers permits the number of strike days to be estimated then it would be possible to create a provision for the costs of compensating customers who have made bookings as at the year-end. If the liability cannot be estimated with reasonable accuracy then the alternative would be to disclose a contingent liability in the notes to the financial statements. That would give the shareholders sufficient warning that some of the cash held by Happywell will have to be returned to customers.

SECTION 3

Negotiation

The starting point would be to establish exactly what Happywell wishes to get from this negotiation. Modifying its entire fleet of aircraft will cost W\$12 million x 97 = W\$1,164 million, which represents an increase of 13% in property, plant and equipment. Happywell would also have to consider how quickly it wishes this work to be completed because it cannot afford to take ten aircraft out of service at once for five days without severely disrupting flight schedules. Installing the tanks on all 97 aircraft would extend that disruption to the next 50 days, which would probably create more problems than the strike action.

Happywell should approach Speedconfort directly rather than waiting until the company starts approaching airlines. Happywell's Board should present the manufacturer with a plan that indicates the number of aircraft that should be fitted with the additional fuel tanks and the preferred timing of those modifications. Happywell should aim to modify as many aircraft as possible to make this a commercially interesting proposition for Speedconfort. Each modification yields a significant amount of revenue for the manufacturer. Happywell should be flexible with regard to the timing of the modifications but should request priority over rival charter airlines who would have a marketing advantage if they were less susceptible to the effects of threatened strike action.

Happywell could offer to assist Speedconfort in promoting the benefits and effectiveness of this modification. Airlines may be reluctant to make such significant investments in designs that have not yet been tested under commercial operating conditions. Having a major operator such as Happywell sign a contract for the modification of a large number of its aircraft will reassure other airlines about the investment. Happywell should also agree to publish details of its experience of operating modified aircraft so that other airlines can make an informed decision about investing. The publicity associated with being able to divert around closed airspace will benefit Happywell because it will reassure customers that their flights are less likely to be affected by strike action.

If there is a possibility that the strikes could be a regular feature of the busy period then Happywell could warn Speedconfort that it intends to replace its aircraft with a different model that has a longer range. That could be interpreted as a lack of confidence in the 411 aircraft, which could discourage other airlines from investing in it. It could also affect Speedconfort's sales because Happywell will be selling up to 97 aircraft that airlines may purchase on the second hand market rather than buying directly from the manufacturer.

Debt and equity

Debt is generally cheaper than equity because lenders generally bear less risk than shareholders, which makes the cost of debt cheaper than the cost of equity. It is also possible to claim tax relief on interest payments, which creates a further savings. The risk is affected by the gearing ratio. At present, gearing is $2,100.0 / (2,100.0 + 5,575.7) = 27\%$, which is not particularly high, but borrowing the cost to modify the entire fleet would increase that ratio to $(2,100.0 + 1,164.0) / (2,100.0 + 1,164.0 + 5,575.7) = 37\%$,

which is a significant increase. Lenders usually require security, which may not be an issue for Happywell. The company owns hotels and aircraft, both of which are assets that have a ready market and so would be suitable to be pledged as security. The only concern would be that existing loans might already be secured against some of those assets.

Equity finance tends to be more expensive than debt because the shareholders are taking a greater risk than lenders. That could be an issue here because Happywell is entering a risky period because its business may be disrupted by air traffic control strikes. The shareholders already face increased risk, which will be compounded by an investment in new and unproven technology. The Board is risking its credibility with this investment, which could increase the cost of equity. There are a number of formalities that need to be completed in order to raise equity finance. Legal and professional costs are expensive compared to the costs associated with negotiating a loan. It would also be difficult to raise equity finance quickly, which could be a problem if Happywell wishes to commence work on the modifications immediately. It could be undesirable to wait until, say, the right issue can be completed.

SECTION 4

Areas of uncertainty

It is uncertain whether the strikes will take place or whether any strikes that do occur will be limited in terms of duration and so cause only minor disruption. The long-range fuel tanks will be of little benefit if Happywell's aircraft are only required to make their normal journeys using their normal routes. If the industrial action is settled then there will be very little return from the investment and so the modifications will appear to be a waste of money. The nature of the negotiations between the air traffic controllers and their employers means that it will be difficult to tell whether the dispute will be settled until a final agreement is reached.

The modification is a new development and it may be difficult for Speedconfort to upgrade all of Happywell's aircraft before any strikes can occur. There could be unforeseen delays in obtaining parts or in having sufficient engineering staff available to complete the work on Happywell's fleet on schedule. Releasing aircraft for modification will disrupt flight schedules until the modification can be completed and the aircraft is certified as safe to carry passengers. If the strikes commence before the entire fleet has been modified then Happywell will still face disruption to its flight schedules. Cancelling, say, half of its flights will not necessarily be much better than cancelling all of them.

The impact of the strike action on revenues is difficult to predict and yet that is central to the question of whether the investment will yield a cash inflow. If the strike action proceeds then it will affect all Westlandian package tour operators whose flights have to overfly Southland. Happywell may not suffer reputational damage if the whole package tour industry is forced to cancel holidays. Some customers may demand refunds and compensation for delayed holidays, but others may be prepared to reschedule their holidays, using flights and accommodation that might otherwise have remained unsold. The impact of cancellations is largely a matter of the attitudes of customers, who may simply wish to have their holiday despite the disruption.

The modifications could have implications for the value of Happywell's aircraft, which could affect cash flows in the long term. Adding fuel tanks will add weight and take up space inside the aircraft. That may increase fuel consumption while decreasing capacity. If the modifications make the aircraft less desirable to other airlines then the cost of replacing Happywell's fleet will increase.

Leadership

The biggest concern with regard to the Operations Director's delegation is the fact that she appears to be delegating the responsibility for this recommendation to her subordinates. It would be perfectly acceptable to delegate the work involved in supporting a recommendation to the managers, but the Operations Director should accept full responsibility for the result. The managers will interpret her abdication of responsibility as an attempt to make them responsible for any difficulties that arise if their recommendation leads to a disappointing result. If this is Elham's usual approach then her managers will quickly become defensive and reluctant to commit themselves because of the possible harm that they might do to their careers.

This is not a matter that can be delegated to managers. The Board is deciding whether to invest more than W\$1.1 billion. That decision is being made in response to the risk that Happywell's flight schedule will be disrupted if the strike goes ahead. This is a significant decision that can only be made by the Board and one that cannot be delegated to senior managers. This decision does not necessarily require a deep technical understanding of aircraft operations or engineering. Elham should be perfectly capable of seeking whatever technical information she needs from her managers before reaching her own recommendation.

Elham's reason for delegating this decision will undermine her credibility in the eyes of her managers. Her role as Operations Director requires her to offer oversight and strategic management of various departments, including Aviation. In that capacity, she should demonstrate a willingness to ask questions and seek explanations on technical matters. She cannot simply plead ignorance of technical matters. Her managers will not respect her if she constantly makes them do her work because she does not have a technical aviation background.

MANAGEMENT CASE STUDY

May 2023 & August 2023

EXAM ANSWERS

Variant 5

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SECTION 1

Business model

Happywell defines value in terms of offering a wide range of customer experiences that appeal to the Westlandian market. This proposal not only extends the range of experiences on offer but it has been developed on the basis of feedback from existing customers. The fact that this destination involves a much longer flight than usual does not reflect a change in this aspect of the business model. Happywell's present destinations are within five hours' flying time for operational reasons as much as anything else. A significant minority of customers has indicated that it would be desirable to travel twice as far in order to have the opportunity to holiday in a new and exotic location. Arguably, restricting holiday choices to a relatively small range of destinations goes against the business model, so this proposal actually remedies a breach.

Happywell creates value by being vertically integrated, which gives the company control over the holiday experience that it offers its customers. This proposal would reduce the level of integration for these holidays because the intention is to rent 700 rooms in third party hotels on the island. This could raise a possible concern with regard to the business model because it will be more difficult for Happywell to guarantee the quality of accommodation in hotels that it does not own. Presumably, Happywell has inspected these hotels and is satisfied with the quality of the accommodation that is on offer. Happywell is also able to draw upon its experience of owning and managing hotels and addressing feedback from customers. It should be possible to use that experience in briefing Esternsun about its customers' expectations.

Happywell delivers value through its use of online sales and advisers in retail shops to enable customers to select holiday packages that meet their needs. The website will have to be updated with respect to the new destination and the sales advisers will have to be briefed. It could be difficult to ensure that customers are informed properly because Happywell has no experience of sending customers there and so has not had the benefit of customer feedback. It is important to take all possible steps to ensure that customers who choose to holiday on Mopingo are making an informed decision to do so. Holidays are expensive in terms of time as well as the obvious financial cost. It should be possible for Happywell to deliver value through its promotional activities by conducting research through Esternsun and other members of the tourist industry. Members of the Marketing and hotel departments could be based on the island to gather information and draft materials for the website.

Happywell captures residual value by providing value for money. It controls costs and maximises revenues. It could be difficult to do so in this case because value for money is being defined differently with respect to the proposed holidays. Happywell plans to sell these holidays at a much higher price than usual, which could place them in a different category from their normal holidays. These holidays could still represent value for money because they are being sold to customers who have expressed an interest in paying more for a holiday that meets a desire to spend significantly more for an exceptional holiday experience.

Product and contractual inadequacy risks

There is clearly no guarantee that customers will be prepared to buy these holidays and so there is a significant risk that the launch of the product will fail. Customers may have expressed a willingness to spend more for an exotic holiday, but that is not the same as actually paying for one. Similarly, the prospect of a 10-hour flight may seem acceptable when responding to consumer research, but it could appear much more daunting when actually booking a holiday. Customers who have travelled with Happywell in the past may have started to find their favourite holiday destinations a little boring, but that does not necessarily mean that they will go anywhere else, risking trying somewhere new and disliking their choice. Happywell may have misinterpreted what customers are actually looking for in terms of a more exotic holiday destination. While Mopingo could appeal to some, it may not be viewed as ideal by all of the potential customers whom the company is attempting to attract. There is also the possibility that the first groups of customers who visit Mopingo will dislike what is on offer and will post negative reviews on their return, which could further threaten the failure of this product.

Happywell must enter into a significant contract with Esternsun Hotels. It could prove difficult to enforce the terms of that contract because Esternsun is located in a foreign country, which could complicate any action that Happywell is forced to take against it. There could also be complications in communicating the expectations of both parties because Happywell does not necessarily know what the norms are with respect to tourist accommodation in Mopingo. Esternsun could provide rooms and meals that are regarded as substandard by customers from Westland. In the event that the contract has to be broken, the loss to Happywell will be much greater than the loss to Esternsun. Happywell will have to deal with unhappy guests, who might be unwilling to buy further holidays from them. Esternsun will be able to revert to renting out the

700 rooms to its traditional market. Happywell may not be aware of the viability of the tourist industry in Mopingo. If Esternsun runs into financial difficulties then it may be unable to honour its side of the contract.

SECTION 2

Project management

The starting point would be to appoint the members of the profit teams for the Head Office and the local base on Mopingo. The Head Office team should be led by a manager from the Marketing Department because it is important to focus on the development of the holiday package itself and its associated promotional materials. The Head office team will also require members from the Aviation, Hotels, Local Experience and HR Departments. Those members will ensure that the systems and resources are in place to manage to logistics of providing the holidays and supporting customers. The local team will be drawn from the Hotels and Local Experience Departments. Their duties will focus on liaising with Esternsun to ensure that the accommodation is suitable for guest needs and on recruiting and training reps, ready to greet and support guests. The two teams will have regular meetings, probably virtual, and will maintain contact by email to ensure that their actions are consistent and that information is being shared.

Andrew's bullet points will form the basis of the project's goals. Those will have to be addressed in a manner that is internally consistent. For example, Aviation will have to organise sufficient flights to allow full use to be made of the 700 rooms that have been rented. There will have to be consistency in other areas as well. For example, the Marketing Department will have to ensure that Local Experience recruits reps who can work effectively with the older customers who are likely to book these holidays and can advise them on the activities that they will find interesting. The timelines of those goals will have to be established in order to prevent delays. For example, marketing materials will have to be developed as soon as possible so that the holidays can go on sale in time to have viable customer numbers. Progress towards each of the goals will have to be monitored and any slippage evaluated to determine its implications for the project as a whole.

It is unlikely that the Head Office team will have to be convened on a full-time basis. The Board will have to decide on the needs of the team and the time that will have to be made available. Activities such as the detailed scheduling of flight timetables can probably be delegated to staff, leaving the Aviation member of the team to concentrate on corresponding with regulators and third parties such as Mopingo's airport. The Board should state its expectations for the amount of time that is likely to be spent and for priorities in case team members' project work conflicts with their regular duties. Superiors should be given clear instructions to permit any and all reasonable requests for absence in order to ensure a successful launch of the holiday package.

The Board will have to set financial budgets for the project work, particularly that on the local team. The team members will require expenses for travel and accommodation on the island as well as facilities such as the rental of an office or meeting rooms. The team will also require a budget to enable reps to visit tourist attractions and restaurants so that they can assist guests with questions about things to do and places to eat once they arrive.

Accounting for expenditures

The capitalisation of these expenditures should be considered in the context of the requirements of IAS 38 *Intangible assets*. The IAS defines an intangible asset as a resource that is controlled as a result of past events and from which future expected benefits are expected to flow to Happywell. The whole point of establishing this team and spending money on its activities is to generate future revenues from the sale of holidays on Mopingo, which is consistent with the definition. An intangible asset can be recognised only if it is probable that future economic benefits will flow to the entity and the cost can be measured reliably. Again, the expectation is that the holidays will generate profit and it will be possible for Happywell to maintain an accurate record of the cost of planning and creating the holidays. Overall, there is an argument that the costs incurred preparing for the sale of holidays on Mopingo could be capitalised as an asset.

IAS 38 does make specific exceptions that exclude certain specific expenditures from the cost of intangibles. These include the cost of introducing a new product and the cost of conducting business in a new location or with a new class of customers. It could be argued that a very narrow interpretation of those exclusions would prevent the expenditure from being capitalised, although it could also be argued that Happywell is developing a new product in Mopingo and so the exclusions do not necessarily apply. The strongest argument against capitalising on the costs is probably related to the uncertainty relating to the launch of this new product. It is unknown whether customers will be attracted to these holidays, in which case the expenditure will not result in any future revenues. The specific action points vary in terms of their likely ongoing benefit to Happywell. For example, the liaison with Esternsun might yield benefits with respect to the first few groups of customers who stay in those hotels and will not be of any long-term value. Any capitalisation should be restricted to expenditures that can be shown to have a long-term value. For example, it may be that the web pages dealing with holidays on Mopingo will remain relatively unchanged for several years.

SECTION 3

Value analysis

Happywell must design the transport element of its Mopingo holiday package as part of the overall process of developing a product that will be attractive to customers and commercially viable. Value analysis provides a framework for the decisions that have to be made with regard to flight and airport transfers in deciding on the level of comfort and service that should be offered. These decisions are important because they could have a significant impact on overall profitability. For example, providing an in-flight meal could cost up to $W\$80 \times 18,000 = W\1.44 million for the meals themselves and the loss of 12 seats per flight. Changing the seat pitch on aircraft could reduce passenger capacity by up to 11% or increase it by up to 9%.

Happywell might be well placed to apply value analysis because it has extensive experience in operating shorter flights and providing airport transfers. The company has data on the number of passengers who are prepared to pay for extra legroom seats or for taxi transfers rather than coach. Customer feedback data will help the company to make informed estimates of the impact that features such as seat pitch will have on customers' willingness to pay for this holiday package. That is important because the holiday requires a long journey and so it could affect customers' ability to enjoy their holidays.

Happywell's customers may behave differently and have different expectations when faced with the prospect of a 10-hour flight compared to five hours. A customer who is unwilling to pay more for additional legroom on the current flights may be unwilling to accept a narrow seat pitch on a long flight. It is also debatable whether value analysis can be applied to the transport element given that Happywell sells flights bundled with accommodation and other services. It would be far more realistic to apply value analysis to the total cost of the holiday and the selling price that would be required to make a realistic margin on top of that.

It could be argued that Happywell does not have meaningful discretion over many of the issues relating to Mopingo flights. Customers will almost certainly need a full meal on a 10-hour flight, regardless of the cost of providing one. Customers may not attach much value to some of the enhancements that are being considered, such as the possible reduction of the number of seats to increase the seat pitch. Customers are used to having a fairly basic flight experience with Happywell and paying for upgrades such as additional legroom and snacks. They may not appreciate the additional touches that are being added.

Negotiation

Happywell's interest in reduced price access is clear. If it is to negotiate with Relax then it will have to identify a way in which Relax will benefit from reduced price access to its lounges at Happywell's expense. Happywell could agree to make the provision of access to Relax lounges a prominent feature of the promotional material relating to holidays in Mopingo. That material will promote Relax to all Happywell customers who read that material, not just those who book a holiday in Mopingo. The discount that Relax will grant to Happywell will effectively result in targeted advertising to customers who travel through Westlandian airports and who might be open to the idea of paying

full price for entry. Happywell could also offer to add a link from its web page to Mopingo's, which would add a further form of targeted advertising.

Happywell could offer to restrict the entry time to its passengers to, say, 90 minutes prior to the departure of their flight. That would enable Happywell to grant "free" access to lounges while discouraging customers from actually taking advantage of that benefit. Customers would have to leave in plenty of time for their flights, so they would not overcrowd the lounges.

The customers who will be granted access on this basis will be relatively affluent individuals. If they enjoy their use of the lounge prior to their flight to Mopingo they may decide to pay for entry when they fly in the future on flights or packages that do not include free access to the lounges. Relax would effectively earn some revenue from the payment made by Happywell and in return could increase its customer base. The cost of servicing a customer would be restricted to the cost of drinks and snacks consumed, which is unlikely to be significant.

SECTION 4

Internal charge

Happyplay requires a charging system that benefits both Aviation and Hotels when it is in the company's interest for crew members to use vacant hotel rooms. It would be too complicated for the Head Office to play an active role in deciding on crew accommodation on a case-by-case basis. Hotels will bear a minimal cost if they give vacant rooms to flight crews when it does not need the rooms for customers so it should be possible to find an acceptable price that encourages it to release those rooms. Aviation has the choice of renting a room from a third party or giving "spare" flight crew seats on aircraft, which may lead to dysfunctional behaviour by Aviation if the transfer price charged by Hotels is excessive. If the internal charge from Hotels is high then Aviation might spend an excessive amount by accommodating flight crews or renting rooms at local hotels or might even reserve seats on return flights that could otherwise have been sold to paying customers as parts of packages.

The internal charge could be based on the opportunity costs to both departments arising from the use of a vacant Esternsun room. Aviation should be asked to research the costs of staying in suitable local hotels to accommodate flight crews. The hotels used in this research should be used by Aviation when it cannot accommodate crews in the Hotels Department's rooms. The Hotels Department can be asked to provide detailed costings for the marginal price of changing bedding and cleaning a room between guest stays. The transfer price can be set halfway between the two amounts. Happywell could combine this with a policy that all seats and accommodations are to be available for sale to customers until the day before the date of travel so that rooms or seats cannot be reserved in advance for flight crews.

Setting internal charges on the basis of the midpoint will mean that it is cheaper for the Aviation Department to use the Hotel Department's rooms for overnight stays than it would be to book externally. This will also ensure that the Hotels Department benefits from the amount credited against costs and will not block the use of these rooms by claiming that the hotels are full or by leaving rooms uncleaned and so unavailable for flight crews. There will be a degree of transparency in this arrangement because Aviation will actually have to use local hotels when there are no spare rooms available and so there will be transactions to prove that relevant figures have been used to calculate the transfer prices. The cost of cleaning can also be verified because Happywell has experience of managing hotels and can base costings on the standards that it applies, adjusted for the cost of labour in Mopingo.

Aviation has the alternative of flying spare flight crews backwards and forwards between Westland and Mopingo. That would avoid the need to pay for accommodation while flight crews rest overnight but could be dysfunctional if sales are lost because there is less space on aircraft for customers. It may be cheaper for Aviation to fly spare crews backwards and forwards than it would be to book the crews into accommodation on the island. That would only benefit Happywell if the seats that are used would have been vacant on both the outward and return flights. Allowing customers to book until the last minute will prevent Aviation from saving money at an overall cost to Happywell by making it impossible to reserve space in advance.

Ratios

Under IFRS 15 *Revenue from contracts with customers* [1], there will be no revenue from these contracts with customers until Happywell meets some or all of its performance obligations under the contract. The only impact of the deposits on the financial statements will arise from the receipt of cash and the associated credit to advance payments that will appear in current liabilities. The increase in current liabilities will affect the liquidity ratios. Some of that impact could be offset by an increase in current assets if the cash is banked or spent on prepayment, such as advance payments to secure services such as airport transfers. If current assets and liabilities are both increased by W\$40 million then the overall effect will be to increase the current ratio because current assets are much smaller than current liabilities so increasing both by the same amount will have a proportionately greater effect on current assets.

It is debatable whether the shareholders would benefit from a discussion of accounting ratios in the notes to the financial statements. The directors have a duty to ensure that the financial statements are presented fairly. It is then the shareholders' responsibility to interpret the financial statements. It is important that the notes provide a clear explanation of the basis upon which the statements have been prepared, including any significant industry practices that might affect the accounts. The directors should ensure that the shareholders understand why there is a significant liability for "advance payments" so that the shareholders can make their own decisions about how that balance should be taken into account in the interpretation. It could be misleading, though, for the directors to offer their own accounting ratios, especially if they are accompanied by a commentary. The shareholders might not be sufficiently sceptical about the meaning of such disclosures and might not appreciate that there are alternative interpretations. For example, it might be valid for the directors to argue that advance payments should be excluded from the calculation of Happywell's liquidity ratio, but that may not necessarily be valid if there is a possibility that the deposits have to be returned to customers for some reason.

MANAGEMENT CASE STUDY

May 2023 & August 2023

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

Business model

Happywell defines value in terms of offering a wide range of customer experiences that appeal to the Westlandian market. The inconsistencies in the feedback may give Happywell a misleading impression of the extent to which existing experiences do appeal. It appears that some negative feedback is due to customers having unrealistic expectations of their holidays so their feedback should not necessarily prompt changes. It could be argued that it makes little difference to Happywell if those experiences are potentially appealing to customers because it appears that they are willing to book holidays that are not suitable for them. Conversely, there could be implications for customers who do book with care if their fellow residents are unhappy and interfere in their enjoyment. For example, by complaining that children are constantly playing in the grounds of a family hotel.

Happywell creates value by being vertically integrated, which gives the company control over the holiday experience that it offers its customers. The recent findings suggest that the integration could lead to a misleading impression about the quality of Happywell's holidays. It appears that concerns about one aspect of a holiday can influence the feedback given on all aspects. That makes it difficult for Happywell to manage staff whose feedback could be poor through no fault of their own. For example, some customers appear to be indiscriminate in awarding poor scores once a problem has arisen with their holiday. Hotel staff and reps could receive poor feedback from some customers who were unhappy with the way they were treated on their flights.

Happywell delivers value through its use of online sales and advisers in retail shops to enable customers to select holiday packages that meet their needs. The

inconsistencies in the feedback suggest that there may be a lack of clarity in the content or advice provided by these means. Customers may not read the content in sufficient detail to understand the implications for their choice of holiday. They may simply choose packages that are within their price range. Happywell should consider simplifying promotional material and offering more robust advice on the types of holidays that might be unsuitable for certain categories of guests. It may be that the current approach to informing customers makes all holidays appeal to all guests who approach the booking process in a superficial manner.

Happywell captures residual value by providing value for money. That may be difficult to define because different categories of customers appear to define value in different ways. The fact that customer age affects feedback scores suggests that Happywell should investigate further in case it should offer holidays that are better designed to appeal to younger customers. Alternatively, this could be one of several possible factors that can create problems, such as regional variations in culture, which could mean that customers from different parts of the country tend to score differently.

Social and relationship capital

Happywell should take great care in reporting on its relationships with key stakeholders such as customers and the contacts that it has in various destinations because any such reports could be based on misleading data. Shareholders will regard customer satisfaction as a significant part of the Board's responsibility and so they will pay close attention to this section of the report. Customer loyalty is crucial to the value of intangibles, whether reported in the financial statements or not, such as the value of the Happywell brand. Business contacts may also pay close attention to Happywell's claims in this area because a tour operator with satisfied customers is worth working with. There is sufficient uncertainty about the quality of this feedback to suggest that it would be unethical for Happywell to base any disclosures on it because it cannot necessarily offer accurate reports concerning customer feedback.

There is also a risk that Happywell's customer satisfaction scores could prove volatile because of factors that are completely outside the company's control. A sustained period of bad weather or a change in the demographic of the customer base could lead to a sudden and unexplained decrease in average scores. Stakeholders might place undue reliance on the reported scores and would almost certainly refuse to accept arguments that the data is unreliable. The fact that Happywell was prepared to disclose the results in the first instance suggests that the Board was willing to accept credit for better results, implying that they were reliable in that instance. Stakeholders will also be disturbed if the Board is forced to admit that it does not have a credible basis for measuring and understanding customer satisfaction.

SECTION 2

Manage quality

Andrew's findings raise serious questions about how best to define quality for Happywell. Customer feedback is not the only basis that can be used to measure quality, but most businesses would regard that as an important consideration. The fact that Happywell collects detailed feedback from customers immediately after they return from their holidays suggests that the company should be able to track changes in quality over time and measure the impact of any changes in operations. In the absence of such feedback, standards could drift without the Board being aware of that until it is too late, perhaps when the company is embarrassed by negative posts on social media. It may be more logical to measure quality in some other way, such as by monitoring performance more directly, such as the frequency of reps' visits to hotels each week.

Quality can, of course, be measured in terms of repeat bookings from customers. The fact that they wish to return to Happywell suggests a degree of satisfaction regardless of how they responded to the feedback at the end of their most recent holiday. The problem is that this measure will not alert the Board to serious problems until it is too late to do anything about them. A great deal of business could be lost before it is noticed that repeat bookings have declined. It is also possible that this is a misleading measure of quality. Customers might return to Happywell despite being dissatisfied. Perhaps rival tour operators are inferior or more expensive. If such problems exist then a rival could enter Happywell's market and attract a large number of its customers.

The prevention costs associated with quality could be a significant waste of money if the Head Office is responding to negative feedback from customers. Any investigation could undermine staff morale. Customers could offer negative feedback that is motivated by malice. Resolving such complaints could prove difficult because there may be no evidence to support or negate the feedback. That could involve wasting a lot of time and energy before the matter is laid to rest. Staff who deal with customers, such as flight attendants and reps, could lack confidence when dealing with difficult customers in case they become the subject of a poor feedback score.

It could be difficult to improve the feedback process without making it more complicated and so, perhaps, reducing response rates. It would be ideal if the feedback instrument could be modified so that confused and contradictory responses are automatically excluded. For example, some questions could be designed to test the amount of attention being paid by customers. Perhaps seeking responses on a five-point scale, with some questions phrased so that a score of one is good and others so that a five is best. Customers who tick all fours and fives or ones and twos can be eliminated because their responses are inconsistent.

Team membership

It would be logical to designate a senior manager from the Marketing Department to lead the team. The feedback system is essentially a marketing tool that is used to identify ways of selling holiday packages. If customers are happy then they may tell

their friends and make positive social media posts. If they are unhappy then they will almost certainly share that widely. Marketing can then design the form to maximise the usefulness of the information collected from customers. For example, asking when they plan to book their next holiday will enable marketing to design a promotional email that can be sent automatically during the weeks before that date. Marketing managers may also have experience in designing consumer questionnaires and gathering relevant information.

The team should include staff from the main customer-facing departments, including flight attendants from Aviation, reps from Local Experience and reception staff from Hotels because the feedback effectively gathers information about their areas of responsibility within the company. It may be preferable to include staff who are actively engaged in these roles so that they can apply their experience of dealing with unhappy customers and responding to negative feedback. If necessary, those staff could attend meetings by teleconference.

There could be a role for HR to play in this team because the feedback from questionnaires could form the basis of staff promotion and also indicate areas in which additional staff training should be organised. The HR representative could advise on whether the questions that are being asked could be viewed as demotivating or whether maximising scores could be inconsistent with job descriptions. There could also be issues associated with the employment rights of staff to be treated with dignity and have their confidence respected.

SECTION 3

Predicting cash flows

It could be argued that improving the quality of customer feedback will create additional revenue because Happywell will have a better understanding of the factors that lead to customer satisfaction. Those revenues will be difficult to predict because it is unclear what effect, if any, improving feedback will have on future bookings. Knowing why some customers were dissatisfied with their experience does not alter the fact that Happywell has already had the benefit of them booking and paying for their holiday package. Addressing the causes of customer dissatisfaction may generate very little benefit because unhappy customers will be unable to tell that improvements have been made in response to their complaints.

The existing system may be triggering “false alarms” due to it being badly designed. Better feedback will also reduce the cost of investigating issues raised by customers that are, in fact, unfounded. If the new system can eliminate those misleading reports then the process will be streamlined and time will not be wasted. That will save management time and could reduce the possibility of staff being demotivated by spurious complaints, but those benefits will be difficult to measure in monetary terms. It could also be argued that customers’ perceptions do not have to be “valid” to affect their satisfaction with a holiday experience and so their likelihood of making a future booking.

The cost of this consultancy work will be difficult to predict in advance if the firm cannot predict the time that it will take. The firm should offer Happywell an estimate based on anticipated chargeable hours, but the scope of the project could expand as time passes and more meetings will have to be held. That additional time will have to be paid for. New challenges could be uncovered while the project progresses, which may require specialist staff to be brought in by the consultancy firm and increase fees even further. Once the consultancy project is underway it will be difficult for Happywell to control these costs because it will then be forced to pay for the incomplete work done to date, which may have little value.

The need to develop new software creates further problems with regard to predicting costs. The consulting firm will be unable to predict the amount of programming and testing time at the outset because it will not be known at this early stage how the data that is being collected will be tested for consistency and analysed. There may be significant costs due to the need for Happywell’s own IT staff to involve themselves in the software development to ensure that it is compatible with the company’s hardware and operating systems. There could be ongoing maintenance costs associated with ensuring that the software is up to date and that any licences are current.

Capitalising costs

The costs should be accounted for in accordance with the requirements of IAS 38 *Intangible assets*. An intangible asset must be an identifiable non-monetary asset without physical substance, which is clearly applicable here. The outcome of the project will be a system for gathering customer feedback, which is an asset that falls within the definition stated in the IAS. The expenditure will also have to meet the

recognition criteria that the asset will yield future economic benefits and has costs that can be measured reliably.

Even at this early stage, it seems that the intention is to use the new system to gather feedback, so it seems almost certain that the future economic benefit criterion has been met. Even if those benefits are difficult to predict, the fact that the Board plans to implement the system is all the confirmation that is necessary. The team will also have to estimate the useful life of the system so that it can be amortised after capitalisation.

Measuring cost reliably should not be too difficult. The consultant's fees can be confirmed against the invoices that will be submitted. Staff time can be costed by having all staff maintain timesheets while they are involved in this work. Their hourly rates can then be established by calculating their hourly or daily rate of pay. Any costs that cannot be documented, such as time spent by staff who did not maintain records, will have to be written off.

SECTION 4

Holtrak

Andrew's proposal is to take a proactive approach to customer satisfaction instead of the reactive approach that is in place at the moment. Staff from Aviation, Hotels and Local Experience will be kept informed of events and will be guided as to their expected responses. The existing system does not formally measure customer feedback until after the customer has gone home, by which time it will be too late to do anything in response to any dissatisfaction. It would be important for the new system to take account of events affecting individual customers as well as matters such as exchange rates that will affect everybody, so all staff who deal with customers should be equipped to make entries.

Adapting operational targets to take account of the events that can affect customers is an ideal way to manage customer satisfaction, so it is not surprising that the small tour operator has reported improvements. The fact that staff targets may change in response to a negative experience will assist staff in demonstrating that Happywell cares about its customers and is responsive to their needs. Changing, say, the frequency of rep visits to a particular hotel in response to complaints voiced by customers will help reduce the risk of customer dissatisfaction. The fact that Holtrak has been tested in the field means that it has already been shown to be effective.

There could be a flaw in Holtrak because it will not always be possible or even desirable to adjust operations in response to problems. Suggesting that hotels speed up their check-in procedures when a flight has been delayed sounds like a sensible thing to do, but there may not be additional staff available to make that happen. If customers are told to expect such responses then they may be even more disgruntled if they do not occur. Happywell may also suffer losses because of costs or lost revenues. It could be argued that reps should be encouraged to sell activities more aggressively if the W\$ is weak in order to compensate for reduced demand.

It could be argued that the two approaches to customer satisfaction should be regarded as complementary rather than mutually exclusive. There is no reason to rank them in terms of importance because both would be necessary. Indeed, it might be argued that managing customer satisfaction using Holtrak would make it even more important to measure customer satisfaction after customers have gone home. The scorecard itself could require fine tuning from time to time and feedback will help with that process.

Fair values

The fact that Holtrak is unique means that there is no observable market price against which to check the fair value of the assets. The fact that the system has been sold to third parties means that it may be possible to check the amount that businesses have paid for licences to use the software, which would obviously be a starting point. The fair value could then be estimated by looking at the potential market for the system. Multiplying the unit price by the number of potential buyers would give an estimate of the fair value. A further reality check could be based on the cost of developing Holtrak in terms of the number of development and programming hours that would be

required. It seems likely that each of these approaches would yield a very different result and so none could be regarded as any more than indicative.

The fair value also has to be considered in terms of the fact that W\$4 million is required to update the software. If the program is out of date then the fair value as it stands could be very small indeed. The fact that it has become outdated could reduce the market's confidence in the product because any updated version that they buy could be allowed to go out of date. It could even be argued that Veronica's willingness to sell a controlling interest in her company could imply a lack of confidence in the software. There may be concerns as to whether the software as it stands has any market value.

Management Level Case Study – Examiner’s report

May 2023 – August 2023 exam session

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

General comments

The Management Case Study (MCS) examinations for May 2023 and August 2023 were based on a pre-seen scenario relating to Happywell, a travel company that sells package holidays. This is a complicated business because the company must provide flights, hotel accommodation and other services to customers who can leave from several departure airports in their home country of Westland and can choose from a variety of different destinations. This is also a highly competitive industry.

Six variants were set on Happywell:

- Variant 1: The company is considering offering a new range of “luxury” holidays alongside its existing products.
- Variant 2: Some management issues have arisen with respect to the engineering facilities that maintain Happywell’s aircraft fleet.
- Variant 3: Happywell is considering a move to a new destination that does not at present cater for Westlandian tourists.
- Variant 4: There is a concern about flight disruptions because of air traffic control strikes.
- Variant 5: Happywell is considering offering long-haul holidays.
- Variant 6: Feedback from customers is potentially unhelpful and may lead to management problems.

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.

From the candidate's perspective, the key to scoring well is to read and then answer the questions. The expectation is that candidates will be familiar with the context of the company and its industry from their prior study of the pre-seen. This is a tour operator that competes against a diverse range of different holiday companies, including one major competitor of a similar size, some smaller tour operators and many independent travel companies. The travel industry depends on the smooth operation of several key aspects of the business. For example, there must be seats on aircraft to match the availability of hotel accommodation. It is important to address the specific requirements set in each task. Higher marks are awarded to full answers that are relevant and correct. Relevance and correctness are frequently judged in the context of the scenario, taking account of the nature of the business and the specific issues raised by the new information provided in the variant itself and the tasks set by the requirements. It is essential that candidates study all areas of the syllabus. There is evidence of poor understanding of some of the more technical parts of the P and F pillars. In particular, understanding of accounting standards and the ability to apply knowledge of the technical aspects of the standards is lacking in many candidates' attempts.

A level 3 score generally requires a combination of good technical understanding and good application to the issues arising from the scenario. Scripts that receive level 3 scores generally demonstrate clear and comprehensive discussion and frequently offer an explanation or justification for the candidate's recommendations or arguments. Candidates should always bear in mind that the MCS is essentially a simulation of a series of work-based tasks that represent the professional competence appropriate to this level.

Level 1 scores tended to be awarded to answers that demonstrated some or all of the following:

- failure to address the requirement in the task.
- limited technical understanding of the syllabus content.
- unsupported assertions that had little or no justification.
- illogical or unrealistic application to the issues arising from the scenario.

Variant 1 Comments on performance

	Designed to test	Core activity
Task 1	Happywell is considering a move into luxury holidays. What are the advantages and disadvantages of using IRR and the company's standard hurdle rate to evaluate this proposal?	A – Select appropriate capital investment appraisal techniques and apply them in order to support capital investment decisions
	How should future changes in currency movements affect the reported performance of the Happywell Group if new foreign subsidiaries are created?	D – Select appropriate accounting treatments and explain their implications for users of the financial statements
Task 2	“HappGold” will be established to manage luxury holidays. What are the advantages and disadvantages of establishing HappGold as a profit centre?	C – Advise on the measurement, analysis and reporting on the performance of responsibility centres
	What impacts might HappGold have on Happywell's business model?	D – Select and apply suitable tools and techniques for managing risk and uncertainty in business models
Task 3	Accommodation for HappGold holidays will be created by upgrading existing hotel rooms. What difficulties will the project to carry out the upgrade create?	B – Apply appropriate project management tools and techniques to effectively manage projects at the appropriate stage in the project life cycle
	What are the advantages and disadvantages of reflecting HappGold under intellectual capital in Happywell's integrated report?	C – Apply the techniques that quantify and present risk to stakeholders
Task 4	Initial sales of HappGold holidays have been disappointing. What are the difficulties associated with setting suitable transfer prices for the release of HappGold rooms to Happywell?	E – Explain the behavioural and transfer pricing issues associated with internal trading
	How will the disappointing sale of rooms affect WACC?	B – Explain the relevance of weighted average cost of capital

Task 1

Happywell currently offers good quality holidays for the mass market. It has now been proposed that the company should consider the creation of a luxury brand of holidays that can be sold at a premium price. The proposal is that 25 rooms will be remodelled to a high standard in each of the company's best hotels.

The first sub-task dealt with the evaluation of the proposal as an investment. Happywell generally requires a return of 12% on capital projects and the internal rate of return (IRR) has been estimated at 18%. Candidates were asked to evaluate this as a basis for accepting this project. There were many level 1 answers to this requirement, which were generally based on a major misunderstanding of IRR. A number of candidates argued that IRR can be estimated using interpolation and stated that an inaccurate estimate could prove misleading. It is, however, possible to determine IRR accurately using a spreadsheet and it is unlikely that interpolation would be used for a project of this size. Also, it is easy to tell whether the error in any estimate of IRR is significant. Level 1 answers also tended to exaggerate the possibility of multiple IRRs. Level 3 answers offered a logical discussion of the usefulness of IRR in this context and demonstrated a good understanding of the technique.

The second sub-task asked about the impact of currency movements on reported performance, assuming that HappGold resulted in the creation of a number of overseas subsidiaries. Candidates generally did reasonably well on this task. Level 1 answers were generally on track but brief, identifying the relevant accounting standard and making a few points about the impact of currency changes. Level 3 answers were much fuller and offered clear explanations of the reporting implications of foreign subsidiaries when currencies change. Some candidates incorporated arguments that would have been more relevant to an F3 case. That material was generally relevant and so credit was awarded as appropriate.

Task 2

Happywell plans to establish HappGold to manage the operation of luxury holidays.

The first sub-task asked for advantages and disadvantages of operating HappGold as a profit centre. Answers to this task were generally good, with results being distinguished on the basis of the development of arguments. Level 1 answers were insufficiently developed to score a higher mark. Level 3 answers recognised the practical implications of determining HappGold's profitability. They also considered the motivational implications for HappGold's management team and for the other departments that are organised as cost centres.

The second sub-task asked about the impacts that HappGold might have on Happywell's business model. Level 1 answers tended to adopt a scatter gun approach and simply summarised the business model itself, often with little to say about the actual impact of HappGold on the aspects of the business model under discussion. Level 3 answers were more selective and highlighted issues that would change and so enabled candidates to focus on providing useful information for the management team. Some level 3 answers

also referred to aspects of the business model that would not be affected, but did so in a manner that would be understandable and relevant to senior management.

Task 3

Work will proceed on HappGold, including the conversion of hotel rooms to HappGold standard.

The first sub-task asked candidates to identify the challenges associated with modifying rooms. Many candidates focussed almost exclusively on the fact that this would inconvenience guests who were staying at the hotels during the remodelling work. Very few took a broader view of the other challenges that might arise. Level 1 answers were often rather impractical, with, for example, suggestions that the work should be carried out at impractical times of day. Level 3 answers generally offered more practical resolutions to this problem and some were very sensible.

The second sub-task asked about the advantages and disadvantages of reflecting the impact of HappGold on Happywell's intellectual capital as it would be disclosed in the integrated report. There were many good answers to this task. Level 1 answers tended to summarise the content of the integrated report, often discussing all of the capitals that can be included. Level 3 answers offered sensible arguments both for and against including this disclosure. Answers at this level were realistic about the possibilities that disclosures might create.

Task 4

Sales of HappGold holidays are disappointing. It is still some time before the start of the holiday season, but holidays are usually booked well in advance.

The first sub-task asked about the difficulties associated with setting transfer prices that would motivate the respective managers in charge of HappGold and the non-luxury side of the business to trade with one another so that surplus rooms could be sold to mass-market holidaymakers. This task was generally answered well, with a number of logical arguments. Level 1 answers often lacked development, although a number of answers at this level focussed on summarising every available strategy for transfer pricing, with little attempt to select one for this situation. Level 3 answers identified a basis for trade between the managers and explained why it would be effective in minimising the number of unsold rooms.

The second sub-task asked about the implications of the unsold rooms for Happywell's weighted average cost of capital (WACC). Answers to this requirement varied in quality. Level 1 answers often appeared to be confused about the relationship between share prices and the cost of equity, with candidates arguing that a reduction in the share price implies that the cost of equity has decreased, when the opposite is true. Level 3 answers offered arguments that future loans might prove more expensive because of concerns that

a failure on HappGold could affect Happywell's ability to repay and also that a poor outcome could cause shareholders to demand a higher return on their equity because of the additional risks that they are bearing.

Variant 2 Comments on performance

	Designed to test	Core activity
Task 1	The Head Engineer has been assisting rival airlines to deal with breakdowns. Does the head engineer have excessive authority?	C – Compare leadership styles and identify the most appropriate style to use
	Is the engineer undercharging for work done for smaller operators?	A – Explain which pricing strategies are appropriate
Task 2	The Board is seeking advice on whether the operation of the maintenance hangar could be improved. Could maintenance activities be reengineered to reduce costs?	C – Identify and apply appropriate quality management techniques to enhance value
	Would leasing a hangar building be treated as a finance lease and how would it affect Happywell’s accounting ratios if it was?	D – Select appropriate accounting treatments and explain their implications for users of the financial statements and use the financial statements to assess and report on financial performance and position, interpreting and reporting on a wide range of ratios
Task 3	The Head Engineer is keen to acquire a specialised piece of equipment that could be shared with other airlines at the airport. What are the challenges associated with predicting the net cash flows associated with this equipment?	A – Select appropriate capital investment appraisal techniques and apply them in order to support capital investment decisions
	What are the challenges associated with negotiating such an arrangement with the other airlines?	E – Advise on the negotiation process
Task 4	A company has been set up to acquire and operate the shared equipment. Happywell owns 30% of that company. How should Happywell account for its interest in this new company?	A – Explain the relevance of weighted average cost of capital
	Should the owners of the company have agreed to a mechanism for the expansion of this company’s capabilities?	B – Apply appropriate project management tools and techniques to effectively manage projects at the appropriate stage in the project life cycle

Task 1

The scenario begins with concerns about the performance of Agnar Helgason, an aviation engineer who manages Happywell's hangar at Viewel Airport. He frequently lends spare parts to engineers from rival airlines; these airlines return identical parts within 24 hours. He also sometimes undertakes major repair work for other airlines without seeking prior permission.

It is common industry practice for teams from different airlines to provide one another with informal support.

The Head of Engineering has just discovered the amount of support that the engineering hangar provides and has brought this to the Board's attention. Candidates were first asked to evaluate the arguments for and against the assertion that Agnar, the manager in charge of the engineering hangar, has too much authority.

Level 3 responses looked at both arguments for and against, identifying that lending Happywell's inventory exposed the company to the risk that parts returned might not be the same quality as those provided, and that carrying out extensive repairs on other airline's planes without further permission indicates that he has too much authority. They also pointed out that maintaining a good relationship with other airlines is important for Happywell and that possibly senior management should have made the limits of his authority clear.

Level 2 answers were often less well balanced, focussing on either arguments for or arguments against. Some concentrated too much on speculating about Agnar's management style.

Level 1 were less well applied, identifying the need for authority but not exploring ways in which the level of Agnar's could be seen as too much or acceptable.

Secondly, candidates were asked to discuss the issues that should be considered in deciding whether we should continue to charge emergency repairs to other airlines' aircraft at cost.

Level 3 answers explored both advantages and disadvantages. They recognised the important point that if Happywell is not making a profit on the repairs, it can justify only carrying out the work when it has spare capacity. If a higher price is charged, then the other airline might be able to insist on its repair work being carried out as a priority, leading to delays in work on Happywell's own aircraft. On the other hand, if Happywell is doing the work at cost, this leaves rival airlines with little incentive to set up and maintain their own repair facilities which would probably cost them more.

Level 2 responses were less well developed but did identify some advantages and disadvantages. Some were very focussed on different possible pricing strategies and did not directly answer the question asked.

Level 1 answers often only identified disadvantages of charging for repairs at cost, not the advantages. Some did not read the question carefully and discussed charging for repairs, not specifically charging at cost.

Task 2

In the second task, candidates were informed that a company called Speedconfort has developed a new range of engineering equipment that can conduct half-yearly checks in the open air, alongside line maintenance. This would enable the company to schedule inspections so that they could be carried out at different times. Speedconfort has offered to lease the equipment to equip half of Happywell's Westandian departure airports.

Candidates were first asked to explain how the principles of business process re-engineering could have been used to justify and implement the use of Speedconfort's new range of engineering equipment by the Aviation Department.

Level 3 responses often adopted a step-by-step approach to explain how business process re-engineering could be applied and identified the advantages of doing so, for example, pointing out the need to clarify the extent to which the inspection process can be redesigned, and whether there is genuine scope for savings.

Level 2 responses showed an understanding of the process but were less well applied to the specifics of the scenario presented in the case study.

Level 1 answers tended to identify some relevant points but not expand on them or provide sufficient explanation for a higher score.

The second requirement in this section asked candidates to explain how the proposed leasing arrangement for this equipment would be recognized in Happywell's financial statements and explain how the acquisition of the equipment in this way would affect the interpretation of Happywell's accounting ratios by its shareholders.

Level 3 answers gave a clear explanation of the IFRS 16 rules for accounting for leases and applied those rules to the information provided. Better answers made use of the numbers given to illustrate their response and gave a clear explanation of the impact on relevant ratios.

Level 2 responses demonstrated technical knowledge of leases and set out relevant points but did not relate this to the specific situation described here. Sometimes discussion of the ratio impact was scant.

Level 1 answers made some relevant points but often demonstrated a lack of technical knowledge, a common error being to misunderstand the nature of leases and discuss whether the equipment should be financed by debt or equity.

Task 3

There is a proposal to equip the engineering teams at airports with equipment to carry out inspection services on the company's own aircraft and also sell this service to other airlines. The company has a plan to equip half the airports with this equipment, or to equip them all and sell inspection services to other airlines which operate the same type of aircraft.

Candidates were first asked to discuss the difficulties in predicting the cash flows from the proposed sale of inspection services to other airlines to be used when calculating the proposal's net present value.

Level 3 responses often focussed on difficulties in predicting demand for the service. They provided sensible advice on overcoming these difficulties.

Level 2 answers were less well developed and often identified and discussed a narrower range of issues.

Level 1 answers were often too generic, setting out general difficulties in carrying out NPV analysis rather than addressing the specific situation set out in the case study.

The second requirement asked candidates to identify two major difficulties associated with negotiating the sale of Chris's proposed services to other airlines and also to recommend possible solutions.

Level 3 answers clearly identified two appropriate difficulties, such as the strength of negotiating position of the other airlines and the need to provide assurances about the quality and timing of the work to be carried out. They provided appropriate potential solutions.

Level 2 responses often discussed difficulties in general and did not specifically identify two. Some provided quite generic comments about how to negotiate.

Level 1 answers were limited to general comments about the need for agreement and possible approaches to negotiation.

Task 4

The final task began by explaining that an agreement has been reached with two other airlines to join Happywell in funding Dromeeng, a company which will acquire engineering test equipment to enable detailed half-year inspections of aircraft. The three companies will each make an initial investment to cover the initial start-up costs and equipment.

Candidates were first asked to explain with reasons how Happywell's investment in Dromeeng should be accounted for in the Happywell Group's consolidated financial statements.

Level 3 responses showed good technical knowledge of IAS 28 and applied it to the scenario, explaining that the investment will be recognised as an associate and clearly setting out why this is the case, and how this affects the financial statements.

Level 2 answers often demonstrated some technical knowledge but did not apply this well to the scenario or fully develop their discussion.

Level 1 answers tended to make technical errors or recommend an accounting treatment without justification.

The second requirement asked candidates to evaluate Etham Androodi's proposal that Magusair, Blooair and Happywell should create a procedure to agree on additional investments in Dromeeng.

Level 3 answers recognised both advantages and disadvantages of the proposal, for example, that an agreed procedure could enable rapid expansion of capacity if needed, but that the needs of individual airlines could be overridden in the case of a disagreement. Points were well developed.

Level 2 responses were less detailed but did identify relevant issues.

Level 1 answers made some valid points but often seemed to have misread the requirement, focussing on the merits of the original agreement.

Variant 3 Comments on performance

	Designed to test	Core activity
Task 1	Happywell wishes to establish a presence on an island that does not cater for Westlandian customers. Is that proposal consistent with Happywell's business model?	A – Select and implement suitable business models that will create value for stakeholders, including business models in the context of digital ecosystems
	What business risks will arise from entering into this new market?	D – Select and apply suitable tools and techniques for managing risk and uncertainty in business models
Task 2	Happywell is considering acquiring a subsidiary company that operates hotels on the island. What are the challenges associated with deciding the goodwill on acquisition of this subsidiary?	E – Explain the financial reporting implications of additions to the group
	What are the challenges associated with deciding whether to improve the hotels now or wait until demand has settled down?	B – Apply appropriate project management tools and techniques to effectively manage projects at the appropriate stage in the project life cycle
Task 3	The subsidiary's results have been disappointing. How might quality management help with the enhancement of this subsidiary's performance?	C – Identify and apply appropriate quality management techniques to enhance value
	What will be the impact of the currency movement on the subsidiary's figures when translated into W\$ and how will that affect interpretation?	D – Select appropriate accounting treatments and explain their implications for users of the financial statements
Task 4	The local government is not keen for Happywell to expand its hotels. How should Happywell go about negotiating an expansion of its hotels in Sandsurf?	E – Advise on the negotiation process

	How might appropriate benchmarks be set for the management team on Sandsurf?	C – Advise on the measurement, analysis and reporting on the performance of responsibility centres
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Task 1

Most candidates gave a reasonable response to this task using define, create, deliver and capture. Better candidates tied their answers into the evidence presented in the scenario and gave both sides of discussion rather than taking one viewpoint only. Level 1 responses tended to pick single threads in the available discussion rather than considering the complexity of taking on an entirely new venue without any market testing or customer feedback.

Secondly, candidates were asked to identify a product reputation risk and a contractual inadequacy risk that could arise from Happywell's Sandsurf package holidays as detailed in the proposal explaining why each of those risks would be difficult for Happywell to manage. There were many possible answers here, with possible causes leading to credible risk. Level 1 responses tended to simply identify risk areas where better answers went on to explain both causes and discuss outcomes relating to the scenario.

Task 2

Task 2 moves the scenario forward three months and introduces the 100% acquisition of Sandsurf Hotels, owners of seven large hotels on Sandsurf, giving Happywell exclusive position in Westlandia as being the only tour operator offering holidays on Sandsurf. Candidates were asked to identify the challenges associated with determining the goodwill on acquisition of Sandsurf and to recommend responses to those challenges, stating reasons. Level 1 responses were weak, as most failed to identify the lack of observable market value of the properties acquired. Compensatory figures for existing tour operations which may be lost were largely omitted by level 1 candidates.

Task 2 went on to request that candidates evaluate the arguments for and against making an immediate investment in the extension of the newly-acquired hotels as implied in the Board meeting minute extract provided. Level 1 responses typically only gave one side of the question only, despite the questions explicit saying “for and against”. Many candidates simply either gave reasons why OR why not without providing a balanced considered argument. Level 1 answers also tended to omit possible stresses on capital budgeting already created in the acquisition process.

Task 3

The scenario is advanced a further six months, and candidates are presented with additional background material including a suggestion to apply total quality management following a series of complaints received. Candidates are asked to assess whether TQM should be applied at Sandsurf Hotels. Level 1 responses tended to give standard quality management theory answers without any consideration of the scenario. Better answers gave more rounded answers and suggested a more structural response to remedy a large part of the discrepancy noted. Good answers also considered many other factors such as expertise elsewhere in Happywell's chain. Task 3 continues with a disclosure that the \$S has strengthened considerably against the \$W in recent months and candidates were asked to explain how this will affect the consolidated financial statements of the Happywell group and the interpretation of those statements.

Here again, we see a significant proportion of candidates failing to give a cohesive answer or demonstrate any real knowledge of the subject area. Remember that goodwill needs to be re-assessed and that gains or losses will be translated on closure, but there is a significant gap between those answers and the minority of candidates who demonstrated good clear understanding of the process and how it applies in practice in a scenario such as this. This gap is even more apparent when it comes to the interpretation of consolidated results and the importance of currency reserve balances which do not affect profit but do affect ratio analysis for lenders, particularly where Happywell is seeking a \$400M investment.

Task 4

Task 4 advances a further two months and presents some potential difficulties in gaining full permission and authority to proceed with the proposed major expansion of the hotels.

Most candidates gave a reasonable response to this, with better candidates showing structured thinking. Level 1 candidates tended to give very general statements and often omitted at least one of the target audiences in their consideration. Level 3 responses tended to consider the power of each audience. Level 1 candidates tended to consider communications as a one-way process.

In the final part of this task, good candidates recognised the need to assess the ongoing involvement of press, public opinion, social media, media coverage, local business and commercial interests, public, local authority, environmental lobbyists and other groups in order to determine whether there is positive or negative movement regarding meeting their objectives. Establishing key areas and performance indicators for each will help to overcome potential obstacles and objections before the meeting is held.

Level 1 answers tended to be more simplistic; checking activity levels of individual members, meetings attended, entertainment expenses, participation levels with active groups of influencers.

Variant 4 Comments on performance

	Designed to test	Core activity
Task 1	Air traffic control strikes threaten to disrupt flights. What are the business risks arising from this disruption?	D – Select and apply suitable tools and techniques for managing risk and uncertainty in business models
	What are the challenges associated with ensuring that the holiday reps who have to deal with unhappy customers are properly empowered?	C – Analyse the processes needed to ensure employee engagement, empowerment and alignment to enhance individual and team performance
Task 2	The insurance company recommended by Happywell is threatening to reduce commissions on policies sold through Happywell's website. Should Happywell increase the cost of travel insurance in response to this recent disruption?	A – Explain which pricing strategies are appropriate
	What are the challenges associated with determining the provision for costs of settling claims from customers affected by strike action?	D – Select appropriate accounting treatments and explain their implications for users of the financial statements
Task 3	Happywell's aircraft can be modified to extend their range and avoid the disruption. How Happywell negotiate priority from the manufacturer to modify its planes?	E – Advise on the negotiation process
	What characteristics indicate whether the modifications should be funded by debt or equity?	B – Select suitable financing sources and explain the characteristics of the different types of funding
Task 4	The Operations Director is unsure whether to recommend proceeding with the modifications. What are the challenges associated with determining the risks associated with this investment project?	B – Apply appropriate project management tools and techniques to effectively manage projects at the appropriate stage in the project life cycle

	Has the Operations Director demonstrated good leadership?	C – Compare leadership styles and identify the most appropriate style to use
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Task 1

Happywell faces significant disruption to its flights during the busy summer months because of strike action that has been threatened by air traffic controllers in a country whose airspace is used by flights between Westland and most popular holiday destinations.

The first sub-task asked about the business risks faced by Happywell because of this threatened disruption. The quality of answers varied significantly, reflecting varying levels of thought about the scenario and the identification of the business risks that arise from it. Level 1 answers described different categories of business risks, with relatively little attempt to identify the specific risks arising in respect of each category described. Level 3 answers demonstrated much greater awareness of the commercial risks to Happywell that could arise as a result of the strike action. For example, it was logical to consider the possibility of significant operating costs that could arise because of the need to cancel flights at short notice. Candidates often recognised the reputational damage that could be caused by the need to cancel holidays that had been booked and paid for by customers.

The second sub-task dealt with the need to authorise local reps to manage the situation faced by customers who were unable to travel home because their scheduled flights were cancelled because of strikes. Again, the quality of answers varied according to both the realism and the development of answers. Level 3 answers generally recognised that there is a need to empower local reps to provide meaningful assistance to customers. That could include extending hotel stays for customers until their return flights can be organised. Candidates at this level had clearly thought about realistic ways in which Happywell could support its reps. For example, authorising the cost of local entertainment and subsistence might reduce the stress faced by customers. Level 1 answers often seemed unrealistic, ignoring the facts described in the scenario. For example, it is unlikely that reps will have to deal with a shortage of accommodation in resorts because there will be no outbound flights full of passengers.

Task 2

Happywell recommends a travel insurance provider to its customers. Customers who buy their insurance from that provider through Happywell receive a 20% commission. The insurer has suggested that it needs to reduce the commission to 5% while the threat of flight disruptions is in place because its costs will increase if strikes occur.

The first sub-task asked for arguments both for and against whether Happywell should agree to accept this reduced commission. Candidates were often divided over the question of whether to accept the reduction. That did not necessarily affect their marks, although

the requirement was seeking support for the Board in explaining both sides of the argument. This sub-task was generally answered well, with level 3 answers offering good arguments both for and against accepting the reduction. Those answers often identified logical assumptions, such as the possibility of reversing the reduction once the threat of strike action had passed. Level 1 answers were often unrealistic. For example, arguing that the commission is “free income” that can be foregone without loss to Happywell.

The second sub-task dealt with the challenges associated with the accounting treatment of potential claims for refunds to customers who book holidays that have to be cancelled because of strike action. This sub-task was generally answered poorly. Level 1 answers often identified the relevant accounting standard, but failed to address the question of how that standard would be applied in the context of the scenario. Level 3 answers demonstrated a greater degree of application to the scenario. Candidates identified the uncertainties and reflected those in their analysis of the accounting issues and their treatment.

Task 3

The manufacturer of Happywell’s aircraft has developed a new long-range fuel tank that would enable the planes to fly round the airspace that is potentially affected by strike action. There is a limit to the number of aircraft that can be modified in this way.

The first sub-task asked how Happywell might negotiate for priority treatment by the aircraft manufacturer. Answers were often disappointing, with a lack of application. Level 1 answers were often little more than summaries of the steps that can be pursued in the course of a negotiation, with no attempt at advising Happywell’s Board on pursuing this negotiation. Some offered weak suggestions, such as seeking a discount on the cost of the new tanks, despite the fact that the manufacturer has a scarce commodity for sale. Level 3 answers focussed on the specifics of this negotiation, highlighting ways in which Happywell might encourage the manufacturer to give it priority. For example, Happywell could promote the effectiveness of this modification if its aircraft are modified in time to deal with the closure of the airspace.

The second sub-task asked about the characteristics of debt and equity and their relevance to the funding of these modifications. Answers were often disappointing, with little or no application to the scenario. Level 1 answers were often simply short summaries of the content of study materials that did little more than describe debt and equity. Answers at level 1 also tended to offer incorrect arguments, such as treating retained earnings, cash balances and so on as sources of finance. Level 3 answers identified the characteristics that were relevant to the scenario. For example, by discussing whether the modified aircraft could be pledged as security for any loans that might be taken out.

Task 4

The Board has not yet reached a decision on whether to modify its aircraft to enable them to fly round restricted airspace.

The first sub-task asked for a discussion of the uncertainties that were relevant to the decision as to whether to proceed with the modification. Candidates often answered this question well, with level 3 answers identifying significant and relevant uncertainties. Those answers often demonstrated considerable depth of thought concerning the scenario. For example, candidates identified possible uncertainties such as the effect that the fuel tanks could have on the load capacity of Happywell's aircraft. Level 1 answers generally made relevant points but did not develop them to any great extent.

The second sub-task asked about the leadership demonstrated by the Operations Director, who had delegated the decision to proceed with the new fuel tanks to her management team. Level 3 answers focussed on the scenario and highlighted the need for board members to accept responsibility for their actions. Candidates at this level frequently argued that it was acceptable for the Operations director to seek advice from her managers, but she should then make the final decision with regard to the recommendation offered to the Board. Level 1 answers often summarised styles of leadership as described in study materials and offered little or no application to the scenario.

Variant 5 Comments on performance

	Designed to test	Core activity
Task 1	The Board is considering adding long-distance holidays to its product range. Is a shift to long-haul consistent with the Happywell business model?	A – Analyse the impact of disruptive and digital operating business models in the context of digital ecosystems
	What are the business risks associated with renting hotel space in these destinations?	B – Select and apply suitable tools and techniques for managing risk and uncertainty in capital projects
Task 2	How should the development of these new holidays be managed? How should the project to create these holidays be managed?	B - Identify the key project personnel, explain their responsibilities and set appropriate performance measures

	Can the significant costs of investigating the destinations, etc, be capitalised as intangible assets?	D – Select appropriate accounting treatments and explain their implications for users of the financial statements
Task 3	What are the issues associated with offering customers amenities on these new holidays? How can target costing be used to decide on key issues associated with inflight comfort?	C – Identify and apply value management techniques to enhance value
	How can Happywell negotiate access to airport lounges for long-haul customers?	E – Advise on the negotiation process
Task 4	Flight crews now require accommodation for mandatory crew rest. How should the transfer price between hotels and airlines be set for crew accommodation?	E – Explain the behavioural and transfer pricing issues associated with internal trading
	Will this new venture affect accounting ratios and should it be disclosed that it does?	D – Use the financial statements to assess and report on financial performance and position, interpreting and reporting on a wide range of ratios

Task 1

This scenario begins with Happywell’s Marketing Department identifying an opportunity for the company to offer long-distance holidays to the island of Mopingo. Research indicates that many repeat customers would be willing to pay more for their holidays if an exotic location is offered. Esternsun Hotels owns several large hotels on the island and has offered the exclusive use of a number of rooms from July to December.

Level 3 responses recognised that, in some ways, the proposal is consistent with the business model, as the longer flight does not reflect a change in a model which defines value by offering a wide range of customer experiences. They also recognised that Happywell currently creates value by being vertically integrated, and the proposal to rent rooms in third-party hotels would reduce the company’s control over the holiday experience it offers customers. Discussing the proposal in terms of defining and creating value, delivering and capturing residual value was often helpful in structuring responses. Level 2 answers were often well structured but did not fully explore the impact of the proposal. They were sometimes overly focussed on explaining Happywell’s business model rather than the potential impact of this proposal. Level 1 answers identified some points but did not discuss them. Identification of the ways in which the proposal

is not compatible with the business model was often lacking. Some level 1 responses focussed on advising on whether or not to proceed with the proposal rather than answering the question presented.

Candidates were next asked to identify and evaluate the product risk and the contractual inadequacy risk associated with the proposal.

Level 3 responses evaluated both the product risk and the contractual inadequacy risk. Discussion of the product risk included exploring concerns that customers might not be prepared to travel on a 10-hour flight and that, although they might like an exotic holiday, they would not necessarily find Mopingo attractive. Negative reviews of holidays there might also have an impact. Exploration of the contractual inadequacy risk focussed on the contract with Esternsun Hotels, and included the issue that enforcing the terms of the contract could be very difficult because Esternsun is located in a foreign country. The standards of rooms and services might not be as expected by customers from Westland. Level 2 answers were less well developed and often focussed on product risk with less coverage of contractual inadequacy risk. Points were identified but not fully explored. The impact of the hotels being in a foreign country was often missed. Level 1 answers did not go much further than defining the risks.

Task 2

In the second task, candidates were informed that plans to offer the Mopingo holidays have progressed, and the Senior Marketing Manager has provided a list of action points including the need for promotional material, reps in place to greet customers, transport arrangements including flight scheduling and airport transfers and liaison with hotels about the rooms and meals provided to customers.

Level 3 responses explained the key members who would be needed for a project team, such as a manager from the Marketing Department to work on the development of the package and its promotion, and a local team focussed on liaising with Esternsun. They explored issues such as coordination of the different activities, the need for financial budgets and the prioritisation of work. Level 2 answers discussed issues in less depth and detail and were often more generic, discussing the membership of a project team in more general terms rather than relating their comments to the specific requirements described in the case study. Level 3 responses identified some issues but did not develop their arguments or provide justification.

The next requirement was to evaluate the arguments for and against capitalising the expenditures incurred on achieving the action points as intangible assets in Happywell's financial statements.

Level 3 answers correctly explained that capitalisation should be considered in the context of IAS 38, which defines an intangible asset and sets out rules governing whether or not an item can be capitalised. They explained that uncertainty regarding the new launch would possibly prevent the capitalisation of expenditure and that some expenditures are specifically excluded from capitalisation. Level 2 responses showed a reasonable level of technical knowledge but did not provide as much justification for their conclusions. Level 1 answers often demonstrated knowledge of what an intangible asset is but did not recognise that there are rules governing capitalisation of expenditure, responding as if it is entirely up to Happywell to choose to capitalise or not.

Task 3

A number of decisions need to be made regarding the transportation for the Mopingo holiday packages, such as the number of seats on aircraft, in-flight meals and coach transfers. Adding or removing rows of seats can increase or decrease the amount of leg room available to passengers. Currently, Happywell only offer a light snack service on flights but may need to do more on long-haul journeys, which would reduce the number of seats available. Transfers could be by coach or by taxi. Happywell could arrange for customers to have access to Westland Relax's lounges at departure airports.

Candidates were first asked to evaluate the potential usefulness of value analysis and the challenges associated with its application in deciding on these issues.

Level 3 responses showed good understanding of value analysis and gave a clear explanation of how it could provide a framework for the decisions to be made, and also recognised that its usefulness could be limited by difficulties in applying it to separate elements of a holiday which is being sold as a package, and the fact that, in reality, Happywell has limited discretion over some of the issues. Level 2 answers were less well focussed on the scenario but discussed the usefulness of value analysis, although comments on its challenges were often scant. Level 1 responses showed some understanding of value analysis but did not provide evaluation of its usefulness for Happywell.

Candidates were then asked to recommend with reasons the bargaining points that Happywell could use when negotiating the annual fee it should pay to Westland Relax to allow customers travelling to Mopingo to access Westland Relax lounges at departure airports.

Level 3 answers identified and explained key points such as the need to identify benefits to Relax from giving Happywell customers lounge access in order to achieve a lower agreed fee. Valid points included the promotion of Relax to Happywell customers, the possibility of restricting access time and the relative affluence of the customers. Level 2 answers were less well focussed and often set out generic points about the stages of a negotiation rather than giving advice on this specific scenario. Level 1 responses identified some issues but did not explain them or provide supported recommendations.

Task 4

The final task began by explaining that there has been strong demand for the new holidays and Happywell has insisted on 50% deposits from customers making bookings. In addition, flight crews taking customers to Mopingo will need overnight accommodation on the island. The Head of Hotels has offered to let the crews use rooms which are not required by paying customers but wishes to charge Aviation the full daily customer rate for the rooms. The Head of Aviation has objected to this and is looking at booking crews into other hotels.

Candidates were first asked to recommend with reasons a basis for setting internal charges from hotels for the use of rooms for flight crew.

Level 3 answers gave a detailed description of the range of possible basis which could be used and a clear recommendation as to the most appropriate. They recognised that although the rooms might be otherwise unoccupied there would still be costs associated with the crew using them, such as cleaning. They also explored the fact that the transfer price needs to benefit both Hotels and Aviation. Level 2 responses often gave a good description of a range of possible basis for charging but did not provide clearly justified recommendations or make good use of the information provided about this specific scenario. Level 1 answers did not go much beyond a description of different methods for arriving at a transfer price.

The final part of this task asked for a discussion of the impact that accepting large deposits from customers will have on the key accounting ratios and evaluate the arguments for and against including an explanation of that impact in the notes to the financial statements.

Level 3 responses showed good technical knowledge of the IFRS15 rules and explained that the revenue cannot be recognised until some or all of the performance obligations under the contract have been met. The only impact on ratios therefore arises from the receipt of cash and the credit to advance payments in current liabilities. They also explained that the notes need to provide a clear explanation of the basis on which the accounts have been prepared, but not necessarily a discussion of accounting ratios. Explaining the significant liability in the notes would be appropriate. Level 2 answers correctly identified some of the ratio impact but were often confused and not always technically correct. Level 1 responses often made some valid points but did not realise that the revenue could not be immediately recognised.

Variant 6 Comments on performance

	Designed to test	Core activity
Task 1	Customer feedback is often inconsistent and unhelpful. What challenges do the inconsistencies in feedback create when implementing Happywell's business model?	A – Select and implement suitable business models that will create value for stakeholders, including business models in the context of digital ecosystems
	How would this discovery affect social and relationship capital in Happywell's integrated report?	E – Explain the implications of Integrated Reporting for the reporting entity and its stakeholders
Task 2	This affects Happywell's quality management. How does the bias in feedback affect Happywell's ability to manage quality across the group?	C – Identify and apply appropriate quality management techniques to enhance value
	Who should participate in the team that will be established to investigate feedback?	B – Recognise the characteristics of high-performing teams
Task 3	A new system for gathering feedback is being considered. What difficulties will arise in estimating the net cash flows associated with the new system?	B – Apply appropriate project management tools and techniques to effectively manage projects at the appropriate stage in the project life cycle
	Can the cost of creating the new system be capitalised?	D – Select appropriate accounting treatments and explain their implications for users of the financial statements
Task 4	A consultancy firm that a suitable system may be purchased. Is the new system likely to be effective in managing customer satisfaction?	D – Select and apply suitable tools and techniques for managing risk and uncertainty associated with performance related issues
	What are the challenges associated with determining fair values for this new subsidiary's assets?	E – Explain the financial reporting implications of additions to the group

Task 1

Task 1 introduces the candidates to the complexities of analysing customer feedback. Candidates are presented with a report on anomalies on customer feedback. The feedback covers a variety of areas and indicates different areas of response from different demographics, young vs old, negative groupings associated with one particular experience influencing other areas and contradictory or illogical responses.

Candidates are asked to identify and evaluate the challenges that inconsistencies in feedback can create in the implementation of Happywell's business model. Most candidates gave a reasonable response using define, create, deliver, capture with better responses being able to give both sides of discussion rather than taking one viewpoint only.

The task moves forward to evaluate the impact that the concerns highlighted in the report relating to that feedback might have for the reporting of social and relationship capital in Happywell's integrated report. Level 1 candidates tended to put forward rather simplistic views on publishing potentially unvalidated or ambiguous data. Level 2 and 3 responses were much more alert to the signalling effects possible for both positive and negative outcomes.

Task 2

Task 2 moves the scenario forward a month, presenting some findings on customer feedback as relates to repeat bookings with reference also to wide ranging negative reviews which appear to be triggered by a single complain in a particular area. The report suggests that Happywell's feedback process itself is flawed and alternatives need consideration.

Candidates were asked to explain why biased and unhelpful feedback makes quality management difficult. Level 1 responses often failed to relate their answers to the scenario. The best answers addressed the fact that the survey process is inherently flawed and at best can be used as indicative areas for attention to be addressed if there are trends and repeated areas of concern.

The task proceeds to ask for recommendations with reasons as to the membership of a team that will be established to further investigate customer feedback and to develop improvements. A large proportion of candidates gave weak answers here; many failed to answer the actual question that was asked, with many candidates giving generic answers based on the theory of teams. Candidates must relate their answers to the scenario.

Task 3

Task 3 advances a further month and presents candidates with extract minutes from a Board meeting, detailing the possible engagement of a third party, market research consultancy to develop a system that would gather useful feedback from customers. Candidates were asked to identify and evaluate the difficulties associated with predicting the cash flows to be used in NPV calculation when deciding whether Happywell should invest in an improved system for obtaining customer feedback. Again, weak candidates failed to demonstrate an understanding of the facts presented in the scenario and at best gave NPV theory answers which lacked application to the environment in the question. Good answers quickly picked up on the lack of effective measurement criteria for revenue recognition as a result of improvements and the open-ended nature of the potential costs to be incurred with ongoing consultancy work.

The task proceeds to ask for a recommendation as to whether the costs incurred in the creation of the scheme can be capitalised. Clear differentiation here between candidates who understand IAS38 and can apply it and those who fumbled to define recognition and measurement criteria. There were many level 1 responses as a result, with better answers instantly apparent with good process applied to track and categorise costs incurred.

Task 4

Finally, task 4 introduces candidates to another consultancy offering development of a customer feedforward system where real time data can be forwarded to other agents in the frontline chain of representatives interfacing with the customer in the various stages of their holiday.

Candidates are asked to evaluate whether using this system of feedforward is likely to be more effective in managing customer satisfaction than responding to feedback collected from customers. There were many affirmative answers here with poorer responses failing to give more than the view that the Holtrak system is a cure all to resolve all woes. The best candidates emphasised the need for prompt and vigilant actions in response to the data being supplied by the system.

Task 4 concludes with a request to evaluate the challenges associated with determining the fair value of the feedforward package for the purpose of consolidating the consultancy into the Happywell group.

There were many poor responses to this question. There was a general failure to apply any theory to the facts presented and to take account of any of the difficulties of applying a value to a unique software package requiring significant investment.

Management Level Case Study May 2023 – August 2023

Marking Guidance

Variant 1

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Management Case Study [May - August 2023].

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, candidates 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)	A	Evaluate opportunities to add value	60 %
(b)	D	Measure performance	40 %
Section 2			
(a)	C	Manage performance and costs to aid value creation	60 %
(b)	D	Measure performance	40 %
Section 3			
(a)	B	Implement senior management decisions	60 %
(b)	C	Manage performance and costs to aid value creation	40 %
Section 4			
(a)	E	Manage internal and external stakeholders	60 %
(b)	A	Evaluate opportunities to add value	40 %

SECTION 1			
Task (a) Evaluate Jack's use of internal rate of return (IRR) and the 12% hurdle rate to financially appraise the project and identify issues that should be considered.			
Trait			
1st argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines IRR/describes characteristic of IRR	1
	Level 2	Identifies relevance of characteristic	2-3
	Level 3	Discusses relevance of characteristic	4-5
2nd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines IRR/describes characteristic of IRR	1
	Level 2	Identifies relevance of characteristic	2-3
	Level 3	Discusses relevance of characteristic	4-5
3rd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines IRR/describes characteristic of IRR	1
	Level 2	Identifies relevance of characteristic	2-3
	Level 3	Discusses relevance of characteristic	4-5

Task (b) Explain how future changes in the relative strengths of currencies will affect the reported performance of the Happywell Group after we invest an additional W\$750 million in our foreign subsidiaries.

Trait			
Accounting for currency gains and losses	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines currency gains and losses	1
	Level 2	Discusses potential impact on financial statements	2-3
	Level 3	Discusses potential impact on financial statements with good justification	4-5
Interpreting impact of gains and losses	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible impact on interpretation	1
	Level 2	Discusses impact on interpretation	2-3
	Level 3	Discusses impact on interpretation with good justification	4-5

SECTION 2			
Task (a) Discuss the advantages and disadvantages of HappGold being a separate profit centre.			
Trait			
Advantages	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible advantages	1-2
	Level 2	Discusses possible advantages	3-5
	Level 3	Discusses possible advantages with justification	6-8
Disadvantages	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible disadvantages	1-2
	Level 2	Discusses possible disadvantages	3-5
	Level 3	Discusses possible disadvantages with justification	6-7
Task (b) Evaluate the impacts that the HappGold packages will have on Happywell's business model.			
Trait			
Defining and creating value	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues	1
	Level 2	Discusses impact on issues	2-3
	Level 3	Discusses impact on issues with justification	4
Delivering and capturing residual value	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues	1-2
	Level 2	Discusses impact on issues	3-4
	Level 3	Discusses impact on issues with justification	5-6

SECTION 3			
Task (a) Identify the main challenges associated with managing the project to modify the hotels at which we will offer HappGold packages and recommend suitable responses to those challenges, stating reasons.			
Trait			
Challenges	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes project management	1-2
	Level 2	Discusses challenges	3-5
	Level 3	Discusses challenges with justification	6-8
Responses	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some response	1-2
	Level 2	Discusses relevant responses	3-5
	Level 3	Discusses relevant responses with justification	6-7
Task (b) Evaluate the advantages and disadvantages of reflecting the impact of HappGold on Happywell's intellectual capital as disclosed in our integrated report.			
Trait			
For	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines intellectual capital	1
	Level 2	Discusses arguments for inclusion	2-3
	Level 3	Discusses arguments for inclusion with justification	4-5
Against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes possible problems with reporting	1
	Level 2	Discusses arguments against inclusion	2-3
	Level 3	Discusses arguments against inclusion with justification	4-5

SECTION 4			
Task (a) Identify and evaluate the difficulties associated with setting transfer prices for HappGold rooms that will encourage their release in a manner that will be acceptable to both Elham Androodi and Jack Paterson, while being optimal for Happywell overall.			
Trait			
Identification	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes difficulties	1-2
	Level 2	Offers detailed description of difficulties	3-5
	Level 3	Offers full description of difficulties	6-8
Evaluation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some support for identification	1-2
	Level 2	Evaluates difficulties	3-5
	Level 3	Evaluates difficulties with justification	6-7
Task (b) Explain how Happywell's weighted average cost of capital (WACC) is likely to be affected in the event that sales of HappGold packages remain at their current low level.			
Trait			
Equity	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines WACC	1
	Level 2	Discusses possible impact on cost of equity	2-3
	Level 3	Discusses possible impact on cost of equity with justification	4-5
Debt	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes weighting	1
	Level 2	Discusses possible impact on cost of debt	2-3
	Level 3	Discusses possible impact on cost of debt with justification	4-5

Management Level Case Study May 2023 – August 2023

Marking Guidance

Variant 2

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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.
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- 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)	A	Evaluate opportunities to add value	40 %
Section 2			
(a)	C	Manage performance and costs to aid value creation	40 %
(b)	D	Measure Performance	60 %
Section 3			
(a)	A	Evaluate opportunities to add value	60 %
(b)	E	Manage internal and external stakeholders	40 %
Section 4			
(a)	E	Manage internal and external stakeholders	40 %
(b)	B	Implement senior management decisions	60 %

SECTION 1			
Task (a) Evaluate the arguments for and against the assertion that Agnar, the manager in charge of the engineering hangar, has too much authority			
Trait			
Too much authority	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines authority	1-2
	Level 2	Discusses arguments for excessive authority	3-5
	Level 3	Discusses arguments for excessive authority with justification	6-8
Acceptable authority	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes need for authority	1-2
	Level 2	Discusses arguments against excessive authority	3-5
	Level 3	Discusses arguments against excessive authority with justification	6-7

Task (b) Discuss the issues that should be considered in deciding whether we should continue to charge emergency repairs to other airlines' aircraft at cost			
Trait			
Arguments for	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Summarises pricing strategies	1
	Level 2	Discusses potential advantages of using cost	2-3
	Level 3	Discusses potential advantages of using cost with justification	4-5
Arguments against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible disadvantages	1
	Level 2	Discusses potential disadvantages of using cost	2-3
	Level 3	Discusses potential disadvantages of using cost with justification	4-5

SECTION 2			
Task (a) Explain how the principles of business process re-engineering could have been used to justify and implement the use of Speedconfort's new range of engineering equipment by the Aviation Department			
Trait			
Recommendation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes business process engineering	1
	Level 2	Discusses possible steps	2-3
	Level 3	Discusses possible steps with justification	4-5
Reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible advantages	1
	Level 2	Justifies recommendations	2-3
	Level 3	Justifies recommendations with justification	4-5
Task (b) Explain how the proposed leasing arrangement for this equipment would be recognised in Happywell's financial statements and explain how the acquisition of the equipment in this way would affect the interpretation of Happywell's accounting ratios by its shareholders.			
Trait			
Recognition	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies accounting issues	1-2
	Level 2	Discusses rules relating to leases	3-5
	Level 3	Discusses rules relating to leases with justification	6-8
Ratios	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies ratios	1-2
	Level 2	Discusses impact on ratios	3-5
	Level 3	Discusses impact on ratios with justification	6-7

SECTION 3			
Task (a) Discuss the difficulties in predicting the cash flows from the proposed sale of inspection services to other airlines to be used when calculating the proposal's net present value			
Trait			
Difficulties	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes need for cash flows	1-2
	Level 2	Offers some difficulties	3-5
	Level 3	Offers full description of difficulties	6-8
Discussion	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes subjectivity	1-2
	Level 2	Discusses difficulties	3-5
	Level 3	Discusses difficulties with good justification	6-7
Task (b) Identify two major difficulties associated with negotiating the sale of Chris' proposed service to other airlines and recommend possible solutions			
Trait			
1st difficulty	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identified need for agreement	1
	Level 2	Describes difficulty	2-3
	Level 3	Describes difficulty with justification	4-5
2nd difficulty	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes approach to negotiation	1
	Level 2	Describes difficulty	2-3
	Level 3	Describes difficulty with justification	4-5

SECTION 4**Task (a) Explain with reasons how Happywell's investment in Dromeeng should be accounted for in the Happywell Group's consolidated financial statements**

Trait			
IAS 28	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies IAS 28	1
	Level 2	Applies IAS 28	2-3
	Level 3	Applies IAS 28 with justification	4-5
Impact on FS	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Brief description of impact on financial statements	1
	Level 2	Discusses impact on financial statements	2-3
	Level 3	Offers full discussion of impact on financial statements	4-5

Task (b) Evaluate Elham Androodi's proposal that Mangusair, Blooair and Happywell should create a procedure to agree on additional investments in Dromeeng

Trait			
1st argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies argument	1
	Level 2	Discusses argument	2-3
	Level 3	Discusses argument with justification	4-5
2nd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies argument	1
	Level 2	Discusses argument	2-3
	Level 3	Discusses argument with justification	4-5
3rd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies argument	1
	Level 2	Discusses argument	2-3
	Level 3	Discusses argument with justification	4-5

Management Level Case Study May 2023 – August 2023

Marking Guidance

Variant 3

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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)	D	Measure performance	40 %
Section 2			
(a)	E	Manage internal and external stakeholders	40 %
(b)	B	Implement senior management decisions	60 %
Section 3			
(a)	C	Manage performance and costs to aid value creation	40 %
(b)	D	Measure performance	60 %
Section 4			
(a)	E	Manage internal and external stakeholders	40 %
(b)	C	Manage performance and costs to aid value creation	60 %

SECTION 1			
Task (a) Evaluate whether this proposal is consistent with Happywell’s business model			
Trait			
Defining and creating value	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines model attributes	1-2
	Level 2	Discusses consistency	3-5
	Level 3	Discusses consistency with justification	6-8
Delivering and capturing value	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines model attributes	1-2
	Level 2	Discusses consistency	3-5
	Level 3	Discusses consistency with justification	6-7
Task (b) Identify a product reputation risk and a contractual inadequacy risk that could arise from Happywell’s Sandsurf package holidays as detailed in the proposal, and explain why each of those risks would be difficult for Happywell to manage.			
Trait			
Reputation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines risk	1
	Level 2	Discusses risk	2-3
	Level 3	Discusses risk with justification	4-5
Contract	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines risk	1
	Level 2	Discusses risk	2-3
	Level 3	Discusses risk with justification	4-5

SECTION 2			
Task (a) Identify the challenges associated with determining the goodwill on acquisition of Sandsurf Hotels by the Happywell Group and recommend responses to those challenges, stating reasons			
Trait			
Challenges	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines goodwill	1
	Level 2	Describes challenges	2-3
	Level 3	Describes challenges with justification	4-5
Responses	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies response	1
	Level 2	Describes response	2-3
	Level 3	Describes response with justification	4-5
Task (b) Evaluate the arguments for and against making an immediate investment in the extension of the newly acquired hotels			
Trait			
Arguments for	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes advantages	1-2
	Level 2	Discusses advantages	3-5
	Level 3	Discusses advantages with justification	6-8
Arguments against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes disadvantages	1-2
	Level 2	Discusses disadvantages	3-5
	Level 3	Discusses disadvantages with justification	6-7

SECTION 3			
Task (a) Evaluate the suggestion that Total Quality Management (TQM) should be adopted at Sandsurf Hotels.			
Trait			
Advantages	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines TQM	1
	Level 2	Discusses advantages of TQM	2-3
	Level 3	Discusses advantages of TQM with justification	4-5
Disadvantages	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes disadvantages	1
	Level 2	Discusses disadvantages of TQM	2-3
	Level 3	Discusses disadvantages of TQM with justification	4-5
Task (b) Explain how the fact that the S\$ has strengthened in relation to the W\$ will affect the consolidated financial statements of the Happywell Group and how that will affect the interpretation of the Group's consolidated financial statements			
Trait			
Accounting	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies IAS 21	1-2
	Level 2	Discusses accounting issues	3-5
	Level 3	Offers a full discussion of accounting issues	6-8
Interpretation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes interpretation issues	1-2
	Level 2	Discusses interpretation issues	3-5
	Level 3	Discusses interpretation issues with justification	6-7

SECTION 4

Task (a) Recommend with reasons the arguments that Happywell should present to the SIA Tourist Department, existing hotel owners and the public before the SIA's Planning Department meets to consider Happywell's application

Trait			
Tourist authority	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes issues	1
	Level 2	Recommends response	2-3
	Level 3	Recommends response with reasons	4
Hotel owners	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes issues	1
	Level 2	Recommends response	2
	Level 3	Recommends response with reasons	3
Public	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes issues	1
	Level 2	Recommends response	2
	Level 3	Recommends response with reasons	3

Task (b) Recommend with reasons the types of information that should be requested by the Board in order to track the progress of the team of senior managers on a week-by-week basis			
Trait			
Recommendations	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines performance measures	1-2
	Level 2	Recommends some performance measures	3-5
	Level 3	Recommends a full set of performance measures	6-8
Reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies importance	1-2
	Level 2	Discusses reasons for recommendations	3-5
	Level 3	Discusses reasons for recommendations with justification	6-7

Management Level Case Study May 2023 – August 2023

Marking Guidance

Variant 4

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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)	D	Measure performance	60 %
(b)	C	Manage performance and costs to aid value creation	40 %
Section 2			
(a)	A	Evaluate opportunities to add value	60 %
(b)	D	Measure performance	40 %
Section 3			
(a)	E	Manage internal and external stakeholders	60 %
(b)	B	Implement senior management decisions	40 %
Section 4			
(a)	B	Implement senior management decisions	60 %
(b)	C	Manage performance and costs to aid value creation	40 %

SECTION 1			
Task (a) Identify and explain the business risks arising from this disruption			
Trait			
1st risk	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies risk	1
	Level 2	Explains risk	2-3
	Level 3	Explains risk with justification	4
2nd risk	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies risk	1
	Level 2	Explains risk	2-3
	Level 3	Explains risk with justification	4
3rd risk	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies risk	1
	Level 2	Explains risk	2-3
	Level 3	Explains risk with justification	4
4th risk	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies risk	1
	Level 2	Explains risk	2
	Level 3	Explains risk with justification	3

Task (b) Identify and evaluate the challenges with empowering the holiday reps at our resorts when assisting customers who are stranded at their reports because of these strikes.

Trait			
Identifying challenges	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines empowerment	1
	Level 2	Describes some challenges	2-3
	Level 3	Describes a range of challenges	4-5
Evaluating challenges	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some discussion of challenges	1
	Level 2	Evaluates challenges	2-3
	Level 3	Evaluates challenges with justification	4-5

SECTION 2			
Task (a) Evaluate the arguments for and against reducing our commission to Toorcover			
Trait			
For	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible arguments for	1-2
	Level 2	Discusses possible arguments for	3-5
	Level 3	Discusses possible arguments for with justification	6-8
Against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible arguments against	1-2
	Level 2	Discusses possible arguments against	3-5
	Level 3	Discusses possible arguments against with justification	6-7
Task (b) Discuss the challenges associated with accounting for claims for refunds and other related costs from customers due to strike action by the air traffic controllers and recommend responses			
Trait			
Challenges	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies challenges	1
	Level 2	Discusses challenges	2-3
	Level 3	Discusses challenges with justification	4-5
Responses	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	IAS 37	1
	Level 2	Recommends responses	2-3
	Level 3	Recommends responses with justification	4-5

SECTION 3			
Task (a) Recommend with reasons the approach that Happywell could take to negotiate priority for the installation of the new fuel tanks on its aircraft.			
Trait			
Preparation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes preparation in negotiation	1
	Level 2	Recommends preparation in this negotiation	2-3
	Level 3	Recommends preparation in this negotiation with justification	4
Opening	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes opening in negotiation	1
	Level 2	Recommends opening in this negotiation	2-3
	Level 3	Recommends opening in this negotiation with justification	4
1st bargaining	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes first bargaining step	1
	Level 2	Recommends first bargaining step in this negotiation	2-3
	Level 3	Recommends first bargaining step in this negotiation with justification	4
2nd bargaining	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes second bargaining step	1
	Level 2	Recommends second bargaining step in this negotiation	2
	Level 3	Recommends second bargaining step in this negotiation with justification	3

Task (b) Identify and evaluate the characteristics of debt and equity that are relevant to the decision as to how the modification of our aircraft should be financed

Trait			
Debt	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines debt	1
	Level 2	Discusses relevant characteristics	2-3
	Level 3	Discusses relevant characteristics with justification	4-5
Equity	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines equity	1
	Level 2	Discusses relevant characteristics	2-3
	Level 3	Discusses relevant characteristics with justification	4-5

SECTION 4			
Task (a) Identify the risks associated with this investment and assess the difficulties associated with evaluating those risks			
Trait			
Identification	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes area of uncertainty	1-2
	Level 2	Offers description of areas of uncertainty	3-5
	Level 3	Offers full description of areas of uncertainty	6-8
Assessment	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Assesses areas of uncertainty	1-2
	Level 2	Offers full assessment of areas of uncertainty	3-5
	Level 3	Offers full assessment of areas of uncertainty with justification	6-7
Task (b) Evaluate the quality of the leadership demonstrated by the Operations Director in her decision to delegate the recommendation concerning the fuel tanks to the managers in the Aviation Department			
Trait			
Responsibility	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines responsibility	1
	Level 2	Evaluates director's leadership	2-3
	Level 3	Evaluates director's leadership with justification	4
Delegation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines delegation	1-2
	Level 2	Evaluates director's delegation	3-4
	Level 3	Evaluates director's delegation with justification	5-6

Management Level Case Study May 2023 – August 2023

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 2023].

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- 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)	A	Evaluate opportunities to add value	60 %
(b)	B	Implement senior management decisions	40 %
Section 2			
(a)	B	Implement senior management decisions	60 %
(b)	D	Measure performance	40 %
Section 3			
(a)	C	Manage performance and costs to aid value creation	60 %
(b)	E	Manage internal and external stakeholders	40 %
Section 4			
(a)	E	Manage internal and external stakeholders	60 %
(b)	D	Measure performance	40 %

SECTION 1			
Task (a) Explain whether the Marketing Department's proposal to offer long-distance holidays on Mopingo is consistent with Happywell's business model.			
Trait			
Defining and creating value	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues	1-2
	Level 2	Discusses impact on issues	3-5
	Level 3	Discusses impact on issues with justification	6-8
Delivering and capturing residual value	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues	1-2
	Level 2	Discusses impact on issues	3-5
	Level 3	Discusses impact on issues with justification	6-7

Task (b) Identify and evaluate the product risk and the contractual inadequacy risk associated with the proposal			
Trait			
Product	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines risk	1
	Level 2	Discusses risk	2-3
	Level 3	Discusses risk with good justification	4-5
Contractual	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines risk	1
	Level 2	Discusses risk	2-3
	Level 3	Discusses risk with good justification	4-5

SECTION 2			
Task (a) Recommend with reasons how the project to achieve the four action points identified by Andrew Johnston should be organised and managed			
Trait			
Team members	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies need for team members	1-2
	Level 2	Discusses possible membership	3-5
	Level 3	Discusses possible membership with justification	6-8
Oversight	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues for management	1-2
	Level 2	Discusses issues	3-5
	Level 3	Discusses issues with justification	6-7
Task (b) Evaluate the arguments for and against capitalising the expenditures incurred on achieving these action points as intangible assets in Happywell's financial statements			
Trait			
For	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	IAS 38	1
	Level 2	Offers arguments for capitalisation	2-3
	Level 3	Offers arguments for capitalisation with justification	4-5
Against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies arguments against capitalisation	1
	Level 2	Offers arguments against capitalisation	2-3
	Level 3	Offers arguments against capitalisation with justification	4-5

SECTION 3			
Task (a) Evaluate the potential usefulness of value analysis, and the challenges associated with its application, in deciding on the transportation issues identified by Andrew Johnston			
Trait			
Usefulness	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines value analysis	1-2
	Level 2	Discusses usefulness	3-5
	Level 3	Discusses usefulness with justification	6-8
Challenges	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies challenges	1-2
	Level 2	Discusses challenges	3-5
	Level 3	Discusses challenges with justification	6-7

Task (b) Recommend with reasons the bargaining points that Happywell could use when negotiating the annual fee it should pay Westland Relax to allow our customers travelling to Mopingo to access Westland Relax (“Relax”) lounges at departure airports

Trait			
1st recommendation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issue	1
	Level 2	Offers recommendation	2-3
	Level 3	Offers recommendation with justification	4
2nd recommendation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issue	1
	Level 2	Offers recommendation	2
	Level 3	Offers recommendation with justification	3
3rd recommendation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issue	1
	Level 2	Offers recommendation	2
	Level 3	Offers recommendation with justification	3

SECTION 4			
Task (a) Recommend with reasons a basis for setting transfer prices between Hotels and Aviation and explain how your recommended basis will ensure that the interests of those departments are aligned with the overall interest of Happywell			
Trait			
Recommendation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes difficulties	1-2
	Level 2	Suggests basis	3-5
	Level 3	Offers comprehensive description of basis	6-8
Explanation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Offers some support for recommendation	1-2
	Level 2	Offers full support for recommendation	3-5
	Level 3	Offers full support for recommendation with justification	6-7
Task (b) Discuss the impact that accepting large deposits from customers will have on the key accounting ratios based on the financial statements for the year ended 31 December 2023 and evaluate the arguments for and against including an explanation of that impact in the notes to the financial statements			
Trait			
Ratios	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies ratios	1
	Level 2	Discusses impact on ratios	2-3
	Level 3	Discusses impact on ratios with justification	4-5
Explain impact	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes directors' duties	1
	Level 2	Discusses duties and assisting shareholders	2-3
	Level 3	Discusses duties and assisting shareholders with justification	4-5

Management Level Case Study May 2023 – August 2023

Marking Guidance

Variant 6

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(b)	B	Implement senior management decisions	40 %
Section 3			
(a)	B	Implement senior management decisions	60 %
(b)	D	Measure performance	40 %
Section 4			
(a)	D	Measure performance	60 %
(b)	E	Manage internal and external stakeholders	40 %

SECTION 1			
Task (a) Identify and evaluate the challenges that inconsistencies in customer feedback can create in the implementation of Happywell's business model			
Trait			
Defining and creating value	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues	1-2
	Level 2	Discusses impact on issues	3-5
	Level 3	Discusses impact on issues with justification	6-8
Delivering and capturing residual value	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issues	1-2
	Level 2	Discusses impact on issues	3-5
	Level 3	Discusses impact on issues with justification	6-7

Task (b) Evaluate the impact that our concerns relating to customer feedback might have for the reporting of social and relationship capital in Happywell's integrated report.			
Trait			
1st impact	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Defines social and relationship capital	1
	Level 2	Discusses impact	2-3
	Level 3	Discusses impact with good justification	4-5
2nd impact	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies possible impact	1
	Level 2	Discusses impact	2-3
	Level 3	Discusses impact with good justification	4-5

SECTION 2			
Task (a) Evaluate the difficulties that these concerns about customer feedback have for Happywell's ability to manage quality across the Group			
Trait			
1st difficulty	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies difficulty	1
	Level 2	Evaluates difficulty	2-3
	Level 3	Evaluates difficulty with justification	4
2nd difficulty	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies difficulty	1
	Level 2	Evaluates difficulty	2-3
	Level 3	Evaluates difficulty with justification	4
3rd difficulty	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies difficulty	1
	Level 2	Evaluates difficulty	2-3
	Level 3	Evaluates difficulty with justification	4
4th difficulty	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies difficulty	1
	Level 2	Evaluates difficulty	2
	Level 3	Evaluates difficulty with justification	3

Task (b) Recommend with reasons the membership of a team that will be established to further investigate customer feedback and to develop improvements			
Trait			
Recommendation	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies scope	1
	Level 2	Recommends members	2-3
	Level 3	Recommends members and positions	4-5
Reasons	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes roles	1
	Level 2	Discusses roles	2-3
	Level 3	Discusses roles with justification	4-5

SECTION 3			
Task (a) Identify and evaluate the difficulties associated with predicting the cash flows for a net present value calculation for the creation and the operation of improved scheme.			
Trait			
Difficulty 1	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes difficulty	1
	Level 2	Discusses difficulty	2-3
	Level 3	Discusses difficulty with justification	4
Difficulty 2	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes difficulty	1
	Level 2	Discusses difficulty	2-3
	Level 3	Discusses difficulty with justification	4
Difficulty 3	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes difficulty	1
	Level 2	Discusses difficulty	2-3
	Level 3	Discusses difficulty with justification	4
Difficulty 4	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes difficulty	1
	Level 2	Discusses difficulty	2
	Level 3	Discusses difficulty with justification	3

Task (b) Recommend whether the costs incurred in the creation of this scheme can be capitalised			
Trait			
1st argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	IAS 38	1
	Level 2	Discusses criteria	2-3
	Level 3	Discusses criteria with application	4
2nd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issue	1
	Level 2	Discusses criteria	2
	Level 3	Discusses criteria with application	3
3rd argument	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issue	1
	Level 2	Discusses criteria	2
	Level 3	Discusses criteria with application	3

SECTION 4			
Task (a) Evaluate the argument that using Holtrak for feedforward is likely to be more effective in managing customer satisfaction than responding to feedback collected from customers			
Trait			
Arguments for	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes issues	1-2
	Level 2	Discusses issues	3-5
	Level 3	Discusses issues with justification	6-8
Arguments against	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Describes issues	1-2
	Level 2	Discusses issues	3-5
	Level 3	Discusses issues with justification	6-7
Task (b) Evaluate the challenges associated with determining the fair value of Holtrak for the purpose of consolidating Lazar Consulting into the Happywell Group			
Trait			
1st challenge	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issue	1
	Level 2	Discusses issue	2-3
	Level 3	Discusses issue with justification	4-5
2nd challenge	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies issue	1
	Level 2	Discusses issue	2-3
	Level 3	Discusses issue with justification	4-5