AICPA & CIMA

Together as the Association of International Certified Professional Accountants

November 2022 and February 2023

Management Case Study

CGMA Professional Qualification

Full post exam support materials

Below is the full post-exam supporting materials for the management / gateway case study exam.

Pre-seen material

The November 2022 and February 2023 Management Case Study pre-seen can be found here

Examiner's report

The November 2022 and February 2023 examiner's report can be found here

Exam variants

- Variant 1 can be accessed here
- Variant 2 can be accessed here
- Variant 3 can be accessed here
- Variant 4 can be accessed here
- Variant 5 can be accessed here
- Variant 6 can be accessed here

Suggested solutions

- Suggested solutions for variant 1 can be accessed here
- Suggested solutions for variant 2 can be accessed here
- Suggested solutions for variant 3 can be accessed here
- Suggested solutions for variant 4 can be accessed here
- Suggested solutions for variant 5 can be accessed here
- Suggested solutions for variant 6 can be accessed here

Marking Guidance

- Marking guidance for variant 1 can be accessed here
- Marking guidance for variant 2 can be accessed here
- Marking guidance for variant 3 can be accessed here
- Marking guidance for variant 4 can be accessed here
- Marking guidance for variant 5 can be accessed here
- Marking guidance for variant 6 can be accessed here

If you need any further information please contact us here

Together as the Association of International Certified Professional Accountants

Management Case Study Examination

November 2022 – February 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.

Table of Contents

Introduction

Happy Playz is a quoted toy retailer that has a chain of retail shops. Happy Playz also sells a substantial quantity of its toys online.

Happy Playz operates in Westaria, a developed country that has a strong economy and whose citizens have a high standard of living.

Westaria's currency is the W$. Westarian company law requires companies to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS).

You are a financial manager at Happy Playz's Head Office. Your primary responsibilities are associated with management accounting, and you report to Yongmei Qin, the Senior Financial Manager, who reports directly to the Finance Director.

The toy industry

Toys can take many forms, ranging from simple playthings for infants to sophisticated models and puzzles. Toys are essentially products that are intended to stimulate play and sometimes learning through play. This definition is broad, and it is not always clear whether it applies to certain products. Market analysts are generally agreed that "toys" fall within the following categories:

Action figures	Arts and Crafts
 Action figures are models that can take many different forms, ranging from small, moulded plastic figures to larger, posable figures that can be dressed in different uniforms and outfits and equipped with accessories. Many action figure toys are based on characters from television series or films. Toy manufacturers often pay film producers for the right to manufacture such toys under licence. Action figures are not necessarily based on human characters. They can take the form of animals or alien creatures. Action figures are popular with children in the age group of 4-8 years.	 Arts and crafts include crayons, paints, plasticine and other products that can be used by children to create models and drawings. Craft toys can be designed for unstructured play. They can include large boxes of crayons or markers that use washable ink. Craft toys can also be used to encourage more structured creativity. Colouring books provide children with line drawings that can be filled in using crayons or pencils. Such drawings can be original, or they can be licensed images of favourite characters or scenes from television programmes or films. These products are usually aimed at quite narrow age groups. Children can play with crayons from the age of 18 months, and some craft toys will appeal to children as old as 10 years.
Building sets	Dolls
 Building sets consist of metal or plastic parts that can be used to build models. Building sets can be designed to encourage creative play, with children designing and building their own creations. Building sets can also be designed to construct a particular object, such as a model of a car or house. Such sets are accompanied by plans and have all the parts required to make that item. Such models are often based on characters, vehicles or locations from television programmes or films. Building sets are sold for children of all ages, including complicated kits that are intended to be constructed by adults. Some products are designed for play by children from 18	 There are several types of dolls that allow for differences between age groups in children and different ways to play with dolls. Baby dolls represent infants and are designed for play in which the doll is nurtured and cared for. Large dolls are between 30 and 50cm tall. They may represent licensed characters from television and film. Feature dolls are similar to large dolls but have an active feature, such as electronics that enable the dolls to walk, dance or talk. Mini dolls are pocket sized and designed to be collected or played with as a group of figures.

months, with large parts that are easy to handle and are safe to play with.	Fashion dolls are sold to be dressed and accessorised to enable play based on changing the doll's appearance and or occupation. The diverse range of doll types means that they appeal in one form or another to children aged from 18 months to 12 years.
Electronic games  Electronic games take the form of physical devices that have been preloaded with software that cannot be changed. Gameplay usually involves coloured lights or audio beeps. Electronic games are generally designed to stimulate learning by preschool children or to enable individual or group play by older children. Electronic games designed for preschool children tend to set simple tasks, such as identifying the colour of an object. Games for older children offer challenges such as remembering a sequence of flashing lights. Two or more players may compete to remember the longest sequence. Electronic games are a separate category from video games, such as games consoles and the software that is run on them.	Non-electronic games  Non-electronic games can take many different forms. Play often centres around a board or a deck of cards. There is usually a competitive element to the game. Some games are based on chance, some on strategic thinking and some on a mixture of both. Games vary in terms of the intellectual property belonging to the manufacturer. Games such as draughts/checkers are generic and are manufactured freely. Some games involve patented or trademarked elements that belong to a manufacturer. Games can also involve images based on films or television programmes and are manufactured under licence. Games can be aimed at the preschool market, at older children or at adults.
Infant/Preschool toys  These toys are designed to stimulate play and learning for babies and young children. Baby toys comprise simple items such as rattles as well as more sophisticated battery-powered products that may offer visual and aural stimulation. Toys aimed at children from 18 months to school age are often adaptations of other categories of toy that are designed to be played with safely. For example, action figures or dolls will have no small parts that might be swallowed. If they are licensed, they may be based on characters from preschool programmes.	Outdoor and sports toys  Outdoor toys can range from simple, generic products, such as balls to larger and more elaborate items such as swings, trampolines and ride-on vehicles. Generic outdoor toys are often cheap to manufacture and can offer relatively high margins to retailers. Sales are often seasonal, with demand peaking during the summer months. Outdoor and sports toys are popular with children of all ages, although individual products are aimed at specific age groups in order to ensure safe play.

Plush	Vehicles
 This category comprises stuffed animals and similar products. These range from teddy bears to more abstract designs. Many plush toys are sold to the preschool market, although there have been attempts to enhance their play value by adding movement and sounds. Plush toys can be manufactured cheaply. Many plush toys are generic. Some brands of plush toys are trademarked and are often sold to collectors. Some plush toys are based on characters from popular children's books.	 Toy vehicles can be plastic or metal models of real or imaginary cars, trucks or buses. They can be designed to be pushed along the floor or they can be motorised. Motorised cars can be remote controlled or designed to be raced on special tracks. Toy vehicles can be licensed copies of real cars. They may also be based on cars that feature in television programmes or films. Toy vehicles are sold to a wide range of ages, from plastic models designed for preschool children to limited edition models sold to adult collectors.

Branded products are sold on the basis of known and trusted brand names. Generic products are not sold on the basis of brand.

The above classification excludes certain items that could be described as toys but are often sold through specialist retailers. For example, bicycles and video game consoles are generally excluded from analyses and reports on the toy industry, even though some toy retailers sell them alongside more traditional toys.

On this basis, the Westarian toy market generated retail sales of almost W$8 billion in 2021.

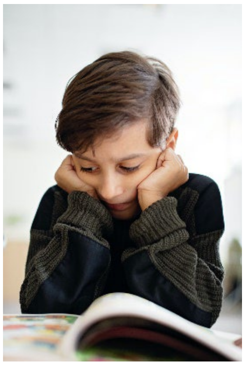
Westarian toy market by annual revenue

	W$ billion
Action figures	0.6
Arts and Crafts	1.1
Building sets	0.4
Dolls	1.0
Electronic games	0.3
Non-electronic games	0.9
Infant/Preschool toys	1.2
Outdoor and sports toys	1.0
Plush	0.6
Vehicles	0.7
Total traditional toys	7.8

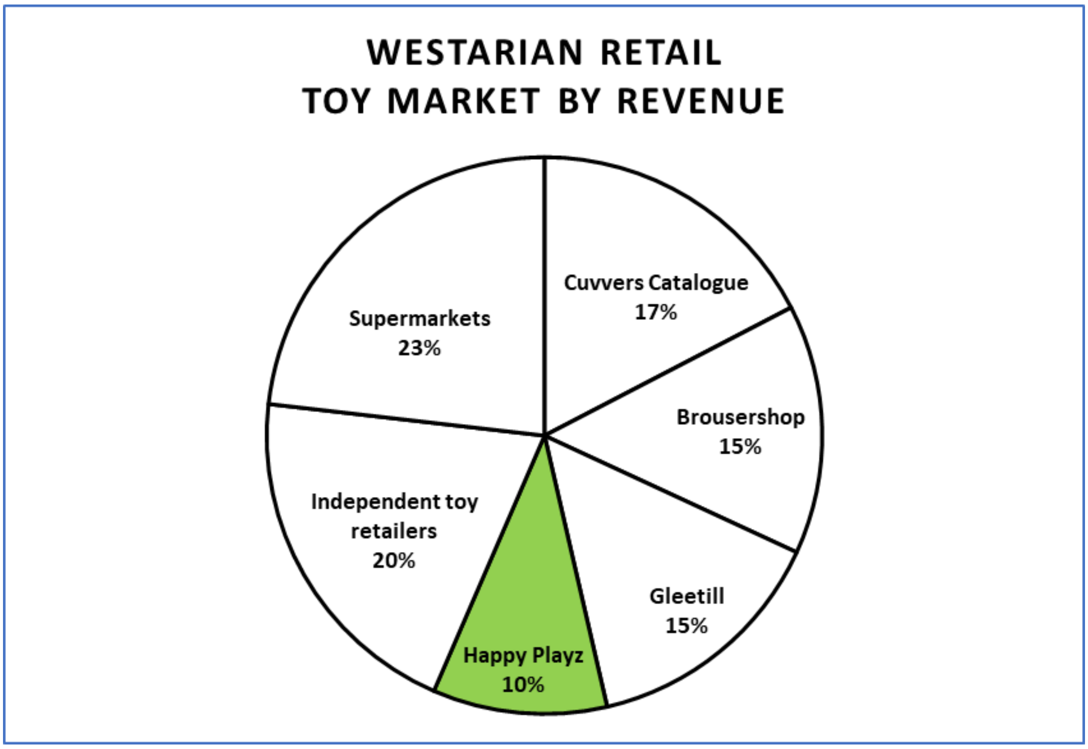
These categories do not necessarily dictate the manner in which the toys are organised and merchandised by retailers.

Westarian retail toy market

There are five main categories of toy retailer in Westaria:

Independent toy retailers 	Independent toy retailers are generally specialised toyshops, or they sell toys alongside complementary products such as baby clothes or other goods that are intended to be used by children. Most have only one outlet. Independent toy retailers are often located in town centres and attract customers through enticing window displays.
Toyshop chains 	Toyshop chains have multiple branches that specialise in toys. They also sell complementary product lines, such as children's' bicycles. The shops themselves tend to be large and laid out as toy supermarkets. They are frequently located in out-of-town retail parks. Westaria has two toyshop chains, namely Happy Playz and Gleetill. Both sell online as well as from their shops.
Catalogue stores 	Catalogue retailers sell a wide range of goods. Customers can select products for purchase from a printed catalogue or the retailer's website before visiting a shop to make payment and collect their selected products. These retailers do not display products in their shops. Goods for resale are stored out of sight of customers and are fetched by staff after customers have paid. Cuvvers Catalogue is Westaria's only catalogue retailer. It sells a huge range of goods, including toys. The company has many branches and also sells goods online for home delivery.
Online retailers 	Dedicated online retailers do not operate physical shops. Goods are chosen and paid for through their websites and are then delivered to customers' homes. Broursershop is Westaria's only dedicated online retailer whose product range includes toys.
Supermarkets 	Supermarkets sell a wide range of non-food items through their stores, including toys. Customers find it convenient to buy toys while shopping for groceries. Supermarkets often sell non-food items at a discount in order to attract customers into their stores.

Westaria's retail market is structured as follows:



Collectively, the toyshop chains have the largest share of the retail market with a total of 25%, but they are struggling to maintain market share in the face of competition from the non-traditional toy retailers.

- Cuvvers Catalogue is the largest individual toy retailer, although it is slowly losing market share to Brousershop. Cuvvers Catalogue is responding by focussing more on online sales and home delivery, which suggests that the retail toy market will be driven by online selling.
- The supermarkets are a significant part of the retail market, despite the fact that they tend to offer only a limited range that is restricted to the most popular toys. A Happy Playz store has approximately 7,000 different toys on its shelves, while a major supermarket carries only 1,200.

Independent toy retailers struggle to compete against the other players in the retail market. They may only offer a restricted range of products because of the size of their premises. They do not buy in sufficient quantity to receive the same discounts as the other retailers. Their revenues are further threatened by a decline in the number of shoppers who shop in town and city centres. Some independent retailers specialise in particular types of toys, such as hand-made plush toys or wooden dolls. Those can attract a niche market and can offer a high margin.

Retailers and manufacturers

Buying decisions in the toy industry are heavily influenced by the tastes of children. The market is constantly changing, as each generation of children moves from one age group to the next. Demand for toys can be influenced by children's television viewing habits or by the publication of popular new books. Those changes are not always easy to predict.

Toy manufacturers tend to combine the following approaches to maintain the popularity of their brands:

Incremental changes to existing products	Manufacturers seek to maintain revenues by making incremental changes to established brands and product ranges. Many toys have been popular with children for many years and continue to sell steadily, and manufacturers continue to invest in order to maintain that popularity. An existing toy might be improved by the addition of a new accessory or an additional feature. Children are keen to own the latest version of a favourite toy, so small changes can often lead to additional sales. Toys that are sold as a series or as a range, such as model cars, can be enhanced by replacing the least popular models with new ones. The promotion of the new models can stimulate demand across the whole range. Advertising and promotional activities are also kept under review. Manufacturers work with retailers to persuade them to position their products in prominent positions in their shops and on their websites.
New products	Most toy manufacturers aim to develop innovative new products. These generally offer a limited downside risk with the possibility of a substantial upside gain. New toys can be subject to market research and testing before their manufacturers decide to launch them. It is relatively unusual for a new toy to be a commercial failure. At worst, a new toy will sell for a year or two and will cover its costs before it is withdrawn from sale. Occasionally, new toys generate a massive demand. Manufacturers can sell as many of those products as they are able to produce. Retailers are keen to order as many copies as the manufacturer can deliver. The sales opportunities created by sought after toys tend to be short-lived. Competing manufacturers will often aim to launch their own versions of such toys, and so the market becomes flooded with imitations. Toy manufacturers will frequently attempt to persuade retailers to place large orders for toys that are due to be launched, in the hope that there will be a huge demand, but such successes cannot be predicted with any consistency.
Licensed products	Most categories of toy can be linked to a licensed image, such as a character from a film, television programme or a book. These can be as simple as colouring books with pictures based on a storyline or as complex as a remote-controlled vehicle that is modelled to look like the vehicles from a film. Film and television producers and book publishers can earn a significant amount from royalties. They usually work with potential licensees while their film, programme or book is in production. There have been many successful toys based on such licensing agreements.

Retail toy sales follow an annual cycle. Toys sell steadily, albeit with some volatility during the first 3 quarters of the calendar year. The 4th quarter accounts for roughly 50% of annual toy sales by revenue.

Traditionally, Westarian children receive expensive toys as birthday gifts and also during the 4th quarter holiday season. Children also receive inexpensive toys as gifts throughout the year, or they save their pocket money to buy toys for themselves.

The 4th quarter holiday season drives much of the activity in the toy industry. Manufacturers are usually keen to launch new products at that time in order to obtain the maximum benefit from consumer spending. Retailers are keen to identify the toys that will be most popular so that they can buy inventory and prevent the loss of sales to rivals. Frequently, one of the new toys launched at this season is in such great demand that retailers quickly sell out.

Toy manufacturers exhibit their products at the annual Eastland Toy Fair every January. This is the largest and most important toy fair, and so it provides an opportunity for retailers' buyers to meet with the toy manufacturers' marketing managers. Manufacturers demonstrate new toys that will be launched during the year and prototypes of toys that are under development.

Toy manufacturers also work directly with large retailers, including Happy Playz. Marketing managers will aim to meet regularly in order to maintain contact and in the hope of securing orders.

Retailers generally make initial commitments to order for the 4th quarter purchases at the end of the 1st quarter. This enables manufacturers to schedule production, particularly of new products.

In addition to ordering in advance for the 4th quarter, retailers place regular orders throughout the year to replenish inventory and to acquire any promising new toys that will be launched before the 4th quarter. Retailers must also prepare for the summer months, when most outdoor toys are sold.

Licensed toys create opportunities for both manufacturers and retailers, and these can generate substantial revenue. Demand for licensed products usually peaks in response to the publicity for the launch of the film, television programme or book upon which they are based. Manufacturers who have licences will seek orders from retailers long before the launch. Typically, retailers will wish to have the toys in inventory for 6 weeks before the launch so that their promotion and merchandising can coincide with that of the film, television or book. Licensed toys can be from several different categories, so a major release can offer a welcome boost to demand during the quieter times of the year.

Happy Playz's business

History

Happy Playz was established in 1992 when its founders opened the first Happy Playz shop (store) in Westaria's Hope City. The founders focussed heavily on promotion and merchandising. The shop itself had a vibrant colour scheme that made it visible, even in a city centre shopping district. The shop concentrated on established and popular brands of toys, which were priced to match the lowest prices set by competitors. Happy Playz aimed to offer a wider range of products than competitors, so customers could browse and choose from the whole range of products offered by leading brands, not just a limited selection of the most popular ones.

Happy Playz was quoted on the Westarian Stock Exchange in 2004. The founders sold their interests in the company at that time.

Since 1992, Happy Playz has positioned all its shops in out-of-town retail parks, relocating city centre shops when necessary. These are popular with customers because they offer plenty of parking spaces, and they are located close to motorways.

Happy Playz now has 120 shops that employ 6,500 staff. Those shops are spread across Westaria. The company's Head Office is located on the outskirts of Westaria's Central City. It employs 140 staff. There is also a warehouse adjacent to the Head Office that stores inventory until it is required in the shops or to fulfil online orders. The warehouse employs 240 staff.

Retail operations

Happy Playz's revenues come largely from the sale of traditional toys, but the company also sells video games and a small range of children's bicycles. The company may not be able to compete with specialist video game and bicycle retailers, but its customers often expect to find such items on sale and so both sell steadily.

Happy Playz's shops are laid out to encourage customers to browse and make their selections. Each shop has several aisles, each of which has racks of toys on either side. Shop staff are available to direct shoppers to the location of any given product. Staff are equipped with Wi-Fi-enabled tablets that can assist in checking inventory and product specifications. The staff are also expected to have sufficient product knowledge to enable them to advise customers and to make informed recommendations.

Happy Playz's website is used to promote products, including any special offers and promotions. Customers can select and pay for items through the website and can collect them from their nearest shop. Customers can also order goods online for home delivery. Happy Playz's warehouse acts as a fulfilment centre for online sales for home delivery. Warehouse staff pack and label ordered goods, and a third-party courier company collects online sales orders each evening and organises delivery within 48 hours.

Each of Happy Playz's shops is managed as a profit centre. Shop managers are responsible for achieving the sales and performance targets that are set by the Marketing Department at Head Office. Shop managers have limited discretion, but it has been noted that the competence and enthusiasm of individual shop managers can have a significant impact on the performance of their shops:

- Pricing decisions are made centrally by Head Office, but Happy Playz gives shop managers the authority to reduce the selling prices of specific items in response to local competition. If a local competitor is offering a particular toy at a discount, then the shop manager can create a special offer to match, or even undercut, that competitor's price.
- Sales volumes can be increased through the supervision and encouragement of shop staff. Customers are more inclined to buy if they are assisted by competent and motivated staff who take time to understand their needs and advise them accordingly. Keen managers can also encourage staff to ensure that shops are neat and tidy, with clean floors and fully-stocked shelves at all times.
- Shop managers can also draw upon their knowledge of the local market to enhance sales through merchandising. For example, the manager of a shop in a seaside town might create a display of beach toys in a prominent position close to the shop entrance.
- Vigilant managers can create systems and impose performance standards on staff that minimise inventory losses due to theft and damage. Ensuring that staff are active and engaged will discourage customers from shoplifting, while encouraging legitimate

customers to make purchases. Keeping inventory properly stacked and organised will reduce the risk of damage due to items being dropped.

Shop opening hours are set by the retail parks who lease the properties to Happy Playz. Most require their tenants to be open from 09.00 until 21.00, 7 days per week. Each shop has a manager, three assistant managers and a number of sales assistants who are responsible for operating tills, advising customers and replenishing shelves. Each shop has a staff rota that ensures that nobody works for more than 8 hours in any day and that each member of staff has two rest days each week. The rota changes from week to week, so staff must be flexible in terms of working hours and working days. The rota adjusts staffing levels to take account of expected customer numbers. Shop managers and assistant managers must also work on a rota basis, with at least one present during shop opening hours. When the shop manager is absent, then one of the assistant managers is designated as being responsible for running the shop.

Management

Each shop manager is in frequent contact with Happy Playz's Head Office:

- Revenues are recorded through the electronic point of sale systems (tills) in each shop. These transmit data to Head Office at the close of business each day. The Accounting Department at Head Office collates this information and supplies shop managers and the Marketing Department with regular reports.
- Staffing levels at each shop are set by the Human Resources Department at Head Office. Human Resources (HR) recruits staff to fill vacancies at any of the shops and advises on any HR matters, such as staff grievances and disciplinary matters.
- The Property Department at Head Office organises all services, including shop cleaning and maintenance. Facilities Management will also organise a local contractor to carry out any routine maintenance or repairs. Happy Playz owns the fixtures and fittings in its shops. The company is also responsible for most maintenance and repairs to the buildings.
- Charges for utilities, such as electricity and local property taxes, are invoiced to their respective shops. Shop managers check the accuracy of any meter readings and forward the invoices to the Accounting Department for recording and payment.

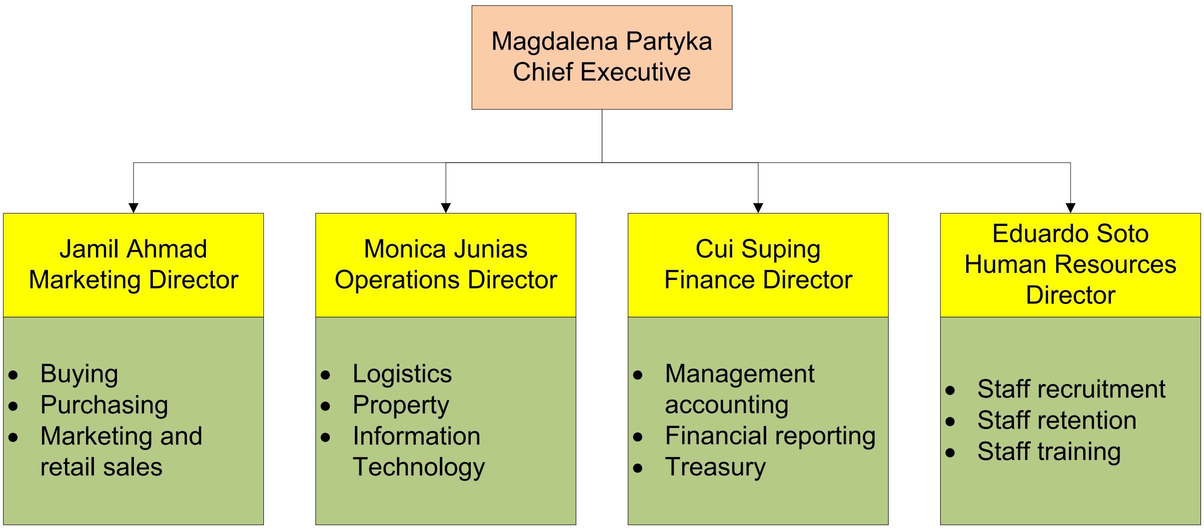
Happy Playz's Head Office is divided into the following departments:

Buying	The Buying Department is responsible for evaluating new products and for deciding which new products should be purchased. Happy Playz's buyers attend toy fairs and visit manufacturers around the world. They study trends in the toy industry and work to ensure that Happy Playz can offer the latest and most attractive toys. Some toys are branded and trademarked and so have only a single unique source. Other toys are generic, requiring the Buying Department to choose a specific product from the many competing versions that are available. Buyers must take price, quality and delivery into account when deciding on the purchase of a generic product line, such as unbranded plastic footballs. The Buying Department's responsibilities are limited to deciding which toys to buy. Ordering is handled by the Purchasing Department.
Purchasing	The Purchasing Department is responsible for placing orders with manufacturers, many of whom are based overseas. Major toy manufacturers employ account executives to maintain contact with retailers. The staff in Happy Playz's purchasing Department place orders through the account executives at the manufacturers.

	The Purchasing Department buys branded and generic goods that have been chosen by the Buying Department. The Purchasing Department decides on the size of orders for new products and replenishes inventory as and when required in order to ensure that customer demand is being met.
Logistics	Inventory that has been ordered by the Purchasing Department is delivered to Happy Playz's warehouse. The Logistics Department is responsible for managing inventory after it has been received. Happy Playz frequently receives deliveries of toys that are not to be sold until specific launch dates. Those dates are set by manufacturers and are usually timed to take the greatest possible advantage of the release of a film in the case of licensed goods or an advertising campaign in the case of a new product. Happy Playz takes delivery of such products to assist manufacturers with their own logistical problems and also to be certain that the goods are available in time for the product launch. The warehouse is also used to store supplies of toys that have been purchased in bulk in readiness for the 4th quarter selling period. Having inventory to hand ensures that popular toys are available for sale at that busy time. The Logistics Department organises deliveries of inventory to shops across Westaria. Happy Playz pays third-party haulage companies to handle the collection and transportation of goods. The Logistics Department also manages the packing and despatch of goods that have been sold online.
Marketing	The Marketing Department sets sales and performance targets for each shop. It is the shop manager's responsibility to achieve those targets. The Marketing Department uses data provided by the Finance Department to provide each manager with a daily report on sales revenue and monthly reports on revenue and operating profit. Further oversight and support are provided by the regional sales managers. There are five regional sales managers, each of whom is responsible for overseeing sales by each of the shops that are located within their allotted geographical region. Each region has between 22 and 26 shops. The regional sales managers have access to sales data for all shops and are in frequent contact with individual shop managers by phone and email. They also make regular visits to shops in order to review the presentation and merchandising of toys. The Marketing Department is also responsible for managing advertising activities through both the media and the company's website. Advertising usually focusses on the Happy Playz name, but the company also advertises a selection of toys in conjunction with that name. Toy manufacturers are usually keen to have their products featured prominently in any promotional material.
Human Resources	The Human Resources Department is responsible for the management of all aspects of human resource management, including recruitment, training and staff retention. Human Resources is based at Head Office, but the Department also supports branch managers.

	Applicants for jobs in Happy Playz shops submit their applications to Human Resources. Those who meet Happy Playz's standards are interviewed by means of a video call to a recruitment specialist in Human Resources. Staff who work in shops and in the Logistics Department are paid an hourly rate. Each staff grade has a wage scale. Newly-appointed staff are placed at a point on the scale according to their age and experience. Staff progress up the scale with each year of service until they reach the maximum for their grade. Human resources is also responsible for administrative matters relating to pay and conditions and payroll.
Property	The Property Department is responsible for property management of Happy Playz's shops, its warehouse and its Head Office. The Property Department's responsibilities include facilities management, such as cleaning and maintenance, and legal issues associated with property leases. Happy Playz's shops, warehouse and Head Office building are leased. The Property Department is responsible for negotiating leases with landlords and also ensuring that Happy Playz is complying with the requirements of its leases with regards to maintenance and repairs. Happy Playz's leases had an original term of 10 years. They have an average term remaining of 5 years.
Information Technology	The Information Technology Department is responsible for maintaining and updating Happy Playz's information technology (IT) systems. Information Technology works closely with the Marketing Department in order to update the company's website, particularly web pages relating to online sales.
Finance	The Finance Department is responsible for all aspects of management accounting, financial reporting and treasury management.

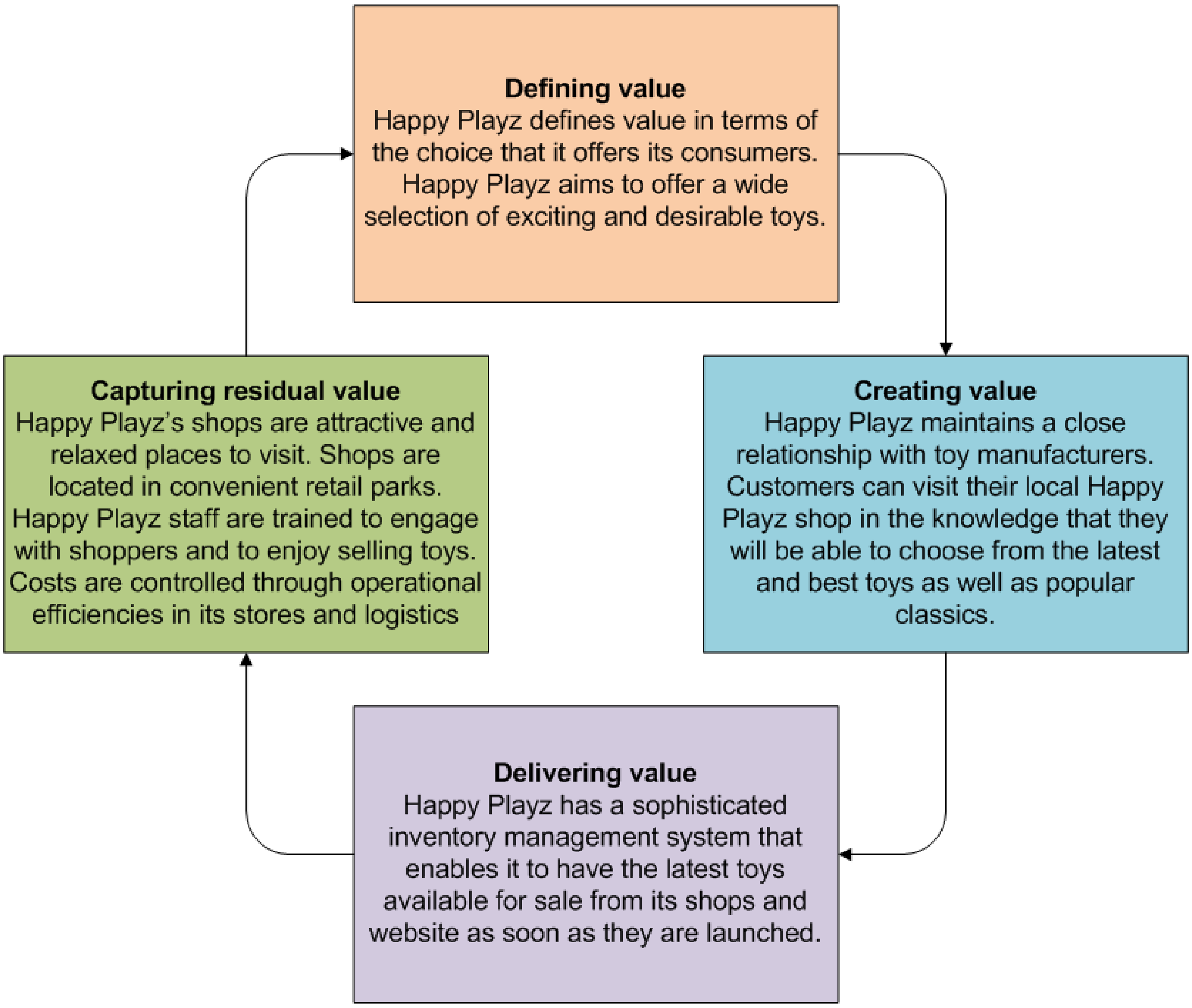
Happy Playz's management structure



Happy Playz's Board also includes the following non-executive directors:

- Michael Anderson – Non-Executive Chair
- Vasanthi Kadhiravan
- Alexander Lobodanov
- Evelyne Bourgery
- Sampson Asare

Happy Playz's business model



Happy Playz's business model depends heavily on the ability of its buyers to identify popular toys at an early stage of their development. Not all the new toys that are launched each year are commercially successful. Happy Playz's buyers must choose toys carefully, otherwise the company will be left with inventories of slow-moving products that will eventually be sold at a loss.

Unfortunately, Happy Playz's buyers must also be careful not to be overcautious because some new toys prove to be hugely successful, often unexpectedly. Once or twice a year, a newly-launched toy becomes so popular that retailers struggle to buy sufficient inventory to keep up with demand. Manufacturers may have long lead times for products that have to be shipped from overseas. Failing to have such toys on sale creates a huge opportunity cost for toy retailers, especially if they are popular during the 4th quarter holiday period. It also leads to reputational damage for specialist toy retailers because customers generally expect to find the latest toys in their shops.

Happy Playz buys toys in sufficient quantity to obtain large discounts from manufacturers. Unfortunately, non-specialists such as supermarkets can also obtain low prices because they buy a narrow range of toys in very large quantities. Non-specialists can only afford a limited shelf space for toys alongside their other products, and so they focus on the items that are most likely to sell quickly. Happy Playz aims to match competitors' prices rather than undercutting them. It competes on the basis of choice. The need to match prices means that Happy Playz relies heavily on its Purchasing Department to negotiate the keenest possible prices.

The Logistics Department is crucial to managing inventory and maintaining cash flow. Happy Playz frequently has to take delivery of toys several weeks before it intends to put them on sale. It is important that inventory is subsequently delivered to shops ready for their launch dates. Efficient inventory management may also require toys to be returned to Happy Playz's warehouse in order to create shelf space for the latest products in its shops.

The Logistics Department also analyses inventory turnover. Specific toys can be popular in one part of the country and not in others. Logistics can often improve inventory turnover by relocating such toys to the shops that have the greater demand. Toys that are unlikely to sell quickly are usually returned to Happy Playz's warehouse and sold online at a substantial discount.

The layout of Happy Playz's shops is designed to make shopping there pleasant and convenient. Toys are grouped according to category so that customers who are interested in, for example, model vehicles, can find the entire range quickly and easily.

Manufacturers supply toys in packaging that can be stacked or hung from a retail display so that they can be browsed and handled safely before purchase. Happy Playz devotes as much floor space as possible to shelves and racks of toys. Their bright colours and packaging create an attractive display that excites children and their parents when they visit the shop. The shops are all large warehouse-type retail spaces. Happy Playz has equipped each with shelving systems that are easy to install, remove and reorganise in order to make the best possible use of selling space.

Happy Playz's shops are located in retail parks. Customers find these locations convenient when they are shopping with children because they are safe and accessible. These are readily accessible by car, which is a major benefit if a customer is considering buying a bulky item that would be difficult to carry on public transport. Retail parks may also be more accessible by public transport than city centre shopping districts. Bus stops and train stations within retail parks are generally within easy walking distance of the shops.

Happy Playz's staff recruitment and training place considerable emphasis on enthusiasm and personality. Interviewees are asked to describe their favourite childhood toy and explain why they loved it.

Extracts from Happy Playz's annual report

Happy Playz Group
Consolidated statement of profit or loss
For the year ended 31 December

	2021	**2020**
	W$ million	**W$ million**
Revenue	906.4	850.7
Cost of revenues	(635.1)	(603.3)
Gross profit	271.3	247.4
Administrative expenses	(8.6)	(8.4)
Selling and advertising	(139.7)	(136.9)
Operating profit	123.0	102.1
Finance costs	(21.5)	(20.2)
Profit before tax	101.5	81.9
Tax	(24.4)	(17.0)
Profit for year	77.1	64.9

Happy Playz Group
Consolidated statement of changes in equity
For the year ended 31 December 2021

	Share capital and premium	Retained earnings	Total
	W$ million	**W$ million**	**W$ million**
Balance at 31 December 2020	100.0	171.9	271.9
Profit for the year		77.1	77.1
Dividends		(74.2)	(74.2)
Balance at 31 December 2021	100.0	174.8	274.8

Happy Playz Group
Consolidated statement of financial position
As at 31 December

	2021 W$ million	2020 W$ million
Non-current assets		
Intangible assets	100.0	100.0
Property, plant and equipment	443.3	425.6
	543.3	525.6
Current assets		
Inventory	56.6	58.3
Trade receivables	20.1	17.6
Bank	27.8	24.2
	104.5	100.1
Total assets	647.8	625.7
Equity		
Share capital and share premium	100.0	100.0
Retained earnings	174.8	171.9
	274.8	271.9
Non-current liabilities		
Lease liabilities	236.3	224.5
Current liabilities		
Trade payables	66.0	69.6
Lease liabilities	49.8	46.8
Tax	20.9	12.9
	136.7	129.3
Total equity and liabilities	647.8	625.7

Breakdown of revenues and operating profit

	Year ended 31 December 2021		Year ended 31 December 2020	
	W$ million		W$ million	
Revenue from				
• traditional toys	781.3	86%	734.4	86%
• video games	93.8	10%	86.3	10%
• bicycles	31.3	4%	30.0	4%
Total	906.4	100%	850.7	100%
Operating profit from				
• traditional toys	96.6	79%	80.1	79%
• video games	17.7	14%	13.6	13%
• bicycles	8.7	7%	8.4	8%
Total	123.0	100%	102.1	100%

Extract from Gleetill's annual report

Gleetill and Happy Playz are the only major toy retail chains in Westaria. Gleetill has 150 shops, all of which are located in retail parks. Gleetill's shops are generally larger than Happy Playz's shops, and more space is set aside for displays of new toys and large items, such as outdoor toys including swings and playhouses.

Gleetill is based in Westaria and is quoted on the Westarian stock exchange.

Gleetill Group
Consolidated statement of profit or loss
For the year ended 31 December

	2021	**2020**
	W$ million	**W$ million**
Revenue	1,359.6	1,361.1
Cost of revenues	(984.4)	(935.1)
Gross profit	375.2	426.0
Administrative expenses	(10.3)	(11.8)
Selling and advertising	(153.7)	(191.7)
Operating profit	211.2	222.5
Finance costs	(30.1)	(29.1)
Profit before tax	181.1	193.4
Tax	(41.7)	(44.5)
Profit for year	139.4	148.9

Gleetill Group
Consolidated statement of changes in equity for the year ended 31 December 2021

	Share capital and premium	**Retained earnings**	**Total**
	W$ million	**W$ million**	**W$ million**
Balance at 31 December 2020	250.0	162.6	412.6
Profit for the year		139.4	139.4
Dividends		(48.8)	(48.8)
Balance at 31 December 2021	250.0	253.2	503.2

Gleetill Group
Consolidated statement of financial position
As at 31 December

	2021 W$ million	2020 W$ million
Non-current assets		
Intangible assets	140.0	140.0
Property, plant and equipment	709.3	638.4
	849.3	778.4
Current assets		
Inventory	71.1	65.0
Trade receivables	42.8	37.6
Bank	32.1	29.7
	146.0	132.3
Total assets	995.3	910.7
Equity		
Share capital and share premium	250.0	250.0
Retained earnings	253.2	162.6
	503.2	412.6
Non-current liabilities		
Lease liabilities	281.2	289.6
Current liabilities		
Trade payables	123.1	122.3
Lease liabilities	49.6	47.2
Tax	38.2	39.0
	210.9	208.5
Total equity and liabilities	995.3	910.7

News reports

Westaria Business Daily

Rise and fall of retail parks

This has been a confusing time to study the reported profits of retail park operators. Some have been thriving, while others appear to be struggling.

Virtually all operators use the same basic business model. Retail parks are generally located beside major roads and have substantial space set aside for parking. They also offer facilities for buses and sometimes trains. Customers appreciate being able to visit their nearest retail parks without having to travel into a town or city centre. Retail parks always have a number of retailers to choose from, and so customers can browse different shops.

Retail parks generally have several large retail units or different sizes. The units are leased to a range of different retailers, usually on long-term lease contracts. The mix of different retailers attracts customers, who often enjoy being able to stroll between different shops.

In addition to lease payments, retailers must invest in fitting out their units in their preferred styles. Retailers must pay for the signs that are fitted across the fronts of their units. They must also buy and install shelves, point-of-sale equipment (tills) and interior signage. The units will also be decorated, usually in standard “house styles”, so that customers feel at home in different branches of a particular chain of shops.

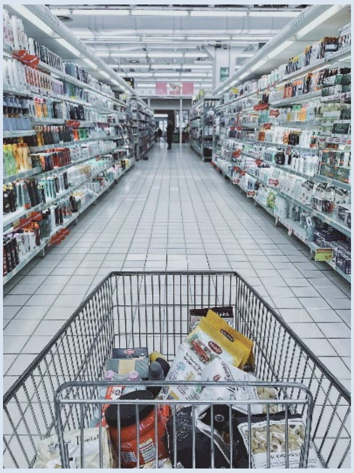
The success or failure of specific retail parks is largely affected by the mix of retailers on site. Changing retail habits have affected different segments in different ways.

- Shops selling home electrical items, such as fridges and vacuum cleaners, have become much less popular because customers prefer to buy such items online. Shop closures can leave retail parks with empty units, which do nothing to attract customers to the retailers who continue in business. If empty units are not occupied quickly, then retail parks can suffer further closures when retailers choose not to renew leases because of poor footfall in a particular location.
- Fashion retailers attract customers, who enjoy looking at clothes and trying them on before buying. Restaurants also attract customers, possibly turning shopping into a leisure activity.

Retail parks that pay close attention to trends in shopping and who adapt by marketing potentially vacant units to retailers in traditional town and city centre retail environments tend to prosper. Consumers prefer to shop in retail parks that are fully occupied by their favourite retailers.

Westaria Business Daily

The mystery of merchandising



Most shoppers take the layout of their favourite shops for granted. Very few realise the importance that retailers attach to merchandising when they are laying out the design of their shops and deciding which particular shelf to place your favourite brand of toothpaste on.

Merchandising is the use of presentation in retail outlets (not just supermarkets) to maximise sales. For example, supermarkets frequently place their fresh fruit and vegetables at the entrances of their shops so that customers have to walk through them. The bright colours and pleasant smells can help to put customers in a good mood, even if they rarely buy from that department.

Retailers know that buying decisions can be influenced by merchandising. Shops often place items on special offer close to the entrance. This explains why there could be stacks of tinned goods or a small selection of bakery products on the way into the fruit and vegetable section. Customers might be tempted to make impulse buys of those products while they have empty shopping trolleys.

The placement of goods on shelves is another key element of merchandising. Goods that are shelved at eye level tend to sell better than those that require customers to search through higher and lower shelves. Manufacturers often seek to negotiate product placement on shelves and might even offer discounts to retailers who place their products on the preferred middle shelves. You might find it convenient to be able to see your favourite toothpaste at eye level, but your choice of toothpaste could have been influenced by the fact that the supermarket always places it where you can see it easily.

Westaria Daily News

Consumer advice column

This week's column deals with the important topic of toy safety. This is a complicated matter because there is a global market for toys, and the laws vary from country to country.

In Westaria, any toy that meets the definition of a toy must comply with Westarian safety standards. These cover a number of areas:

Mechanical – this covers a range of matters, including checking that there are no sharp edges, holes that could trap a child's fingers and so on.

Flammability – the toys should not catch fire through overheating in operation or because of brief contact with a heat source.

Electrical – there should be no electrical hazards in mains or battery-powered toys.

Labelling – products should be clearly labelled with any safety information or warnings, such as recommended minimum ages for children or the need for a toy to be used under adult supervision.

Toxicity – toys should be safe to handle, with no risk of skin irritation or poisoning from ingesting coatings or small parts. For example, any button batteries should be secured beneath a cover that is securely screwed in place.

Toys cannot be sold in Westaria unless they meet the safety standards. They must also be free of any obvious threats to safety that are not covered by the standards. The manufacturer is responsible for compliance if the toys were manufactured here. The importer is responsible if the toys were manufactured elsewhere.

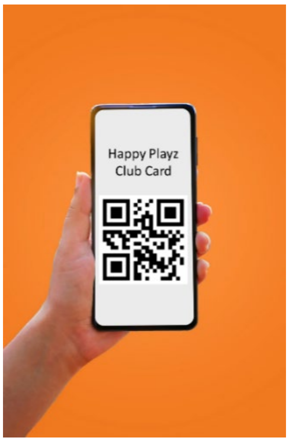
Retailers are not specifically required to conduct their own safety tests on toys provided they have received all the necessary assurances that they meet Westarian standards, but many retailers voluntarily conduct tests.

These standards do seem to be effective. Statistics show that most toy-related injuries are caused by people tripping or slipping on toys.

Westaria Daily News

Happy Playz launches Club Card

Happy Playz, the toy retailer whose shops have a significant presence in retail parks across the country, has launched a loyalty card. This is downloaded as a mobile phone app that can be scanned at the till when making a purchase from one of Happy Playz's 120 shops. There is also a customer number that can be input when making online purchases.



Customers who sign up for membership of the "Happy Playz Club" will collect one Club Point for every W$ spent in store or online. Those points will accrue with every purchase and will be redeemed by customers in the form of discounts. The more you spend the more you save.

Happy Playz Club members will also receive what the company calls "targeted promotions". Put simply, the company will track individual members' purchases from Happy Playz and their browsing histories on the Happy Playz website and will recommend related products for future purchases. A customer who buys a fashion doll, for example, might receive an email about the launch of a new range of outfits for that doll.

A spokesperson for Happy Playz commented that the new card was proving popular, with more than 800,000 downloads of the app in the first week after its launch.

Happy Comic

Readers' questions

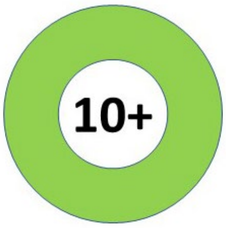
Question: Why do some toys have minimum ages?

Angela, age 9

Answer: Toys would not be fun to play with if they were dangerous. Toy manufacturers are required to recommend a minimum age for their toys if they could put very small children at risk. For example, toys that have small parts that could be swallowed by babies may have a minimum recommended age. Those toys can be played with safely by older children who can understand that they should not put objects in their mouths.

Question: I really want the new Speedboost model car for my birthday, but I am only 8 and the toy's recommended age is 10+. Does that mean that I would not be allowed to have this toy?

Chakra, age 8



Answer: Happy birthday! Toy manufacturers often recommend suitable age ranges for their toys. This is intended to ensure that the recipient of the toy will have fun playing with it. There is no point in buying young children toys and games that would be too complicated for them. Similarly, older children are unlikely to enjoy playing with toys that would be best suited to toddlers.

There is nothing to prevent you from buying a toy that is recommended for an older child if you are sure that it is what you want.

Question: I am working on a school project called "my favourite toy". I have been writing about my Moortoy Flyer remote-control car. I am confused because the toy is stamped "Made in Eastland", but I have just looked at Moortoy's website and all the company's factories are in Westaria.

Markus, age 11

Answer: Manufacturers do not always make all their products. Indeed, some "virtual" manufacturers outsource all their manufacturing to third parties. This can be an advantage if another business can make a product more cheaply and/or at a better quality.

In the case of your car, it looks as if Moortoy has paid a company in Eastland to build its remote-control cars. Moortoy will have designed the cars and specified the materials. The cars are sold under the Moortoy brand, with all the logos and brand names on the product itself and its packaging.

Question: Why do shops often pile things in baskets just inside the front door?

Polly, age 10

Answer: These baskets are called "dump baskets". Shop managers often use them to display new products or products that are on special offer. They can be located anywhere in a large shop, but they are often found near the entrance because it makes them highly visible, so customers might be tempted to buy them.

Dump baskets get their name from the fact that they are easy to fill and replenish. It is quicker and easier to empty (or dump) a box of items into a basket than it is to place them individually on shelves.

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.

Scratch Pad Calculator

Reference Material Pre-seen

Yongmei Qin, Happy Playz's Senior Financial Manager, stops by your workplace and says:

"I have just come from a meeting of senior managers that was called to discuss issues arising from poor morale among some of our shop managers.

I need your help with the following matters before I meet with Cui Suping, our Finance Director:

- Firstly, evaluate the advantages and disadvantages of treating Happy Playz's shops as profit centres for the purpose of evaluating the performance of shop managers.

[sub-task (a) = 60%]

- Secondly, discuss the challenges associated with ensuring that shops are staffed by effective teams and recommend responses to those challenges."

[sub-task (b) = 40%]

The document brought by Yongmei can be found by clicking on the Reference Material button above.

Reference Material

Executive Summary | Task

Shop manager resignations
Executive summary

Prepared by Donald Munro, Senior Manager in Human Resources (HR)

Happy Playz's shop managers are all experienced retailers. Many started with the company as junior shop staff and have since been promoted. Despite wishing to retain these managers, Happy Playz loses roughly 20 managers every year through resignation. For the past 6 months, HR has conducted exit interviews with departing shop managers. The following issues were noted during those interviews:

- Shop managers are evaluated on their shops' profits. Shop managers recognise the need to operate shops as profit centres, but they feel that they have insufficient control over either costs or revenues to enable them to meet that challenge.

  The Marketing Department sets sales targets for each shop. Regional sales managers review progress towards meeting those challenges and conduct regular visits to shops, which often result in shop managers being required to reorganise their sales floors.

  Most of the departing managers have been from shops in the bottom 25% of Happy Playz's rankings based on shop profit.

- Shop managers have very little influence over staffing levels in their shops. HR decides how many staff should be employed in each shop. HR reviews applications for vacancies and interviews suitable applicants by video call. Shop managers do not have any contact with new staff until they arrive for duty.

  Shop managers complain that the HR Department does not take sufficient notice of the needs of each shop when making appointments. Each shop has a unique culture, and so the personality of new members of staff can affect their ability to settle in. Also, the best qualified applicant may not have the skills that are most in need in a particular shop. All staff are expected to undertake any of the tasks associated with retail operations, but some are better at operating the tills, while others are better at advising customers and so on.

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

Paragraph

Scratch Pad Calculator

Reference Material Pre-seen

A few days later, Yongmei Qin asks you to meet with her.

"I have brought an extract from the minutes of a Board meeting. I need your advice on two matters before I brief Cui Suping:

- Firstly, discuss the impact that the regional sales managers' proposal might have on Happy Playz's product risk, reputation risk and operational risk.

[sub-task (a) = 60%]

- Secondly, evaluate the implications of the regional sales managers' proposal for their leadership role and for that of the shop managers."

[sub-task (b) = 40%]

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

Reference Material

Extract from Board minutes

Jamil Ahmad, Marketing Director, reported on a recent meeting that he had held with Happy Playz's 5 regional sales managers, each of whom is responsible for supervising the retailing operations of 22-26 shops.

The regional sales managers pointed out that Happy Playz's approach to purchasing and inventory management is highly centralised:

- The Buying Department identifies toys for purchase.
- The Purchasing Department decides on quantities for the initial purchase of new toys and for the replenishment of existing products.
- The Logistics Department manages inventory, supplying each shop with an equal allocation of new toys and replenishing shop inventories in response to sales.
- The Logistics Department sometimes relocates items that are in strong demand at some shops but not at others.

Happy Playz's regional sales managers feel that these arrangements are both inefficient and demotivating for shop managers. All of the shops are a similar size, but their local markets differ in terms of local populations and competition for toy sales.

The regional sales managers propose the following:

- Shop managers should be able to adjust the allocations of new toys to their shops. They should be permitted to request either larger, smaller or even zero allocations, based on their knowledge of local markets and the nature of competing toy retailers.
- Regional sales managers would authorise any such requests for adjustment. Shop managers would have to justify requests on the basis of expected sales.
- Regional sales managers believe that each shop manager would then be able to make more efficient use of retail space to promote items that have a strong local demand, such as beach toys in a seaside town.

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

Paragraph

A few days later, you receive the following email:

From: Yongmei Qin, Senior Financial Manager
To: Financial Manager
Subject: FWD: Logistics management

Hi,

I have forwarded an email from Magdalena Partyka, our Chief Executive.

Magdalena is keen to support Jamil's proposal, especially as the initial lease term on the new regional warehouses will only be 5 years.

- Firstly, discuss the challenges that will arise when identifying and quantifying the cash flows that will arise from Jamil's proposal in order to determine their net present value (NPV). Your discussion should allow for the possibility of permitting leases to lapse after 5 years.
  [sub-task (a) = 60%]

- Secondly, identify the challenges associated with accounting for the significant expenditure on software required by the proposal and recommend solutions, stating reasons.
  [sub-task (b) = 40%]

Regards
Yongmei

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

Reference Material

From: Magdalena Partyka, Chief Executive
To: Cui Suping, Finance Director
Subject: Logistics management

Hi Cui,

I have just had an interesting conversation with Jamil Ahmad, our Marketing Director.

Jamil believes that we should expand our logistics system as follows:

- We would lease five regional warehouses to supplement our existing warehouse. The regional warehouses will each be smaller than the existing warehouse (to be renamed the "primary" warehouse), but our total storage capacity will double.
- The additional storage would enable us to order larger quantities of new toys long before their release dates and additional inventory in advance of the busy 4th quarter sales period.
- This arrangement would simplify inventory management:
    - Toys received at the primary warehouse could be shipped in bulk to the regional warehouses, ready for onward shipment to the shops.
    - Having regional warehouses will make it easier to uplift slow-moving inventory from shops for return to their regional warehouses. The inventory could then be redelivered to shops elsewhere in the region that have a stronger demand.
- More space could be set aside at the primary warehouse for processing online sales.
- Jamil has identified five potential warehouse properties. He believes that each could be leased for an initial period of 5 years, which would be extendable at our discretion. It would cost W$1.5 million to adapt each to our needs.
- Jamil has also spoken to Happy Playz's Senior IT Manager. The changes will require a significant purchase of software. Happy Playz will have to buy new software from third-party providers and employ additional programmers to install that software and maintain it.

Regards
Magdalena

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

From: Financial Manager
To: Yongmei Qin, Senior Financial Manager
Subject: RE: FWD: Logistics management

Paragraph

Reference Material Pre-seen

Two months later, you receive the following email.

From: Yongmei Qin, Senior Financial Manager
To: Financial Manager
Subject: Logystik Retail Solutions

Hi,

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

Logystik Retail Solutions (LRS) has developed some innovative inventory management techniques. Cui Suping, our Finance Director, has estimated that LRS could significantly reduce our operating costs and release much of the cash that we have tied up in inventory.

Happy Playz will be, by far, LRS's most lucrative client. This could change if LRS signs up other major clients.

I need your advice on two matters before I brief Cui Suping:

- Firstly, discuss the challenges associated with determining whether control of LRS has been acquired and recommend with reasons the manner in which Happy Playz's investment in LRS should be accounted for in the Happy Playz Group's consolidated financial statements.

  [sub-task (a) = 60%]

- Secondly, recommend with reasons the approach that Happy Playz should take to the initial planning and management of the consultancy support that will be supplied by LRS.

  [sub-task (b) = 40%]

Regards
Yongmei

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

Reference Material

Hunter and Gee

Commercial Law

Ms Magdalena Partyka,
Chief Executive,
Happy Playz,
Central City.

Dear Ms Partyka,

Logystik Retail Solutions

I write to confirm the recent discussions between yourself and Mr Ivan Cuttler, the founder and Chief Executive of Logystik Retail Solutions (LRS). LRS is an unquoted consultancy that has considerable expertise in the management of inventory in complex retail environments, such as Happy Playz.

LRS would have to expand considerably before it could provide Happy Playz with the logistical support that it needs. Mr Cuttler proposes the following:

- Happy Playz will pay LRS W$20 million for newly-issued shares that will give Happy Playz a 60% stake. Mr Cuttler will own the remaining 40% of the company. LRS will not issue any more shares without Happy Playz's permission.
- LRS's Board will comprise five directors:
    - Mr Cuttler
    - two directors who will be nominated by Mr Cuttler
    - two directors who will be nominated by Happy Playz.
- All board decisions will be determined by a simple majority.
- Mr Cuttler will have the right, but not the obligation, to purchase Happy Playz's shares in LRS for W$20 million after 7 years.

LRS will provide Happy Playz with advice and consultancy support for a period of 7 years. It will not advise any other specialist toy retailers during that period. All work by LRS will be charged at normal commercial rates.

Yours sincerely,

Alice Gee

Partner

Close

Reference Material Pre-seen

Provide the response requested by Yongmei in the box below.

From: Financial Manager
To: Yongmei Qin, Senior Financial Manager
Subject: RE: Logystik Retail Solutions

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) 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.

Scratch Pad Calculator

Reference Material Pre-seen

It is now April 2022. Yongmei Qin, Happy Playz's Senior Financial Manager, stops by your workspace and hands you a document:

"I have brought you an extract from the minutes of today's Board meeting. I need your advice on two matters before I brief Cui Suping, Happy Playz's Finance Director:

- Firstly, evaluate the arguments for empowering the senior members of the Buying Department to commit Happy Playz to making large orders, and explain how this empowerment should be managed.

[sub-task (a) = 60%]

- Secondly, discuss the arguments both for and against capitalising the cost of Happy Playz's attendance at toy fairs and product demonstrations as assets."

[sub-task (b) = 40%]

The extract brought by Yongmei can be found by clicking on the Reference Material button above.

Reference Material

Close

Extract from Board minutes

Jamil Ahmad, Marketing Director, informed the Board that Happy Playz's Buying Department had sent a team to the January 2022 Eastland Toy Fair. This is the world's largest toy fair and is an annual event. During the Fair, Happy Playz's Senior Buyer had attended a demonstration of a prototype of Robbott, a new toy that uses voice recognition and robotics to enable it to respond to a child's verbal instructions. The team members believed that this toy will be a "must have" toy when it is launched at the start of the 4th quarter of 2022.

The Senior Buyer signed a memorandum of understanding with Robbott's manufacturer to buy W$27 million of the toy. This document is not legally binding, but it will damage Happy Playz's relationship with an important toy manufacturer if the Purchasing Department does not honour this commitment.

The Buying Department is excited because the completion of this order will give Happy Playz at least 60% of the Robbott toys that will be imported to Westaria before the 4th quarter, which is traditionally the busiest time of year for toy retailers.

A number of directors were concerned that the Senior Buyer had exceeded his authority. Jamil Ahmad responded that the Eastland Toy Fair is in a different time zone from Westaria, and so it would not have been practical to have contacted Head Office. The Senior Buyer believed that rival toy retailers would have placed even larger orders if he had not acted immediately.

There was further discussion concerning the cost of attending toy fairs and visiting overseas manufacturers. Jamil Ahmad admitted that the Buying Department spent W$8 million every year on travel and accommodation to attend fairs and product demonstrations. He defended this on the basis that these visits enabled buyers to develop relationships and gathered information that had immense and continuing value to Happy Playz.

Scratch Pad Calculator

Reference Material Pre-seen

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

Paragraph

It is now October 2022. You receive the following email:

From: Yongmei Qin, Senior Financial Manager
To: Financial Manager
Subject: Robbott Toy

Hi,

I have attached a copy of a news article that has just been posted online.

Our Buying Department took decisive action when Robbott was demonstrated at a toy fair. Happy Playz paid W$27 million to secure 60% of the Robbott toys that will be shipped to Westaria in time for the 4th quarter sales period.

We have only received two thirds of the Robbott toys that we ordered. The balance was due to be received next week, but the manufacturer has just informed us that it will allocate next week's shipment to other Westarian retailers because it wishes to protect its business relationships with them. Happy Playz will be given priority for the following shipment but that is not due for delivery until after the 4th quarter holiday period.

Even though Happy Playz had a significant inventory of Robbott at the toy's launch date, the Board deliberately chose not to sell much of that inventory when the toy was first launched. The Board wished to wait and see how successful the toy was, possibly enabling it to sell the toy at a higher price if demand was high and rival retailers' inventory had sold out.

I need your help with two matters:

- Firstly, recommend, stating reasons, how Happy Playz should negotiate with Robbott's manufacturer over the delayed delivery of the final third of its order.

[sub-task (a) = 40%]

- Secondly, assuming that we are able to obtain our entire order of Robbott, discuss the potential advantages and disadvantages of Happy Playz selling this product at a high retail price.

[sub-task (b) = 60%]

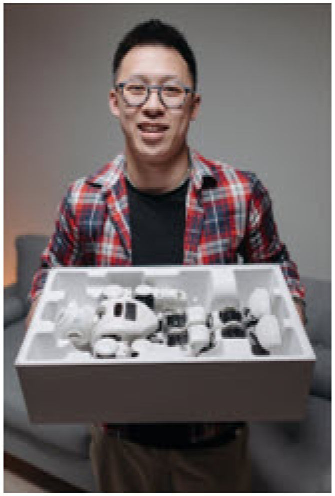
Regards
Yongmei

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

Reference Material

Westaria Daily News

Robbott toy plays hard to get



Children across Westaria have decided that they really want a Robbott this holiday season. The toy was launched last week, just in time for the start of the holiday buying season and backed up with a major advertising campaign by its manufacturer.

While the toy has excited the imaginations of countless children, it has created a great deal of stress for parents. Initial demand has been so great that many retailers have sold all their inventory. Disappointed parents have been turned away with warnings that most retailers do not expect to receive further deliveries until after the holiday season.

There have been stories of fights breaking out between customers in the few shops that have a small number of Robbotts for sale. There are also reports of individuals who were lucky enough to buy a Robbott and subsequently sell the toys on internet auction sites for twice or even three times their retail price.

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

From: Financial Manager
To: Yongmei Qin, Senior Financial Manager
Subject: RE: Robbott Toy

Paragraph

Scratch Pad Calculator

Reference Material Pre-seen

It is now February 2023. Yongmei invites you to join her in a meeting room:

"I have brought you a copy of the statement of financial position of Toy Consulting.

Happy Playz made a huge profit from the sale of the Robbott toy. Our Senior Buyer was able to identify the toy's potential when it was demonstrated at a toy fair, long before it was launched on the market. We are keen to repeat that success.

Happy Playz's Senior Buyer used to work for Toy Consulting, a consultancy firm that collects and analyses data and tracks changes in the toy market that affect the potential success of new toys. Toy Consulting advises toy manufacturers and toy retailers who pay substantial consultancy fees in return for its advice. Toy Consulting has developed unique software models that can analyse past data and other information to predict trends that affect the toy industry. It has excellent industry contacts who provide it with access to data and other insights into the industry.

Happy Playz's Board wishes to acquire Toy Consulting as a subsidiary. Toy Consulting would then continue to offer its services to toy manufacturers on the understanding that it would recommend potentially successful products to Happy Playz. Happy Playz will rely on those recommendations and will purchase very large quantities of promising new toys, hopefully repeating the success that it enjoyed with the Robbott toy on a regular basis. Toy Consulting would not work with other toy retailers.

Toy Consulting is an unquoted company based in Eastland's Capital City, close to the headquarters of many major toy manufacturers. It is owned by its founder. Happy Playz's Board plans to offer W$50 million for 100% of Toy Consulting's equity.

- Firstly, discuss the challenges associated with determining the goodwill on the acquisition of Toy Consulting, and explain how those challenges might be overcome.

[sub-task (a) = 40%]

- Secondly, evaluate the product risk, commodity price risk and contractual inadequacy risk that might arise from Happy Playz basing very large purchasing decisions on recommendations made by Toy Consulting."

[sub-task (a) = 60%]

The statement of the financial position referred to by Yongmei can be found by clicking on the Reference Material button above.

Tables and Formulae Next

Reference Material

Toy Consulting
Statement of financial position
As at 31 December

	2021 E$ million	2020 E$ million
Non-current assets		
Proprietary software	2.7	2.2
Property, plant and equipment	14.0	14.3
	16.7	16.5
Current assets		
Trade receivables	9.4	8.6
Bank	5.8	4.9
	15.2	13.5
Total assets	31.9	30.0
Equity		
Share capital and share premium	20.0	20.0
Retained earnings	5.0	4.6
	25.0	24.6
Current liabilities		
Trade payables	3.8	3.2
Tax	3.1	2.2
	6.9	5.4
	31.9	30.0

- The proprietary software was written by members of Toy Consulting's programming team. Software costs are determined in terms of cost of salaries paid to programmers. Software is then amortised over its expected useful life.
- Property, plant and equipment is shown at cost less depreciation. It comprises an office building in Eastland's Capital City, a computer network and office furniture.
- The rate of exchange between the W$ and E$ is W$1.00 = E$1.20. This rate has been relatively stable for several years.

Close

Scratch Pad Calculator

Reference Material Pre-seen

Draft a response to Yongmei's requests in the box below.

Paragraph

A week later, you receive the following email:

From: Yongmei Qin, Senior Financial Manager
To: Financial Manager
Subject: Toy Consulting

Hi,

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

Cui Suping, Happy Playz's Finance Director, has requested a briefing, and I require your advice on two matters arising from this extract:

- Firstly, explain why this acquisition might increase Happy Playz's weighted average cost of capital (WACC), and explain the implications of any such increase.

[sub-task (a) = 40%]

- Secondly, explain the difficulties we would face when trying to calculate the net present value as a result from buying Toy Consulting.

[sub-task (b) = 60%]

Regards
Yongmei

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

Reference Material

Close

Extract from Board minutes

Magdalena Partyka, Chief Executive, reminded the Board that it had been agreed to consider the acquisition of Toy Consulting, an unquoted company that specialises in analysing the toy market and advising both manufacturers and retailers on the identification of potentially successful toys. Happy Playz's Senior Buyer used to work for Toy Consulting and has advised the Board on the excellent quality of the company's work. If the acquisition is completed, then Toy Consulting will continue to advise toy manufacturers, but it will no longer advise retailers other than Happy Playz.

Magdalena reported that Happy Playz's initial offer of W$50 million had been rejected by the company's owner, who insists on a price of W$60 million, payable in freshly issued Happy Playz shares.

The Board discussed the implications of issuing W$60 million of equity in order to fund this acquisition. There were concerns that this investment could have an adverse effect on Happy Playz's weighted average cost of capital (WACC).

Some Board members were concerned that it might not be in Happy Playz's long-term interest to make this investment in Toy Consulting.

The Board agreed to meet again to discuss these issues further.

Scratch Pad Calculator

Reference Material Pre-seen

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

From: Financial Manager
To: Yongmei Qin, Senior Financial Manager
Subject: RE: Toy Consulting

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) 40% (b) 60%
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

Yongmei Qin, Happy Playz's Senior Financial Manager, stops by your workspace.

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

Cui Suping, Happy Playz's Finance Director, has asked for a briefing on the issues arising from this opportunity to buy Plavamk, and I need your help with two matters:

- Firstly, discuss the impact that our acquisition of Plavamk would have on Happy Playz's business model.

[sub-task (a) = 60%]

- Secondly, discuss the impacts on product reputation risk and operational risk that could arise after Plavamk has been acquired and is manufacturing 50% of Happy Playz's generic toys."

[sub-task (b) = 40%]

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

Reference Material

Extract from Board minutes

Jamil Ahmad, Marketing Director, informed the Board that 18% of product sales by value were of generic (unbranded) products. These included outdoor toys, plush toys (stuffed animals and similar products) and many games, such as draughts and dominoes.

Generic products often occupy a disproportionate amount of the Buying Department's time because even simple toys such as bats and balls vary significantly in terms of price and quality. Pricing is not necessarily a reliable indicator of product quality, and so buyers must evaluate samples from different manufacturers before informing the Purchasing Department what to buy.

Jamil has identified a toy manufacturer called Plavamk that is for sale. The company is located in Eastland. It manufactures good quality but generic plastic toys, plush toys and board games. Jamil proposes that Happy Playz should purchase Plavamk and use it to manufacture generic toys, either as generic products or labelled with the Happy Playz brand. Plavamk would have the capacity to supply at least half of the generic toys that Happy Playz presently purchases from third-party manufacturers. Having a manufacturing company within the Group would reduce costs and would reduce the pressure on the Buying Department.

Close

Reference Material Pre-seen

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

Paragraph

Scratch Pad Calculator

Reference Material Pre-seen

A month later, Yongmei Qin asks you to meet with her. She hands you a document:

"The Board is keen to proceed with the acquisition of Plavamk, a toy manufacturer located in Eastland. I have brought you a copy of a letter relating to that acquisition.

I need your help before I brief Cui Suping:

- Firstly, explain whether the conditions imposed by Plavamk's owner would affect the company's status as a subsidiary of the Happy Playz Group.

[sub-task (a) = 40%]

- Secondly, evaluate the suggestion that Plavamk should be operated as a cost centre after it has been acquired, assuming that we purchase the 80% holding."

[sub-task (b) = 60%]

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

Hunter and Gee
Commercial Law

Ms Magdalena Partyka,
Chief Executive,
Happy Playz,
Central City,
Westaria.

Dear Ms Partyka,

Plavamk

We represent Mr Ho-Keun Choi, the owner of Plavamk. I write to confirm that Mr Choi is prepared to sell 80% of the equity in Plavamk for W$70 million, subject to the following conditions:

- Plavamk's current management team will remain in post and will be empowered to make all decisions in relation to factory operations. The management team will report directly to Mr Jamil Ahmad, Happy Playz's Marketing Director.
- Plavamk will manufacture exclusively for Happy Playz and will collaborate with Happy Playz's buyers on product design.
- Mr Choi will have the right to be informed of any major decisions made by Happy Playz's Board in relation to Plavamk. He will have the right to veto any such decisions. Mr Choi stresses that he will only exercise that right in extreme circumstances.

Yours sincerely,

Alice Gee

Partner

Scratch Pad Calculator

Reference Material Pre-seen

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

Paragraph

Three months later, Happy Playz has just completed its acquisition of Plavamk. You receive the following email:

From: Yongmei Qin, Senior Financial Manager
To: Financial Manager
Subject: FWD: Design of generic toys

Hi,

I have forwarded an email from Cui Suping.

The Board plans to meet soon to discuss design issues further, and I am working on a briefing for Cui. I need your advice on two matters:

- Firstly, recommend, stating reasons, the composition of a suitable project team that will be responsible for creating a Design Department for Happy Playz. Your recommendations should identify which team members should assume the project leader and deputy project leader roles, with reasons for your thinking.

[sub-task (a) = 60%]

- Secondly, identify the challenges associated with accounting for the costs that Happy Playz will incur for design work and recommend responses to those challenges.

[sub-task (b) = 40%]

Regards

Yongmei

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

Reference Material

From: Cui Suping, Finance Director
To: Yongmei Qin, Senior Financial Manager
Subject: Design of generic toys

Hi Yongmei,

We assumed that the design of generic toys would be a simple matter when we were negotiating our investment in Plavamk. Unfortunately, that is not the case.

The fact that toys are generic does not mean that they can be manufactured without being designed first. Designing something as simple as a plastic ball requires a significant number of design decisions, including the size and weight of the ball, which requires further decisions about the material to be used and its thickness. Design decisions can affect the manufacture of the ball and its production cost.

More complex toys raise the same general design issues, but those are more difficult to resolve. For example, a plush toy can take many different forms and can have many features, the inclusion of which can affect manufacturing complexity and cost. There can also be legal problems if a toy resembles a trade-marked character from a movie or another manufacturer's product.

We plan to have Plavamk manufacture bulk quantities of hundreds of products to our specifications over the next few years, including generic plastic toys, plush toys and board games, and so design will be a significant issue.

The Board plans to meet soon to discuss the design issues.

Regards

Cui

Close

Reference Material Pre-seen

Draft the response to Yongmei's requests in the box below.

From: Financial Manager
To: Yongmei Qin, Senior Financial Manager
Subject: RE: FWD: Design of generic toys

Paragraph

Reference Material Pre-seen

Six months later, you receive the following email:

From: Yongmei Qin, Senior Financial Manager
To: Financial Manager
Subject: FWD: Allocation of toys from Plavamk

Hi,

I have forwarded an email.

It is true that we sell very few outdoor toys when the weather is cold and that the weather improves later in the year in the north than it does in the south. The weather is just one of several regional differences within Westaria that can have a temporary impact on demand. For example, school holidays start at different times in different parts of the country.

Cui Suping wishes to address the behavioural issues associated with removing inventory from shops. The managers often believe they could sell those items quickly if the Logistics Department was just a little more patient and allowed for regional differences in the annual sales cycle. Unfortunately, there will always be a need to relocate some inventory because there is evidence that some products sell strongly from some shops but not from others, and those local differences in demand are difficult to predict.

Cui has also suggested that depending on Plavamk for generic toys might complicate Happy Playz's value chain, in particular, the relationships between procurement, inbound and outbound logistics.

I need your help with two matters:

- Firstly, recommend with reasons how the behavioural issues that arise as a result of the Logistics Department reallocating inventory should be addressed.

  [sub-task (a) = 60%]

- Secondly, explain how depending on Plavamk for generic toys might complicate the inbound and outbound elements of Happy Playz's value chain."

  [sub-task (b) = 40%]

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

Reference Material

From: John Mburu, Senior Logistics Manager
To: Yongmei Qin, Senior Financial Manager
Subject: Allocation of toys from Plavamk

Hi Yongmei,

Plavamk, Happy Playz's newly-acquired company, is now in full production. Products are already arriving at our warehouse after being transported by sea in shipping containers from Eastland.

The first shipment included a large batch of plastic footballs. These have been extremely popular because they are of excellent quality. Shop managers have been placing them in dump baskets close to their shop entrances because they are brightly coloured and have been printed with the Happy Playz logo. They are of better quality than the generic footballs that we used to purchase from an external supplier, despite being 40% cheaper.

The success of this product has created a problem with regards to the motivation of shop managers.

- Happy Playz shops in the south of Westaria have been selling significantly more of these footballs than those in the north. The Logistics Department has informed shop managers that it plans to uplift inventories of footballs from shops with slow sales and relocate them to shops with higher demand.
- Shop managers in the north are protesting because they believe that demand for this product will increase within the next 2 or 3 weeks. The weather in the north tends to be cooler, and so children play indoors until later in the year than children in the south. Shop managers in the north believe that their local weather will improve soon, which will increase demand for outdoor toys such as footballs.
- Shop managers in the north believe that they will be made to appear less effective than their counterparts in the south if they are deprived of their allocation of these footballs.

Plavamk has warned us that it will be at least 2 months before the next shipment of its footballs arrives. The Purchasing Department is reluctant to order footballs from external manufacturers because they will cost more than the ones supplied by Plavamk.

Regards

John

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

From: Financial Manager
To: Yongmei Qin, Senior Financial Manager
Subject: RE: FWD: Allocation of toys from Plavamk

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) 40% (b) 60%
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.

You receive the following email:

To: Financial Manager
From: Yongmei Qin, Senior Financial Manager
Subject: Opportunity to move to larger shops

Hi,

I have attached a news report.

We have shops in 55 of the retail parks that Motorotto plans to vacate. Shopleece, the lessor company that owns the parks, has approached Happy Playz's Board to ask whether we would be interested in moving to these larger shops.

All the shops that Motorotto will vacate are 50% larger in terms of floor space than Happy Playz's. They are also in more prominent positions within the retail parks.

Jamil Ahmad, Happy Playz's Marketing Director, believes that Happy Playz should acquire the leases on these 55 shops and vacate the smaller shops. He estimates that the associated legal fees and the cost of equipping and decorating the larger shops will cost a total of W$120 million. It will cost more to lease and run these larger shops, but Jamil believes that revenues will increase because there will be more space to display toys.

I need your help with two matters:

- Firstly, identify and explain the difficulties we will face when trying to quantify cash flows to use when calculating the net present value (NPV) of Jamil's proposal to move to larger shops.

  [sub-task (a) = 60%]

- Secondly, discuss the characteristics of debt and equity that should be considered when sourcing funds for the investment required to move to larger shops.

  [sub-task (b) = 40%]

Regards
Yongmei

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

Reference Material

Westaria Business Daily

Motorotto closes stores

Motorotto, the retail giant that specialises in car spares, car accessories and bicycles, has announced the closure of 70 of its stores. The company blamed a decrease in demand for car spares and accessories because environmental concerns were making it unfashionable for consumers to spend time and money on upgrading their cars.

Motorotto plans to close its largest shops, all of which are located in out-of-town retail parks. The company's Board announced that the leases on many of the shops were due for renewal, and so they will be vacated without penalty. Motorotto will incur penalties of W$28 million on the remaining shops.

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

To: Yongmei Qin, Senior Financial Manager
From: Financial Manager
Subject: RE: Opportunity to move to larger shops

Paragraph

Two weeks later, Yongmei Qin stops by your workspace and hands you a document:

"I have brought an extract from today's Board meeting. As you can see, the Board has not yet made much progress in deciding whether to move to the shops that will soon be vacated when Motorotto closes its shops on Shopleece's retail parks.

Cui Suping, Happy Playz's Finance Director, has asked me to prepare a briefing for the Board, and I require your assistance with two matters:

- Firstly, explain how the fees that Happy Playz will incur for retail consultancy and design consultancy will be accounted for in the company's financial statements.

[sub-task (a) = 40%]

- Secondly, identify the challenges associated with negotiating the terms of the leases on these shops and recommend, with reasons, the approach that Happy Playz should take to negotiating with Shopleece."

[sub-task (b) = 60%]

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

Reference Material

Close

Extract from Board minutes

Monica Junias, Operations Director, reported on developments relating to the possible relocation of 55 Happy Playz shops to nearby shops that will soon be vacated after the shop closures planned by Motorotto.

The former Motorotto shops are 50% larger than those currently occupied by Happy Playz. The larger shops will require significant expenditure on two types of professional fees:

- The Board plans to engage a retail consultancy to advise us on the best way to use the additional floorspace that these larger shops will give us. Our existing shops are all the same size, so we do not have any experience in utilising and managing a larger space.

- We will have to pay a design consultancy to design the floor layout of the larger shops. We will not be making any structural changes to the buildings themselves, but we will have to obtain professional advice on the best way to draw customers into the larger shops and assist them to browse and spend money.

Monica reported that she had already obtained quotes from consultants. The retail consultancy will cost W$9.5 million, and the design consultancy will cost W$14.0 million.

Monica confirmed that there had been no direct communication with Shopleece, the lessor company that owns the parks, since the initial contact after Motorotto's announcement that it plans to close these shops.

Scratch Pad Calculator

Reference Material Pre-seen

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

Paragraph

A month later, you receive the following email:

To: Financial Manager
From: Yongmei Qin, Senior Financial Manager
Subject: FWD: Move to larger shops

Hi,

The move to the larger shops has not yet been approved. I know that the Board is worried about a perceived lack of flexibility.

I have forwarded an email from Cui Suping.

I will be meeting with Cui later today, and I require your advice on two matters:

- Firstly, identify and explain real options that could be available if the proposed move to the larger shops goes ahead.

[sub-task (a) = 60%]

- Secondly, identify the challenges associated with providing training and ongoing support to the staff that we will recruit from Motorotto in toy retailing and recommend responses to those challenges.

[sub-task (b) = 40%]

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

Reference Material

To: Yongmei Qin, Senior Financial Manager
From: Cui Suping, Finance Director
Subject: Move to larger shops

Hi Yongmei,

Monica Junias, Operations Director, has updated me on the implications for Happy Playz in relation to our planned investment in the relocation of 55 shops to neighbouring retail units that are 50% larger. The shops in question all belong to Shopleece, a lessor that owns the 55 retail parks in which the shops are located.

Shopleece has offered to terminate the leases on our existing shops without penalty, provided we agree to take 10-year leases on the larger shops that are soon to become vacant. The leases on our existing shops were initially for 10 years, and they have an average of 5 years left to run. The annual lease payments on the larger shops will be 40% greater than those that we presently occupy.

Monica has also been considering the running costs of the larger shops. Their size means that they will cost more to heat, light and ventilate.

The larger shops will also require significantly more staff, especially if the larger spaces attract more customers. The staff who work in our existing shops will have no reason to leave. We should be able to recruit staff who will be made redundant by Motorotto when it closes its shops, although their expertise will be in selling car spares, car accessories and bicycles. We will have to recruit large numbers of staff quickly and have our experienced staff coach them.

Regards
Cui

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

To: Yongmei Qin, Senior Financial Manager
From: Financial Manager
Subject: RE: FWD: Move to larger shops

Paragraph

Scratch Pad Calculator

Reference Material Pre-seen

Three months have passed. Happy Playz's Board reached an agreement with Shopleece to relocate 55 of Happy Playz's 120 shops to larger premises. Those 55 shops will be branded as "Happy Playz Extra" and will sell a wider range of products than our other shops. They will open for business in September 2023. Yongmei Qin asks you to join her at her workspace:

"I printed an extract from the plan that has been agreed by the Board.

Cui Suping has requested a briefing on some of the implementation issues that will arise, and I require your assistance with the following:

- Firstly, explain the impact that the 55 Happy Playz Extra shops will have on the procurement, inbound logistics and marketing activities in Happy Playz's value chain.

[sub-task (a) = 60%]

- Secondly, explain how the 55 Happy Playz Extra shops will impact on three of the key accounting ratios that will be of interest to shareholders using financial statements for the year ended 31 December 2023, which will be the first set published after implementation."

[sub-task (b) = 40%]

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

Reference Material

Executive summary

Prepared by Dearbhla Lawler, Senior Manager, Operations

The Board has made the following decisions:

1. Happy Playz will enter into 10-year leases on the 55 shops that will be vacated by Motorotto. The annual lease payments will be 40% higher than those on our existing shops.
2. We will continue to trade from our existing shops until the larger shops have been refurbished and fitted out to our specifications. We will vacate our existing shops at that time, terminating the leases without penalty.
3. We intend to move to the new shops in September 2023, ready for the busy 4^{th} quarter holiday sales period.
4. On the advice of the retail consultancy that we commissioned, Happy Playz will use the additional space in the larger shops to further increase the range of toys that will be sold. The larger shops will be branded as "Happy Playz Extra" and will be identified as such on the company's website.
5. No changes are planned for the 65 shops that will not be involved in moves to larger properties.

Close

Scratch Pad Calculator

Reference Material Pre-seen

Provide your response requested by Yongmei in the box below.

Paragraph

Management Case Study Exam - Candidate Name

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.

End Exam

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) 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

You receive the following email:

From: Yongmei Qin, Senior Financial Manager
To: Financial Manager
Subject: FWD: Defective product

I attach an email that I received from Cui Suping, Happy Playz's Finance Director.

The financial statements for the current financial year will have to be finalised soon, probably before we can settle all the issues associated with this product.

I need to brief Cui on some issues arising from this matter, and I need your advice on two matters:

- Firstly, identify the difficulties associated with accounting for costs, assets and liabilities associated with three matters: claims against Happy Playz arising from injuries caused by this product, the cost to Happy Playz of conducting a product recall and the compensation that we may receive from the ball's Eastlandian manufacturer.

  [sub-task (a) = 60%]

- Secondly, we often ask manufacturers to brand the products they make for us with the Happy Playz logo. Identify and evaluate the product risk and the product reputation risk associated with Happy Playz selling toys that are branded with the Happy Playz name and logo.

  [sub-task (b) = 40%]

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

Reference Material

From: Cui Suping, Finance Director
To: Yongmei Qin, Senior Financial Manager
Subject: Defective product

Hi Yongmei,

One of our most popular toys over the past few months has been the "HP Ball" that we had manufactured by an Eastlandian toy maker. The HP Ball is printed with the Happy Playz logo and is sold in packaging printed with the Happy Playz brand. We purchased 500,000 units at a unit cost of W$1.47 and have sold 200,000 at a retail price of W$5.99.

Concerns are starting to emerge about the quality of the HP Ball. If the ball is left outdoors for an extended time, then its outer coating hardens and cracks, leaving an abrasive layer that has the potential to cause injury. No injuries have been reported, but we have received complaints from several unhappy customers, and we have also noted a growing number of negative social media posts from unhappy parents.

The Eastlandian manufacturer who supplied us with this product assured us that the HP Ball would be fully compliant with all Westarian safety standards when we placed our order and confirmed that assurance when we took delivery. However, the manufacturer denies any responsibility for this problem, pointing out that the instructions printed on the HP Ball's packaging recommends that the ball is suitable for outdoor play, but that it should be stored indoors when it is not in use. We could take legal action, but Eastland's courts tend to be unsympathetic to foreign claims.

Jamil Ahmad, Happy Playz's Marketing Director, believes that we should recall the toy and refund customers who can prove that they purchased one of these balls. A recall would involve communicating with customers through email, adverts and posters in our shops to warn them that Happy Ball was unsafe and that customers should return the product to their nearest Happy Playz shop for safe disposal.

Regards
Cui

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

From: Financial Manager
To: Yongmei Qin, Senior Financial Manager
Subject: RE: FWD: Defective product

Paragraph

The following day, Yongmei Qin stops at your workspace and hands you a document:

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

I need to brief Cui Suping later today, and I require your advice on the following:

- Firstly, recommend, with reasons, how the Board should establish the project teams proposed by Magdalena Partyka, the first team to investigate whether the HP Ball should be recalled and, in the event of a recall, the second team to advise on a system for processing returns and issuing refunds.

  [sub-task (a) = 60%]

- Secondly, explain how Happy Playz could use the data collected through the Happy Playz Club Card to inform the Board's decision as to whether a product recall would be advisable.

  [sub-task (b) = 40%]

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

Reference Material

Extract from Board minutes

Jamil Ahmad, Marketing Director, summarised the issues relating to the HP Ball.

- The HP Ball is safe provided it is used in accordance with the instructions printed on its packaging. Customers should bring the ball indoors when they are not playing with it.
- If the ball is exposed to sunlight and wet weather, then it starts to deteriorate after 3 weeks. The ball's outer coating cracks and would fail both mechanical and toxicity standards when it is in that condition.
- 90% of HP Ball sales have been through shops. We believe this means that HP Balls were purchased as supplementary gifts when shopping for larger items or as impulse buys.
- We could consider using data collected through the Happy Playz Club Card to identify customers who bought the toy. The Card tracks customer purchases and their browsing history on the Happy Playz website. More than 50% of our customers participate in this scheme, and we can analyse the shopping habits of individual customers right back to the beginning of this financial year, when the Happy Playz Club Card was launched.

Magdalena Partyka, Chief Executive, reminded the Board that no decision had been made with regards to conducting a formal recall of the HP Ball. A recall would involve communicating with customers through email, adverts and posters in shops to warn them that the HP Ball could be unsafe if not used properly and that customers should return the product to their nearest Happy Playz shop for safe disposal. A recall would require the creation of a system to process returns and issue refunds.

Magdalena proposed that a project team should be established to advise the Board on whether to recall HP Ball. A project team will also be expected to advise on the associated system required to process returns and issue refunds if the recall goes ahead.

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

Paragraph

Three months later, you receive the following email:

From: Yongmei Qin, Senior Financial Manager
To: Financial Manager
Subject: FWD: Business opportunity

Hi,

I have attached an email that I received from Cui Suping.

I need your help with the following matters:

- Firstly, identify the difficulties in deciding whether Munntoy would be an associate of Happy Playz under this proposed arrangement, and explain how those difficulties could be resolved.

  [sub-task (a) = 40%]

- Secondly, recommend, with reasons, whether Happy Playz should increase or decrease the retail selling prices of toys manufactured by Munntoy when they carry the Happy Playz brand.

  [sub-task (b) = 60%]

Regards,
Yongmei

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

Reference Material

From: Cui Suping, Finance Director
To: Yongmei Qin, Senior Financial Manager
Subject: Business opportunity

Hi Yongmei,

Jamil Ahmad has just returned from a visit to some potential suppliers in Eastland. He identified an interesting business opportunity during that visit.

Munntoy is an established toy manufacturer. It supplies many toy retailers, including Happy Playz, with good quality generic toys. Munntoy has also manufactured consignments of branded toys on behalf of leading global toy manufacturers who have trusted the company to make products that carry their brand names.

Munntoy is an unquoted company that is owned by Mr Amal Thukku. Amal is keen to raise equity so that he can expand his business and seek even larger orders. He and Jamil reached an informal agreement on the following:

- Munntoy will increase the number of shares in issue by 50%. Happy Playz will pay W$25 million in cash for those shares, giving it a 33.3% stake in Munntoy.
- Munntoy will not issue any further shares without the permission of Happy Playz's Board.
- Amal Thukku will sit on Munntoy's Board as Chief Executive. He will have the right to appoint one additional director. Happy Playz will also have the right to appoint one director. There will be three directors in total. Board decisions will be passed by a simple majority vote.
- Happy Playz will treat Munntoy as its preferred supplier for generic toys. Where possible, it will place large orders for products that will carry the Happy Playz name and logo.

Regards
Cui

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

From: Financial Manager
To: Yongmei Qin, Senior Financial Manager
Subject: RE: FWD: Business opportunity

Paragraph

Scratch Pad Calculator

Reference Material Pre-seen

Four months later, Happy Playz has completed its investment in Munntoy, the toy manufacturer that manufactures good quality toys in Eastland.

Yongmei stops by your workspace:

"I have brought you the summary of a meeting report.

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

- Firstly, discuss the cause of the conflict between Munntoy and Happy Playz over the allocation of production capacity in this case and recommend, with reasons, how Happy Playz could prevent a repeat of such conflicts.

[sub-task (a) = 40%]

- Secondly, evaluate the arguments for and against Happy Playz accepting advice from Munntoy's production staff about modifying designs of products proposed by Happy Playz."

[sub-task (b) = 60%]

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

Reference Material

Close

Report on meeting between Mol Sindhu (Munntoy's Production Director) and Aileen McNeice (Happy Playz's Senior Purchasing Manager)

Executive summary

I met with Mol because I wished to order 500,000 units of a new construction toy that would be suitable for children aged between 7 and 10 years. This toy will retail for W$9.99, and I had offered to pay Munntoy W$3.56 per unit, which was a generous price.

Mol said that she could not make an immediate decision on whether to accept Happy Playz's order because Munntoy plans to bid for a large manufacturing contract from a leading global brand of construction toys. It will be a month before Munntoy knows whether its bid was successful. If Munntoy wins the bid, then its factory will be busy, and it will be a further 2 months before work could commence on Happy Playz's order.

Mol reminded me that Munntoy had accepted Happy Playz's recent investment in order to expand. Mol hoped that the factory would be much larger in a year and that it would then have sufficient capacity to accept large orders from Happy Playz without risking other contracts.

I asked about our design. Mol said that she was confident that Munntoy could make the toy. She commented that our offer of W$3.56 per unit was a realistic price. However, she said that Munntoy would modify the design slightly by using 4 different colours of plastic for the components, instead of the 6 called for by our design. She would also simplify two of the components to speed up the moulding process and so reduce production costs.

Aileen McNeice

Senior Purchasing Manager

Scratch Pad Calculator

Reference Material Pre-seen

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

Paragraph

Management Case Study Exam - Candidate Name

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.

End Exam

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) 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

Yongmei Qin, Happy Playz's Senior Financial Manager, stops by your workspace and hands you a document:

"I have brought you an extract from the minutes of the latest Board meeting.

I must brief Cui Suping, our Finance Director, on some issues, and I need your assistance with the following:

- Firstly, evaluate the potential usefulness and limitations of using data collected through the Happy Playz Club Card app to assess the proposal to sell baby products.

[sub task (a) = 60%]

- Secondly, evaluate the usefulness of the financial statements of specialist baby product retailers in deciding whether Happy Playz should sell baby products alongside its existing products."

[sub task (b) = 40%]

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

Reference Material

Extract from Board minutes

Jamil Ahmad, Marketing Director, briefed the Board on a proposal for Happy Playz to start selling baby products, such as pushchairs and cots, alongside the toys and other products that Happy Playz currently sells. He believed that this would be a logical progression for Happy Playz because the company sells a lot of expensive teddy bears and similar products as gifts for newborn babies. Customers who buy such items often ask shop staff whether Happy Playz also stocks items that are traditionally sold through specialist baby stores.

Jamil says that data from the Happy Playz Club Card app could be used to help evaluate this proposal. The app has been operational for 10 months and has had an excellent uptake from customers. Customers input data when they join, including:

- their home post codes, which give a rough indication of their household incomes when combined with readily-available survey data
- the number of children in each customer's household and their ages

Customers scan their membership numbers when they shop in store. Our systems track each customer's purchase history.

We encourage customers to log in using their Club Card details when they browse our website. We keep records of their browsing histories, including any searches that customers make on our website and the products that they look at. We also keep records of their purchases, as well as visits to our website that do not result in sales.

Jamil also pointed out that Westaria has at least two large retailers who specialise in baby products. He has been studying their financial statements in order to develop an understanding of the baby products business.

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

Paragraph

Three months later, you receive the following email:

To: Financial Manager
From: Yongmei Qin, Senior Financial Manager
Subject: FWD: Acquisition

Hi,

I have forwarded an email that I have just received from Cui Suping.

I am preparing a briefing for Cui to present to the Board, and I require your help with two matters:

- Firstly, discuss the advantages and disadvantages for Baybebed's future success within the Happy Playz Group if Baybebed is established as an investment centre.

  [sub-task (a) = 60%]

- Secondly, discuss the implications arising from Baybebed's capitalised development costs for the Happy Playz Group consolidated financial statements. Your discussion should include the implications for the initial measurement of goodwill on the acquisition of Baybebed and the ongoing treatment of the development costs in the Happy Playz Group consolidated financial statements.

  [sub-task (b) = 40%]

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

Reference Material

To: Yongmei Qin, Senior Financial Manager
From: Cui Suping, Finance Director
Subject: Acquisition

Hi Yongmei,

This will come as a surprise, but Happy Playz has just acquired 80% of the equity of Baybebed, an unquoted Westarian company that manufactures very high-quality baby products, including prams and cots. It was necessary to negotiate this acquisition in secret to avoid alerting our competitors.

Baybebed was founded by Helena Pereira. She is presently Baybebed's Chief Executive, but she will step down from that position to join Happy Playz's Board in the newly-created role of Production Director. She will retain a 20% shareholding in Baybebed. The other directors of Baybebed will remain in place on Baybebed's Board.

Happy Playz will purchase 65% of Baybebed's output, with the remainder being sold to third-party retailers. Baybebed's product designs and branding will remain unchanged. Baybebed invested heavily in the development of products and materials that were both safe and practical. These development costs were capitalised and are being amortised over 10 years, of which 7 years remain.

Regards
Cui

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

To: Yongmei Qin, Senior Financial Manager
From: Financial Manager
Subject: RE: FWD: Acquisition

Paragraph

Two weeks later, you receive the following email:

To: Financial Manager
From: Yongmei Qin, Senior Financial Manager
Subject: FWD: Baby products

Hi,

I have attached an email from Cui Suping.

Cui is working on a briefing for some of our shareholders, and I have agreed to help. I need your help with the following:

- Firstly, evaluate the extent to which selling baby products will change Happy Playz's business model.

[sub-task (a) = 40%]

- Secondly, recommend, with reasons, the accounting treatment for gift vouchers that are sold in any given year. Your answer should reflect the fact that it is unlikely that all gift vouchers will be redeemed during the year in which they are sold.

[sub-task (b) = 60%]

Thanks,
Yongmei

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

Reference Material

To: Yongmei Qin, Senior Financial Manager
From: Cui Suping, Finance Director
Subject: Baby products

Hi Yongmei,

We will soon commence the sale of Baybebed baby products.

Our plan is to set aside an area in each shop to display these new products. We will offer a home delivery service for larger items, such as cots and prams. Customers will have the opportunity to see samples in our shops, make payment and book a delivery time. The items will be delivered by third-party courier companies.

Customers will also be able to browse the range, make purchase and arrange delivery through the Happy Playz website.

We have held briefing sessions for our shop managers, and several have commented that the products are excellent in terms of quality, but that is reflected in their prices. The most expensive pram has a retail price of W$2,500, and cots sell for W$550 to W$1,250.

The shop managers believe that those prices will be more than many customers can afford. We will address that concern by selling gift vouchers with prices varying from W$5 to W$500. Friends and relatives will then be able to buy vouchers as gifts for the baby's parents, who will then be able to combine as many vouchers as they wish in full or part payment for the product of their choice.

The sale of vouchers will commence when we introduce Baybebed products to our shops. The vouchers will be exchangeable for any product in our shops and on our website, not just baby products. They will not be refundable, but they will not have an expiry date.

Kind regards
Cui

Close

Provide your response requested by Yongmei in the box below.

To: Yongmei Qin, Senior Financial Manager

From: Financial Manager

Subject: RE: FWD: Baby products

Paragraph

Reference Material Pre-seen

Six months later, Happy Playz has been selling the Baybebed range of baby products for 4 months.

Yongmei Qin stops by your workspace and hands you a document:

"I have brought you an extract from the minutes of today's Board meeting. Cui is meeting with the Chief Executive later, and I need your opinion on two matters before I brief him:

- Firstly, discuss TWO difficulties associated with setting appropriate transfer prices between Baybebed and C&P and recommend responses to those difficulties.

[sub-task (a) = 40%]

- Secondly, identify and discuss the project risks that might arise from Jamil's proposed project for the development of an exclusive line of Baybebed prams to be sold through Happy Playz."

[sub-task (b) = 60%]

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

Reference Material

Extract from Board minutes

Happy Playz's shops display samples of cots and prams, but customers must place their orders online. Happy Playz has established a new department called "C&P" to fulfil Happy Playz's online sales of Baybebed's cots and prams. C&P is a profit centre. Baybebed transfers prams to C&P at the same price charged to third-party retailers. C&P does not sell any other brands.

Baybebed prams have suddenly become very fashionable, and demand has increased beyond the production capacity of Baybebed's factory. The Smooth model is particularly popular, despite it being Baybebed's most expensive pram.

Helena Pereira, Happy Playz's Production Director, informed the Board that Baybebed had previously sold Smooth to retailers for W$1,900 and recommended that retailers sell the pram for W$2,500. That recommendation is not enforceable, and so many retailers have taken advantage of the upsurge in demand to sell Smooth for up to W$3,500. In response, Baybebed has increased its price for further deliveries of Smooth to retailers, including C&P, to W$2,600. Demand for specific makes and models of prams can be volatile, and specialist baby product retailers are generally small independent businesses that are highly responsive to such opportunities.

C&P's management team has been unwilling to accept the transfer price of W$2,600, arguing that C&P is a new business that cannot afford to pay inflated transfer prices and insisting on maintaining a transfer price of W$1,900. Baybebed's management team has responded by giving preference to other retailers and consequently C&P does not have any Smooth prams.

Helena reminded the Board that Baybebed is an 80% subsidiary and is an investment centre within the Happy Playz Group.

On a related matter, Jamil Ahmad, Happy Playz's Marketing Director, informed the Board that he planned to create a project team comprising senior managers from Happy Playz's Buying Department and designers from Baybebed. The team will develop a pram for manufacture by Baybebed and exclusive sale through C&P at a retail price of $550. Jamil expects such a pram to sell successfully because of Baybebed's reputation for quality. Its current cheapest pram retails for W$1,000, despite most competing brands selling their cheapest for between W$400 and W$600.

Close

Scratch Pad Calculator

Reference Material Pre-seen

Provide your response requested by Yongmei in the box below.

Paragraph

Management Case Study Exam - Candidate Name

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.

End Exam

MANAGEMENT CASE STUDY

November 2022 & February 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

Profit centres

Advantages

Evaluating shops as profit centres makes shop managers accountable for costs and revenues, even though they may not feel that they are entirely under their control. Shop managers could argue that they cannot manage the operation of their shops because many decisions are made centrally, including purchasing decisions and advertising. Treating shops as profit centres encourages shop managers to consider ways in which they might maximise profit, even within the constraints imposed by head office. For example, shop managers might take some initiative in promoting products that they believe will sell well in the local market. Shop managers will also be made a little more proactive in evaluating decisions imposed by regional sales managers and HR about inventory and staffing and in communicating suggestions that could lead to improvements.

Shop managers are forced to delegate a great deal of responsibility to their assistant managers because the shops are open for 12x7 = 84 hours each week. That could lead to a lack of accountability if shop managers decide that they cannot be held responsible for the overall supervision of their shops due to the need to rely on assistant managers. The fact that shops are profit centres effectively imposes a duty to work closely with assistant managers in terms of briefing them and setting priorities for supervision and oversight when shop managers are not available. It also creates an incentive for shop managers to conduct checks carefully. For example, checking that invoices for utilities do not contain any errors that might lead to additional costs if they are not corrected.

Disadvantages

Treating shops as profit centres could lead to an excessive focus on profits, which could demotivate managers and possibly lead to dysfunctional behaviour. The fact that there has been a significant loss of shop managers from the bottom quartile in terms of profit suggests that shop managers have been made accountable for matters that are outside their control and so have become discouraged. The fact that Happy Play ranks shops by profit suggests that a great deal of attention is being paid to this performance indicator, either formally or informally. It could be more effective to establish a wider range of KPIs for shops, each of which would contribute to overall profitability, but each of which would undoubtedly be within the control of individual shop managers.

It seems that the regional sales managers take an active interest in the operational aspects of each shop's management, which sends mixed messages about control and responsibility. If regional sales managers are interfering with important aspects of shop management, such as the layout of sales floors, then shop managers are being given little opportunity to apply their knowledge of the local market in deciding which products to promote. The shop managers appear to be in a difficult position, being forced to delegate supervision to their assistant managers while being forced to share the management of their shops with their regional managers.

Teams

Effective teamwork implies the ability of team members to relate to one another and accomplish shared objectives. Shop staff may find it difficult to relate to one another because they will be on different staff rotations, and so they may be working with a different group of people on every shift. That could lead to a lack of familiarity, which could cause mistrust and a lack of cooperation if there are concerns that colleagues are not mutually supportive. Staff will also find themselves working under the supervision of different people, and they may dislike the approach taken by different managers, leading to further demotivation.

This challenge might be addressed by encouraging staff to interact and engage with one another, perhaps by offering opportunities to meet socially. It would also be sensible for shop managers to meet with individuals regularly, perhaps every 3 months. Those meetings could ensure that staff are briefed on issues associated with their shops and would also allow staff to raise problems associated with the team.

Working in a shop will require flexibility with regard to conducting specific tasks associated with replenishing inventory, advising customers and operating tills. Inevitably, that will mean that any given member of staff might favour one task over another. Shop staff may resent being asked to undertake tasks that they do not enjoy and may feel that colleagues are being given preferential treatment. Any such resentment could affect the customer experience.

Shop staff should be employed on the basis that they will undertake general retail duties as required by the shop manager or the duty assistant manager. They should not be encouraged to specify a preference for any particular type of work. The manager or assistant manager in charge of any given shift should be aware of the work being done by each colleague and should move staff around during each shift. It should be made clear that the allocation of duties will be on the basis of the efficient operation of the shop. If there are few customers in the shop, then more staff will be occupied with inventory management, regardless of whether they would prefer to be at a till.

SECTION 2

Business risk

Product risk

There is a risk that the regional sales managers and shop managers will prove incapable of accurately predicting regional and local demand for newly-launched products. That could lead to product launches failing because of undue optimism on the part of either shop or regional sales managers causes Happy Play to buy excessive quantities of some new products. There could also be the opposite problem, with undue pessimism leading to purchases that do not satisfy potential demand.

Feedback from optimistic orders could lead to some shop managers placing smaller orders in the future and so risking further opportunity costs due to small purchases. Happy Play might be unable to identify all cases where too few units were ordered because customers might simply buy toys from competitors.

Reputation risk

Happy Play is a specialist toy retailer that has a reputation for offering customers a wide range of toys. It competes against supermarkets and other retailers who choose to offer only a much narrower selection of toys. The proposed policy risks losing Happy Play's reputation as an excellent place to browse a wider range of toys that would be found in competing retailers. Placing very large orders for the most popular toys and smaller orders for those that will be less popular will leave Happy Play shops with little more choice than is on offer from the toy aisle in a supermarket.

Part of the pleasure in shopping at Happy Play arises from the fact that it is possible to see many more different toys than is generally available. It could be argued that carrying inventory that may be relatively slow moving is a consequence of offering that choice.

Operational risk

Happy Play already has an efficient system for dealing with excessive inventory in some shops and inadequate inventory in others. The proposed new system might replace that system to some extent, but the net savings might be less than hoped for if the managers prove incapable of predicting demand accurately. The existing system is likely to be efficient because Happy Play will be running vans to shops in any case to deliver products.

The new system will also prove a distraction for the shop managers and the regional sales managers because they will have to become more directly involved in sales planning. Their expertise is really in presenting inventory most effectively to encourage sales. They may have to devote a great deal of time and effort to predicting demand.

Leadership style

At present, Happy Play has an authoritarian style of leadership, at least with regard to the management of inventory. The Buying Department and the Purchasing Department make the key decisions about product choice and product quantity centrally from Head Office. Shop managers are put under pressure to sell that inventory, motivated both by a desire to meet sales targets and also by the fact that inventory will be withdrawn if it is not sold quickly.

This approach may prove demotivating because the shop managers have considerable autonomy in other aspects of the running of their shops. They may resent having products imposed on them by Head Office staff who may know very little about their circumstances. Nevertheless, it may be more effective from the company's point of view to make the best possible use of the expertise of the industry experts in Buying.

The proposal will involve a move to a more participative style of management, with shop managers engaging with their regional sales managers in a more interactive manner than is currently the case. The result of that discussion will be fed back to Head Office and will undoubtedly involve further engagement with higher levels of management. That will enable Happy Play to harness the knowledge that shop managers and regional sales managers have of local and regional markets.

Making leadership more participative could lead to a dilution of effort because shop managers are effectively having a say in their sales targets. While it would be demotivating for a shop manager to have no say in target setting, it could be damaging to Happy Play to have excessive allowances made for the fact that some shops are in areas where household incomes are lower than average or where there is strong local competition for toy sales.

SECTION 3

Cash flows for NPV

The initial proposal appears to be based on the assumption that Happy Play will benefit from having a greater capacity for holding and managing inventory, but that assumption will be difficult to justify unless we can demonstrate that Happy Play has been constrained due to a lack of storage. Happy Play will have to review past data provided by Purchasing and Logistics in order to establish whether a lack of storage space has constrained the previous operation. The results of any such analysis could be difficult to interpret because the Purchasing and Logistics Departments will have worked within the constraints and so problems may be difficult to quantify. Even if there were clear signs of problems with inventory storage, a cost will have to be attached to that constraint, which may be difficult to do. Some opportunity costs might be measurable, such as the extent to which the Purchasing Department has had to forego quantity discounts because there was insufficient storage capacity to allow for larger orders. Other opportunity costs will be far more difficult to value, such as the value of sales that might have been foregone because of a lack of inventory or insufficient space to process online orders.

The impact of this proposal on operating costs will be difficult to establish without detailed plans as to how the regional warehouses will actually be used and that will require a significant investment of time and effort to establish a hypothetical plan. Receiving bulk inventory at the primary warehouse and then making bulk shipments to the regional warehouses means that inventory will have to be handled twice before it is delivered to the shops. There could be further movements if the Logistics Department finds it necessary to relocate items between regional warehouses because of differences in regional demand. Doubling storage capacity could lead to Happy Play tying up significantly more cash in inventory, potentially increasing the cost of funding working capital. The additional logistical and funding costs will only be possible to estimate if Happy Play can develop a detailed inventory management plan on the basis that the new warehouses are operational and the revised sales plans that will be possible thanks to the new storage.

The fact that the initial lease term on each of the warehouses is only 5 years creates a real option to scale back or even abandon the concept of regional warehouses, but that could prove a significant distraction for Happy Play's Board. Apart from anything else, it will require two sets of figures, assuming that the real option is used and that it is not. The initial 5-year period is a relatively short time in which to recover the costs of adapting the warehouses to suit Happy Play's needs, so it would be reckless to make an initial investment on the basis that it is only a relatively short commitment. The impact of any curtailment on cash flows will be difficult to predict. The warehouse or warehouses that are being closed will have to be returned to their original condition, with all equipment installed by Happy Play being removed and disposed of. Those rectification costs could be significant and difficult to predict, given that the cash flows associated with removing the equipment could be offset by any sale that Happy Play can negotiate or could involve significant scrappage costs if a buyer cannot be found. Happy Play will also have to predict the cash flows associated with a full or partial return to operating from the primary warehouse if the abandonment option is triggered.

Investment in software

The software costs must either be written off as they are incurred or capitalised as intangible assets. That is an accounting decision that could have an impact on reported profit. The correct treatment should be established by referring to IAS 38 *Intangible assets*, which sets out the criteria against which that judgement should be made.

The software will have to meet the criteria for recognition as intangible assets. That could be complicated in the case of the costs associated with installing and maintaining software because IAS 38 specifies that the cost of an asset must be capable of being measured reliably. If Happy Play wishes to be able to capitalise on the cost of its staff programmers' time, then it must ensure that programmers complete detailed timesheets, which will then make it possible to measure the costs associated with installation.

Some of the staff costs will be for maintenance, which will be more difficult to classify in terms of IAS 38 recognition criteria. In order to be an asset, a cost must be expected to create future economic benefits, which will be difficult to determine in the case of routine maintenance. Programmers' timesheets will have to specify the expected outcome of each task being undertaken. That will enable Happy Play to distinguish upgrades and enhancements that will have an ongoing economic benefit.

The cost of the software will have to be amortised over its estimated useful life. That could be difficult to determine because many factors could affect the useful life, partly because of potential advances in IT making the software obsolete and partly because the distribution system could change. The fact that the software will be maintained and updated by Happy Play's programmers could further complicate this estimate because constant updates will extend the useful life.

Happy Play might start by assuming the worst possible case, such as the possibility that the software may have to be withdrawn if the regional warehouses are closed after 5 years if the leases are now renewed. A conservative estimate will avoid the need to write off a large book value if Happy Play replaces or withdraws the software.

SECTION 4

Investment in LRS

Control is often obtained through the ownership of more than half of a company's equity, but that is not a criterion as set out by IFRS 10 *Consolidated financial statements.* The IFRS sets out three criteria for determining whether an investor controls an investee and all must be satisfied before control can be said to exist.

Firstly, Happy Play would have to be able to exercise power over LRS before control could be said to exist. In this case, Mr. Cuttler controls a majority of the LRS Board, being a director himself and appointing two of the other four directors. Board decisions are decided by a simple majority, so Mr. Cuttler will have the ability to dictate the decisions that are made by LRS's Board and so Happy Play will not have power over the company.

Control also requires the investor to have rights or exposure to variable returns from the investee. In this case, Happy Play will receive 60% of any dividends paid by LRS during its period of ownership, potentially satisfying this criterion. The fact that Mr. Cuttler can repurchase those shares after 7 years could reduce the extent to which Happy Play can participate in LRS's profits, although it seems unlikely that an individual will have the means to make a W$20 million payment to repurchase that equity.

An investor must also have the ability to use its power to affect its returns from the investment. In this case, the arrangement appears to be that Happy Play will provide significant equity finance in order to have a commitment that LRS will not work for any competing retailers for the duration of this arrangement. Happy Play's "return" will be in the form of consultancy advice for which it will have to pay normal commercial rates.

Arguably, Happy Play should account for LRS as an associate, as defined by IAS 28 *Associates*. LRS will be an associate if Happy Play can demonstrate significant influence, which would be implied in this case by the fact that Happy Play will have two seats on LRS's Board, as well as significant commercial interaction between the LRS and Happy Play. The large shareholding will also give some influence, even if there are contractual provisions in place to prevent Happy Play from exercising control.

Happy Play will, therefore, be permitted to account for the investment as an asset at cost, plus 60% of LRS's post acquisition reserves. There will be no need to cancel any profits from sales made by LRS to Happy Play.

Planning for engagement with LRS

This will be an extended project because it would appear that Happy Play's equity investment will be left in place for 7 years, and so Happy Play's Board clearly expects a great deal from LRS. It is important to clarify the objectives of the consultancy work in some detail. The Board should articulate its reasons for seeking LRS's support. It should identify possible outcomes from that support, and it should set priorities in order to deal with conflicts that might arise. The Board should appoint a team of senior managers from the departments that are likely to have an insight that might assist LRS. These will include Logistics and Purchasing, but there could be others, such as Management Accounting, Marketing and representation from shop managers. There should be an initial series of meetings between the Board, the designated senior managers and senior consultants from LRS. These meetings should be both to ensure that LRS is briefed and to obtain feedback from the consultants concerning the feasibility of Happy Play's expectations. Designated points of contact should be identified in both Happy Play and LRS to ensure that there is clear communication and that there is clarity as to who will be responsible for any action points that emerge.

Cui Suping believes that LRS will be able to produce measurable outputs in terms of reducing operating costs and in releasing cash currently tied up in inventory. The management of this project should, therefore, be measurable in those terms. Care should be taken to ensure that any performance measures are balanced with corresponding measures that will identify cases of dysfunctional behaviour. It is, for example, easy to reduce inventory levels by running down holdings and risking shortages.

Given the timescale, it would appear that it is likely that LRS is expected to make some initial recommendations in terms of developing an inventory management system and then enter a maintenance phase that will allow for updating and enhancing the system in line with changes. Happy Play should agree to a deadline for the implementation of that first phase and should work closely with LRS in order to ensure that the timetable is adhered to without cutting corners and taking risks. The maintenance phase will be more difficult because the consultants might be tempted to recommend ongoing changes in order to generate further fees. It would be more sensible for Happy Play's management team to work with the senior consultants to monitor the operation of the inventory management system so that Happy Play's managers can offer an informed opinion about any proposals for further change.

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

MANAGEMENT CASE STUDY

November 2022 & February 2023

EXAM ANSWERS

Variant 2

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

Empowerment

The main argument for empowering the Buying Department to commit to orders is that doing so will enable Happy Play to be far more responsive to opportunities presented at toy fairs and product launches**.** Toy manufacturers will be keen to make sales at these events and so they may be willing to make concessions, such as generous discounts, if they are presented with the opportunity to make a large sale to a major retailer such as Happy Play. Any delay could lead to Happy Play missing out on opportunities because competitors might sign agreements while Happy Play's buyers are briefing their colleagues in the Purchasing Department**.** Empowering the Buying Department's senior members in this way will enhance their bargaining power with respect to manufacturers, which could lead to further advantages such as access to market research and advance notice of new toys before they are even launched at toy fairs.

There may be drawbacks to empowering the Buying Department to place orders in this way because their expertise is in the selection of products that will prove popular. They do not necessarily share the Purchasing Department's skills in negotiating the best prices. The Purchasing Department can combine orders for different products in order to strengthen Happy Play's bargaining position and so should be able to negotiate better prices and other terms and conditions. The Buying Department does not necessarily know whether Happy Play can properly process an order of this size for a product that will be sold in the 4th quarter because the buyers are not directly involved in inventory management or in planning sales promotions**.** In the event that this tactic succeeds, there could be a risk that the Buying Department will simply create a bidding war with rival retailers. Competitors cannot afford to see Happy Play control the market for all promising new toys and so they will start to consider investing heavily in other new products at future toy fairs.

If the Buying Department is to be empowered in this way then it should be made clear that they should only use this power sparingly, otherwise they will risk undermining the Purchasing Department**.** There should be a clear set of criteria that should apply before Buying should make a commitment. The criteria should include the need to act urgently in order to avoid the loss of a significant opportunity. The buyer responsible for making that commitment should contact the Purchasing Department immediately and explain the reasoning behind placing the order directly instead of submitting an instruction to Purchasing as would usually be the case**.** The Purchasing Department should offer feedback in terms of issues that the Buying Department should have done differently, such as demanding more generous payment terms or greater flexibility over delivery schedules**.**

Members of the Buying Department who are planning to attend a toy fair or product demonstration should meet with the Purchasing Department's senior management team beforehand to ensure that all constraints are understood**.** The buyers should be made aware of issues such as the availability of storage or the fact that Happy Play is already committed to orders for large quantities of toys from a particular category or intended for a particular age group**.** The Buying Department should then be capable of avoiding pursuing opportunities that would prove harmful to the company, regardless of the potential demand for the products in question.

Capitalisation of costs

The question of whether the costs of attending toy fairs and product launches is an important one because of the amounts involved. W$8 million is 6.5% of Happy Play's operating profit and almost 1% if revenue. The question of whether the costs can be capitalised should be determined by referring to the requirements of IAS 38 *Intangible assets***.**

It could be argued that this expenditure results in intellectual property in the form of knowledge and business contacts that will better equip Happy Play to conduct business. The company's buyers will be aware of future trends in toy production. **T**o meet the IAS 38 definition, the asset would have to be either separable or would arise from contractual or legal rights. The asset is not separable because the intellectual property is not being purchased in a separate transaction and it clearly cannot be sold separately**.** The asset could arise from contractual rights in the sense that the intellectual property is associated with the knowledge held by employees. Employees are expected to use their skills under the company's management**.** If Happy Play wishes to capitalise this asset then it will be necessary to ensure that some basic precautions are taken to ensure that control is not lost, perhaps through the departure of buyers. The members of the Buying Department should be expected to submit detailed reports of their observations from attendance at each event and those reports should be circulated to colleagues in Buying and Purchasing.

IAS 38's recognition criteria must also be considered. There must be an expectation that future economic benefits will flow to Happy Play and that the cost of the asset can be measured reliably**.** The future economic benefit criterion is complicated by the fact that Happy Play finds it necessary to attend these events every year, with each annual cycle of meetings focussing on the following year's trading cycle**.** It could be argued that much of the knowledge gained from having the opportunity to learn about future product releases will have little value after 12-18 months and so the future economic benefits will be restricted**.** It could be argued that there is some value in meeting with manufacturers' management teams has a continuing value, although it should also be considered that Happy Play is a major retailer and, as such, should have little difficulty in trading effectively with manufacturers**.**

Overall, these costs should be expensed.

SECTION 2

Negotiation with supplier

Happy Play should start by checking the agreement that it reached with the manufacturer when it placed the order and possibly obtaining legal advice. It may be that the manufacturer will be in breach of contract with Happy Play, in which case there could be a legal remedy open to compel the manufacturer to complete delivery by the date specified in the order. If Happy Play can impose penalties or seek compensation in the event of late delivery then it will have a stronger bargaining position, provided those penalties are material**.** The terms will have to be studied carefully because it may be that the contract simply allows Happy Play to cancel the balance of the order in the event of any delays and so there will be very little benefit in enforcing that right**.** It may be possible to seek a concession from the manufacturer in return for Happy Play's agreement not to enforce its contractual rights. For example, Happy Play might receive half of the units that are due to arrive in Westaria in time for the 4th quarter, provided it accepts the balance of the order after the holidays and does not accuse the manufacturer of breach of contract.

Senior managers from Happy Play's Purchasing and Buying Departments should meet with senior account managers at the manufacturer to negotiate a mutually satisfactory outcome. It is clear that neither party will benefit from Happy Play feeling let down. It should be pointed out that Happy Play took a significant risk when it placed a large order before the Robbott toy had been launched. It would be foolish for Happy Play to make such orders in the future because it will be committed to taking delivery of the order even if the toy proves unpopular, but there will be no upside risk because the manufacturer may favour rivals with deliveries if the launch is a success. The manufacturer should be reminded that Happy Play is a specialist retailer that sells a wide range of toys. Happy Play can buy products that supermarkets and other retailers would be unable to stock because they sell much narrower ranges and so the manufacturer should reconsider its priorities**.** Happy Play may be able to offer further concessions that would be difficult to obtain from a competitor. For example, Happy Play might offer to promote a new toy from next year's range on its web page and in its shops in return for receipt of the balance of the order**.** Happy Play will have to promote toys in any case because that is how it attracts customers. It may even be particularly desirable for Happy Play to support the manufacturer if it launches an upgraded version of Robbott.

Selling price

It could be argued that Happy Play has earned an opportunity to earn a windfall profit, either through shrewd purchasing or good luck. Arguably, the Board should aim to maximise the benefit from this opportunity. The new toy has captured the imagination of children and their parents appear to be prepared to go to significant lengths to buy one**.** The fact that some individuals are reselling their copy for twice what they paid suggests that Happy Play could increase its selling price by, say, 25-50% and would still sell out**.** There will be no need to incur any costs in order to achieve these sales at a high price because the press will draw attention to the fact that fresh stock is for sale.

The inflated selling price might make the toy even more desirable and so Happy Play's reputation as a specialist toy retailer could be enhanced. Happy Play is the smaller of only two specialist toy retailers in Westaria and so drawing attention to its ability to supply this highly desirable toy might help it take some sales away from Gleetill**.** The customers who are attracted to Happy Play shops will be self-selecting as willing to spend heavily on this item and so they may be prepared to buy other expensive products**.** The newspaper coverage of the demand for Robbott could help to create the sense that Happy Play is an aspirational place to shop, where anything customers can buy whatever they wish provided they are willing to pay.

The most obvious disadvantage of increasing selling prices would be that Happy Play could be perceived as greedy. The press might investigate the fact that Happy Play is the only retailer in Westaria that has stock of Robbott and present the story as one of corporate greed. It will look as if Happy Play predicted the demand for the product and placed a huge order to force customers to buy from its shops. That may discourage customers from buying other products from Happy Play**.** The advantage gained from the sale of Robbott will be short-lived because popular toys tend to be copied and the market becomes saturated with similar products. That could leave Happy Play in a difficult position because of the loss of goodwill**.** Customers could also be confused over Happy Play's pricing policy, believing that the high prices charged for Robbott indicate that it charges high prices for its other toys.

Toy manufacturers might be nervous about agreeing to give Happy Play large orders in the future because they may be afraid that their products will be sold at high prices**.** Manufacturers may be concerned that their products will be perceived as expensive and so sales of future products might be adversely affected because consumers believe that they are overpriced**.** Happy Play will be at a particular disadvantage if it cannot obtain supplies of the latest toys, given that it is a specialist retailer. Most of its rivals can afford to offer a narrower range.

SECTION 3

Goodwill on acquisition

The goodwill on acquisition will be determined in accordance with the requirements of IFRS 3 *Business combinations.* Happy Play must determine the fair value of the identifiable net assets that it will acquire when it invests in the equity of Toy Consulting. That creates a challenge because Toy Consultancy has valued its non-current assets at cost less depreciation or amortisation.

Determining the fair value of the proprietary software will be difficult because its value is likely to be determined in relation to the features that the software has and the extent to which the software could be easily replicated **T**here may not be an observable market for software that would enable comparisons to be drawn between Toy Consulting's software and open market prices**.** That challenge might be overcome by asking Toy Consulting's IT staff to identify one or more packages that would be commercially available as replacements for their own. In that case, Happy Play could investigate the cost of those and use that as an estimate of the fair value**.** Alternatively, Happy Play could provide a software house with the specification of the software and could ask for a quote for the development and installation of software with those features.

Valuing the property, plant and equipment is complicated by the fact that the assets are located overseas, which implies that Happy Play will not be familiar with local market trends that would determine fair value. Furthermore, the assets are quite specific. Determining the fair value of buildings, in particular, is complicated by the fact that market prices can change significantly over time**.** The key to valuing the buildings is to seek the advice of local property experts. They may not be capable of determining the precise value with any certainty, but at least their advice will be impartial**.** The IT and office equipment might be estimated in terms of establishing the current market price for new assets and adjusting those to reflect the assets' ages. Again, those values would be defensible.

Business risks

The biggest concern with product risk is that Happy Play will be placing much larger orders than it usually would for newly developed toys. It will be placing a great deal of trust in the recommendations made by Toy Consulting and there could be a substantial downside if those recommendations turn out to be misleading. Toy Consulting has a deep understanding of the toy industry, but it is effectively predicting future sales on the basis of its experience and understanding of the factors that have affected toy sales in the past. Those factors may not necessarily assist in the accurate prediction of future sales. Happy Play will face a significant risk of being left with unsold inventory when it places large orders on the basis of recommendations from Toy Consulting, Happy Play's present buying practices involve buying a range of different products, which spreads the risk. It is to be hoped that some of those toys will sell well, even if demand for others proves disappointing. Placing very large orders for individual toys could also increase the risk of poor sales because

Happy Play may then be the only retailer that is promoting those products, so the risk of poor demand will be even greate**.**

This arrangement could distort the pricing of toys once manufacturers are aware of it**.**If Toy Consulting informs a manufacturer that a particular toy is expected to sell well and that it has advised Happy Play to place a very large order then the manufacturer will have an advantage in any price negotiations. The manufacturer will know that Happy Play is keen to order in bulk and that it may not necessarily insist on a quantity discount in the course of those negotiations. Manufacturers are likely to seek Toy Consulting's advice at the design stage of products and so a positive report could lead to increased production runs that will enable the manufacturer to fulfil Happy Play's order and have sufficient left over to sell to other retailers**.** Paradoxically, rival retailers might then be in a stronger position to negotiate discounts and so put Happy Play at a disadvantage **.**

The contractual relationships between Happy Play, Toy Consulting and the manufacturers may be complicated and could prove costly to the Happy Play Group. Toy Consulting will have to declare its link to Happy Play when offering advice to its clients **.**Manufacturers might then put Toy Consulting under pressure to overstate the likely success of the product ranges that it has been advising on. They may accuse Toy Consulting of negligence if its advice does not lead to a large order from Happy Play**.** There could be further complications arising from the relationship between Happy Play and the manufacturer with regard to promotion and advertising. If Happy Play has placed a large order then it may leave the manufacturer with little incentive to promote the product **.**Happy Play will have to pay a great deal of attention to negotiations to ensure that manufacturers do not abuse the fact that the retailer has effectively relieved them of much of the stress associated with launching the product **.**Happy Play will also have to ensure that it pays close attention to the specification of the products that it orders in case manufacturers decide to cut costs in production and before delivery to Happy Play.

SECTION 4

WACC

Happy Play's WACC is a weighted average of the costs of its issued debt and equity. If it issues additional shares then the weighting attached to equity will have to increase .The cost of equity is generally higher than the cost of debt because equity holders take more risk than lenders and so the change in weighting will increase the overall WACC .The increase might be even greater because the shareholders might think that this is a risky investment for Happy Play. If there is a greater risk then the cost of equity will increase and so push up WACC by even more than just the weighting .This uncertainty could persist for some time until it becomes clearer whether ownership of Toy Consulting will prove profitable for the Happy Play Group and whether the additional profit will justify the additional equity issued .Lenders might also become nervous if there are doubts about the Group's ability to cover the running costs of the new subsidiary. That could lead to increased lending costs on any further loans that are taken out.

Increasing WACC will put Happy Play's Board under pressure to ensure that they provide shareholders and lenders with the increased required rate of return, otherwise there could be a decline in the share price or demands for early repayment of debt .That could be indicated by a decrease in Happy Play's share price, which might make the directors nervous about their future employment prospects .Any future investments that Happy Play makes will have to offer an acceptable return that exceeds the cost of finance. WACC is not necessarily a suitable IRR for any given investment, but an increased WACC will generally result in the need for a higher IRR .A bad investment that increases WACC could restrict future growth opportunities if the required rate of return is inflated .Concerns about WACC are not always readily observable because companies do not publish their directors' estimates of WACC and costs of equity can be calculated, but the figures used in those calculations can be volatile .

Net present value

The biggest difficulty is in estimating the value that Toy Consulting will add, if any, to the Happy Play Group. Happy Play's buyers are already capable of selecting toys for the company to purchase and resell at a profit .Acquiring Toy Consulting may not necessarily enhance Happy Play's ability to forecast future demand. Happy Play already employs at least one buyer who has worked with Toy Consulting and who may already have much of that company's expertise .Toy Consulting's staff could put Happy Play at risk because they will wish to demonstrate that they can add something to Group performance, which could lead them to make reckless recommendations that will cost Happy Play if it accepts them .It is debateable whether Happy Play needs to buy Toy Consulting in order to benefit from its expertise. It can employ the company on a consultancy basis in order to advise on difficult market sectors .Arguably, the only real benefit that the acquisition will bring about will be in respect of denying this expertise to other retailers.

There is no guarantee that Happy Play will be able to retain the services of Toy Consulting's consultants if the company is acquired**.** Presumably, the retailers who currently rely on Toy Consulting's advice will be keen to retain their access to that expertise and also prevent it from becoming exclusively Happy Play's**.** It is possible that they will react to any acquisition by seeking to recruit Toy Consulting's analysts **.** The loss of consultants will undermine the whole point of the acquisition from Happy Play's point of view and will leave the Group with the need to cover the operating costs, such as salaries for administrative staff**.** Again, Happy Play could obtain much of the benefit of owning Toy Consulting by employing some of its consultants, as it already did by hiring the consultant who enabled it to take advantage of the Robbott toy.

Happy Play's ownership of Toy Consulting could have a drastic impact on the company's ability to maintain its relationship with the toy industry and so the quality of its recommendations could decline**.** Toy Consulting advises retailers as well as manufacturers, but it will no longer be free to do so once it has been acquired by Happy Play. That will impair its ability to gather intelligence from the retail side**.** That may reduce the level of interest from manufacturers, leading to an overall deterioration in the value of Toy Consulting's advice**.** Manufacturers may also mistrust Toy Consulting because they will be concerned that any advice that is offered could be biased towards the interests of its parent company**.** For example, the potential market for a proposed new toy could be understated in order to assist Happy Play to negotiate a lower price.

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

MANAGEMENT CASE STUDY

November 2022 & February 2023

EXAM ANSWERS

Variant 3

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

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

SECTION 1

Business model

Happy Play defines value in terms of consumer choice, offering "exciting and desirable" toys to choose from. Children are likely to be drawn to branded products that are advertised and are popular with their peers. Having a manufacturing company within the Group will not necessarily attract more customers to Happy Play shops. Nevertheless, once customers are in the shop, they may be attracted to generic toys because they are less expensive and might be purchased as impulse buys. Having an in-house manufacturer will enable Happy Play to offer generic toys that are suited to local tastes and that can be used to complement branded goods in the overall shopping experience. Having an in-house manufacturer will enable Happy Play to fine-tune designs, replacing products that do not sell well with others that do. For example, tracking customers browsing habits on the Happy Play website will make it possible to identify products that are viewed online but not purchased.

Happy Play creates value by offering customers the "latest and best" toys as well as popular classics. Owning a manufacturer will certainly help Happy Play to define "popular classics" in a manner that best suits customer tastes. Plavamk might, for example, create a range of generic board games that are nicely presented and of good quality. Those could sell well alongside more expensive branded products. Plavamk could also adapt generic toys to reflect trends in the toy market. Happy Play's buyers can bring back thoughts and recommendations from toy fairs that might enable Plavamk to update the designs to make them more relevant. For example, customers might be more likely to buy a generic plush toy that has features that are associated with the latest branded equivalents, such as electronic voices.

Happy Play delivers value through its sophisticated inventory management system that ensures the availability of toys whenever they become available for sale. The acquisition of Plavamk will not affect Happy Play's inventory management in the first instance, although that could change if the Group integrates Plavamk's operations into its own. Plavamk will supply up to 9% of the products sold by Happy Play. There may be scope to exploit that synergy by scheduling production so that goods are manufactured and shipped just in time to distribute them to shops. Happy Play often takes delivery in advance of its requirements in order to be certain that it has inventory ready for key dates. Ownership of a manufacturer will give it greater control and so that will not be necessary. The question of whether such an arrangement with Plavamk would be practical really depends on the company's production capacity and its ability to be flexible. It may not be efficient to vary production rates for products such as board games to allow for seasonal demand.

Happy Play captures residual value by making its shops attractive and relaxed places to visit. Acquiring Plavamk will create opportunities to enhance the ambiance. For example, displays of plush toys that are branded with the Happy Play logo will look attractive even if customers do not wish to buy them. The fact that Happy Play makes its own toys will emphasise that it is a major retailer, and so customers will recognise that they are likely to find whatever they are looking for. The danger is that shop managers and staff might try to push customers to buy these toys because they will offer margins. That might make customers feel uncomfortable.

Business risks

Selling Plavamk's toys as generic and unbranded products through Happy Play shops will create little or no product risk. Customers are unlikely to pay much attention to the reputation of generic toys unless there is a major event such as a product recall due to a safety issue. Customers will be able to judge the quality of the simple toys manufactured by Plavamk for themselves at the time of purchase and are unlikely to pay a great deal of attention to those toys afterwards. If Plavamk's toys are sold under the Happy Play brand, then their reputation will be enhanced through their association with the Happy Play name, and so customers might pay a little more attention to quality. If they subsequently believe that they have misjudged or been misled over quality, then they may be more inclined to complain, which could be a problem if they do using negative reviews on Happy Play's website or social media sites. There is mitigation arising from the fact that Plavamk has control over the design and manufacture of its toys and so the Happy Play Group can control quality much more easily than it can with products from third-party manufacturers.

Acquiring Plavamk should create an upside risk about the efficiency of buying, and so operational risk should decline. Happy Play's Buying Department should be able to agree on a range of products that will be made by Plavamk and so should be able to devote more time to the 50% of generic toys that will be manufactured by third parties. There could, however, be downside operational risks because of the fact that Happy Play has no experience in managing a manufacturing company and commissioning products for manufacture. There is a risk that problems will emerge because Happy Play's instructions are unclear or its expectations are unrealistic. The fact that Happy Play is making 50% of its generic toys in-house might also have unforeseen consequences with regard to the manufacturers who will supply the remainder. They might be less inclined to support Happy Play and give it a priority because they are now effectively in competition.

SECTION 2

Classifying investment

Plavamk will only be a subsidiary of Happy Play in the event that it is subject to Happy Play's control. The fact that Happy Play will own 80% does not necessarily make it a subsidiary. IFRS 10 *Consolidated financial statements* set out the definition of control. Power is defined in terms of the ability to exercise power and in terms of returns from the investee.

In this case, Plavamk's operations will be subject to the control of a management team that reports to Happy Play's Marketing Director, which implies that it will be subject to a significant degree of control. Mr. Choi will retain 20% of Plavamk's equity and has the right to be consulted on "major decisions" that will affect the company, but that does not necessarily give him control. The fact that he can block major decisions that he disagrees with will enable him to exert some influence, but it does not permit him to prevent Happy Play from exercising control in a practical sense, and so the criterion for the parent-subsidiary definition would apply. The only concern would be that the contract for the sale of the 80% holding to Happy Play does not clarify what is meant by "major decisions" and "extreme circumstances". If Mr. Choi makes excessive use of that right, then it might be argued that neither Happy Play nor Mr. Choi has effective control.

Happy Play will only have control if it can demonstrate that it is exposed to variable returns from its investment in Plavamk. As an 80% shareholder, Happy Play will clearly face most of the financial risks associated with Plavamk's performance. The fact that Happy Play and Plavamk will also have a trading relationship does not alter the fact that this new venture will create business risks for Plavamk. Happy Play must also be able to use its power over Plavamk to affect the number of Plavamk's returns. That is clearly the case here because Happy Play's Marketing Director will also supervise the management team. It will also have the ability to manage the value and number of contracts that it gives to Plavamk and so can manage performance indirectly.

Responsibility centre

Happy Play should aim to obtain the greatest possible benefit from the fact that it appears that Plavamk's existing management team will continue with the company, and so they have already demonstrated their skills and experience. Happy Play's management team has no direct experience in manufacturing, and so it is logical to grant Plavamk's management team as much discretion as possible. That suggests that Plavamk should be established as a profit center, making the management team responsible for managing costs and revenues. Products will be designed by Happy Play and will be priced at market prices, but Plavamk's management team can still work to maximise revenues by delivering good quality products and by advising Happy Play's buyers concerning design. Plavamk's management team is already experienced at managing and minimising operating costs without compromising quality.

Establishing Plavamk as a profit centre should protect the interests of both Happy Play and Mr. Choi. If Plavamk makes a healthy profit, then Happy Play will benefit because its subsidiary will be adding value that will benefit the Group. Happy Play will face some loss because 20% of Plavamk's profits will belong to Mr. Choi, which could lead to the Group paying more for generic toys than it would from a third party. That loss will occur in any case because it has been agreed that Plavamk will charge market prices for internal sales. Reporting Plavamk's performance as a profit centre will help align the interests of its managers with those of the Group as a whole and so reduce the risk of dysfunctional behaviour. Encouraging the management team to maximise profit will also reduce the risk of putting Mr. Choi in a position where his interests as a minority shareholder are being overlooked and abused. Maintaining his trust is important because he has the power to veto any major decisions affecting Plavamk, and he might be inclined to make use of that veto if he believes that his interests are not being taken care of.

It could be argued that Plavamk might even be established as an investment centre, so that the management team has even more discretion. The fact that there is direct Board oversight through Happy Play's Marketing Director would help to ensure that any funds were used effectively in the overall interests of the group. Unfortunately, any investments that will require additional funding could create complications with Mr. Choi. He might be unwilling to make any additional investment in Plavamk to match Happy play on an 80:20 basis. Happy Play's shareholders might be reluctant to see the Group meet the whole cost of any capital expenditure if, technically, 20% of the assets acquired will belong to the minority shareholder. Retaining profits in order to accumulate equity in Plavamk that might be reflected by cash would overcome those problems, but it could further complicate the relationship with Mr. Choi, who may be unhappy about having no dividend income. If significant investment is required, then the management team can still communicate their needs through Jamil Ahmad, and he can make a case to the Board that might deal with any problems with Mr. Choi.

SECTION 3

Project team

The team should be led by a senior buyer. From a marketing point of view, the most important aspect of the development of any new product is that it will satisfy customer needs. The Buying Department has experience and expertise in selecting toys for purchase and so it knows what factors determine the popularity of any given product. That expertise can be applied to the creation of a Design Department. Logically, the Design Department should come under the control of the Marketing Director and should cooperate closely with the Buying Department. That logic suggests that the Buying Department should lead in the project to establish Design. If Buying takes the lead in the creation of Design, then it will reduce the risk of clashes of culture and attitude when the two departments eventually have to cooperate over the acquisition and creation of stock.

The management team at Plavamk should be represented by a manager with expertise in production management. The Buying Department's experience is in deciding whether to buy products that are already under development or in existence. The Buyers do not know the implications of adding features or changing specifications. The Buyers certainly do not know the capabilities of the specific plant and equipment that Plavamk has. They may wish to add features to toys that would be technically feasible but would require an unacceptable investment in the factory. Having the factory management act as second in command will avoid demotivating factory staff because of concerns that they will be asked to undertake work that is beyond their capabilities.

Finance should be represented by a senior management accountant. There is little point in creating products unless they can be sold at a profit. The management accountant will also be able to input into what are essentially make or buy decisions with regard to generic toys. It may be cheaper to buy some products from third parties, even though Plavamk could manufacture them if asked. Making management accounting third in terms of priority does not mean that it is any less important than Buying or manufacturing management. It is more a question of ensuring that the Design Department has the freedom to be creative in the first instance. Realistically, the Finance Department can ensure that there is an iterative process in which designs can be modified if they would be too expensive to make.

The Logistics Department should be represented to ensure that designs can be stored and transported cost-effectively. Added features may offer a sales advantage, but they could also increase the weight of products or make them more fragile and so require more time and effort in handling. Even if the Logistics Department is the most junior participant in creating Design, it will be possible for it to ensure that inventory management is not overlooked entirely.

Accounting for costs

This expenditure will have to be accounted for in accordance with the requirements of IAS 38 *Intangible assets*. It could be argued that all of the Design

Department's activities are effectively focussed on the development of new products that are likely to be brought to the market and so could qualify as intangible assets if they meet the recognition criteria set out in IAS 38. Those criteria must be met before the expenditure is incurred, otherwise, the costs will have to be written off as expenses. That suggests that the Design Department will have to be managed proactively and detailed records will be required.

Each project will have to be considered separately and on its own merits. It has to be clear that Happy Play is willing and able to complete the product and will bring it to market to generate future benefits. Care will have to be taken over products that may not meet the criteria. For example, Design might be working on prototypes that will be demonstrated to Buying and might not be sold as finished products. The status of each project underway will have to be decided and updated, so that costs can be capitalised from the decision to bring the product to market until the completion of the development work.

The development costs of products will have to be amortised over their commercial lives, which will require an estimate of the length of time that products will sell for. The life expectancy of generic toys could vary dramatically. Products could be expected to sell for several years in the case of a simple item, such as a draughts game, that will require little or no updating. Other products could be replaced after a year. As a starting point, the Buying Department should be asked to advise on whether it plans to reorder a newly-developed toy in future years or whether it plans to replace it with an alternative. The Logistics Department's records might also contain useful information about the maximum commercial lives of the generic products that Happy Play sells. That information would make it easier to set a realistic upper limit on the period over which development costs are amortised.

SECTION 4

Transfer pricing

Ideally, transfer prices will be set in a manner that aligns profit centre managers' interests with those of the entity as a whole. When that occurs, managers will have an incentive to trade with one another that benefits the company. In this case, it can be seen that the managers based in the north believe that they will be worse off if they transfer slow-moving inventory to their counterparts in the south and are resisting the transfer. It would be ideal if Happy Play could simply recall inventory from shops that have surplus inventory to transfer it to shops that are selling more quickly and price those transfers at the initial cost of the inventory. Such an arrangement would simplify Happy Play's bookkeeping and would avoid demotivating managers who believe that any adjustments are reducing their profits.

In this case, the concern is that the managers in the north believe that there will be an opportunity cost associated with transferring the inventory. It will be 2 months before fresh supplies of footballs will be received from Plavamk, and so the transfer may cost northern shops the opportunity to profit from the sale of this product if the weather improves before then. The alternative to waiting for a fresh shipment would be to buy inventory from third-party suppliers when the weather improves, but that would involve a higher unit cost and poorer quality. The managers in the north are understandably concerned that this transfer will harm their reported profits and so would prefer to have some compensation before they cooperate with the removal.

One approach that might help to reduce the impact on the northern shops of the transfer would be to set a market-based transfer price on the basis that the shops making the transfer have no surplus capacity. In that case, an optimum transfer price can be set at marginal cost + the opportunity cost of the lost contribution arising from the transfer. The marginal cost is essentially zero because the northern shops will be credited with the cost already charged for the inventory. The opportunity cost would be the 40% extra that the north shops will have to pay to replace the inventory from external suppliers, plus any lost contribution due to the shops having insufficient inventory when demand increases.

It may prove difficult to resolve this dispute through market-based transfer prices that align shop managers' interests because the managers in the south may feel that they are incurring a cost to compensate the north for failing to make sales. The opportunity cost could conceivably lead to south's shops making no profit from the sale of the additional inventory, which would clearly be demotivating. It may be more effective simply to instruct shop managers to cooperate with all requests from Logistics to make inventory available when asked and to apply disciplinary measures when managers fail to company.

Value chain

Procurement will be affected by the fact that Happy Play will rely on a single supplier to meet a significant proportion of its goods for resale. That could complicate inbound logistics because any disruption to shipping links between

Eastland and Westaria could significantly affect supplies of generic toys. That could occur for a variety of reasons, ranging from natural disasters affecting embarkation ports to the emergence of a trade dispute between Eastland and Westaria. There is also the concern that Plavamk operates out of a single factory, and so its ability to supply the Happy Play Group could be affected by accidents, strikes and any other matters that could impact production. These logistical challenges will have to be taken into account when scheduling production and placing orders with Plavamk. It would clearly be undesirable to run out of popular lines of inventory because of inadequate orders from the subsidiary. Conversely, placing excessive orders will raise difficulties because it would be difficult to find an alternative outlet other than selling the surplus at a reduced price.

Procurement could also have an impact on outbound logistics if inventory is likely to arrive in large quantities with each incoming shipment. That could create bottlenecks in terms of taking arriving inventory into storage. The goods purchased from Plavamk may be better valued than many of the generic toys purchased from third parties, as demonstrated by the dispute over the footballs. That could create pressure on the Logistics Department to give Plavamk's products priority when making deliveries to shops. Shop managers will be keen to have better quality goods, especially if they are branded with the Happy Play logo and especially if they offer a higher margin. Any adjustment to delivery schedules could have an adverse impact on the efficiency of inventory management and so could hamper outbound logistics.

MANAGMENT CASE STUDY

November 2022 & February 2023

EXAM ANSWERS

Variant 4

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

Predicting cash flows

The initial investment will be difficult to quantify without significant time and effort by Happy Play's Board because there are a number of matters that will have to be negotiated and decided before the costs can be quantified. The cost of leasing these larger shops will be difficult to determine without first entering into detailed negotiations with Shopleece because there are 55 shops, and so Happy Play will be in a strong bargaining position if it offers to take all of the recently vacated shops. Shopleece will also wish to negotiate and will not offer its best price unless it is clear that Happy Play is truly interested, otherwise, it will be wasting time that could be put to better use in approaching other potential lessees. There is also the question of the costs of breaking the leases on the 55 shops that Happy Platy currently leases from Shopleece. It cannot be taken for granted that Shopleece will forego any penalties, even if Happy Play is moving to larger shops that require higher payments. Again, this is a matter for negotiation. The cost of fitting out the new shops to make the best use of the additional space will also require more thought than the rough estimate proposed by Jamil Ahmad.

Happy Play will have to consider whether the additional space will attract more customers and whether it will encourage greater sales revenues. The company is already one of only two specialist toy retailers, and it already has a business model that is based on offering a wide range of attractive toys. Extending the range of toys on offer through these larger shops will not necessarily make it any more desirable to shop there because most retail rivals perform well while making do with a narrow range of the most popular toys. It could be argued that customer numbers will be largely attributable to the number of visitors to the retail park as a whole and that this might be a bad time to expand on these parks, given that there will be at least one empty shop on each. Happy Play will require some reassurance concerning the likelihood that the vacant shops will be occupied quickly and by retailers who will attract customers to these parks.

The running costs of the larger shops will also be difficult to determine. Staffing might be an issue, with additional floor space needing more staff for security purposes and also to ensure that shelves are kept well stocked and tidied. The larger shops may also attract more customers, and so additional staff will be required to ensure that there are sales advisers visible at all times. It will be difficult to predict how many staff are optimal because customers might be put off if they visit the larger shops and are unable to get adequate service because they are understaffed. Overstaffing will, however, be difficult to rectify. It will also be difficult to estimate the cost of heating and lighting the larger shops. The cost of electricity for the larger space may not be proportionately larger than for the existing shops. If customer numbers do not increase in line with the increased size of the shops, then Happy Play could be committed to an inefficient operation across half of its shops.

Characteristics of debt and equity

Debt is generally attractive as a source of finance because lenders generally face less risk than shareholders and so require a lower rate of return. There is also the advantage that interest on debt is tax deductible, which gives the borrower tax relief on interest and so further reduces the net cost of borrowing in comparison to the cost of equity. Lenders generally require security, which may be a problem for Happy Play because most of its assets are unlikely to be readily realisable in order to raise cash in the event of a default. The company leases its property and so it cannot secure the debt against buildings because they belong to the lessors who own them. The other concern with debt is that the cash flows associated with servicing the debt will be fixed, as will the increased operating costs associated with the expansion. Overall, the risks will combine to increase the overall threat that Happy Play will run out of cash.

Equity finance tends to be more expensive than debt because the shareholders are taking a greater risk. In this case, though, there is the reassurance that Happy Play is effectively expanding its sales capacity, and so the shareholders will be familiar with the risks that are being taken. Issuing equity is also relatively expensive compared to debt because of additional legal and professional fees, but the fact that Happy Play plans to raise a significant amount will make an equity issue cost-effective. A rights issue will allow existing shareholders to increase their investment and to participate in the potential returns from this growth strategy. A further advantage of equity is that Happy Play's gearing ratio is presently 236.3/ (236.2+274.8) = 46%, which is high and implies risk. Issuing equity of, for example, the W$120 million estimated by Jamil Ahmad will reduce gearing to a more acceptable 236.3/ (236.2+274.8+120) = 37%. Stakeholders will be less concerned that the company will struggle to meet its commitments if the investment is funded by equity.

SECTION 2

Consultancy fees

Happy Play must decide whether these costs are to be written off as expenses or whether they should be capitalised as intangible assets under the requirements set out in IAS 38 *Intangible assets*. It could be argued that the knowledge and expertise that are being purchased from the two consultancy firms are intangible assets as defined in IAS 38 for recognition as assets. Both consultancy services will be purchased externally, and so it would be appropriate to apply the recognition criteria to each in turn. Clearly, both meet the criterion that the cost of the asset can be measured reliably because the consultancy fees will be invoiced and so there will be no doubt as to their cost.

The more difficult criterion is whether it can be argued that this consultancy work will create future economic benefits that will flow to Happy Play. In the case of the retail consultancy, the Board will review the consultancy report and will decide whether to implement it. There is no need for the decision to be made prior to the receipt of the report. If the Board decides not to follow the retail consultancy's advice, then the fee will still have to be paid, but its cost will be written off as an expense. In the case of the design consultancy, it will be clear that the layout of the shops has followed the consultancy's advice, and so it will be a matter of fact that the report will generate continuing economic value. It will not be necessary to quantify the additional revenue that will accrue from following this advice. It will be sufficient to argue that the shops are laid out in a manner that is safe and efficient and that Happy Play's Board has implemented the advice.

If the costs are capitalised as intangible assets, then they will have to be amortised over their expected useful lives. The retail consultancy will be the more difficult to predict because it is unclear when Happy Play will alter its approach to the operation of these larger shops, if at all. The Board will have to review past operations to determine how often it updates its retail approach. The design consultancy's work may have the same useful life as that of the shelving and other equipment that Happy Play will install in these shops. The Board should have a realistic estimate of that for depreciation of its property, plant and equipment.

Negotiating leases

These shops are large and occupy prominent positions in 55 of Shopleece's retail parks. The company cannot afford to engage in extended negotiations with Happy Play. Shopleece will be under some pressure to make an early announcement about the forthcoming occupancy of these shops, otherwise, other retailers who lease at these parks will be reluctant to commit to renewing leases. The fact that there has been no further communication from Shopleece might suggest that the company is already in contact with other retailers who could be prospective lessees. Happy Play may be at risk of losing this opportunity unless it can demonstrate that it has a serious interest in leasing these shops.

If Happy Play agrees to move to these larger shops, then it will leave Shopleece with 55 smaller vacant units that will require lessees. While it will benefit from Happy Play relocating within its parks, it might be preferable to persuade retailers to move to its retail parks rather than relocate within them. It could be Happy Play's disadvantage to have these large shops occupied by retailers who might turn out to be competitors. If Gleetill takes any of these shops, then Happy Play will face competition from a larger retailer who occupies larger and potentially more attractive shops. Non-specialist retailers often sell toys and so having a large supermarket or catalogue store open up in shops vacated by a car spares company could affect Happy Play's revenues.

Happy Play should consider approaching Shopleece and offering evidence that it has a serious intention to make a formal bid for the leases on these shops. Signing contracts with the consultants would be a useful first step because that would commit Happy Play to spend W$23.5 million on developing plans to occupy the vacant units. Happy Play should discuss a deadline for a formal offer for these leases. Shopleece might be willing to agree not to force a commitment from Happy Play before it has had the opportunity to consider its plans. At the very least, Shopleece should be willing to agree to inform Happy Play of any bids that it receives before that deadline and to allow Happy Play to submit a counterbid.

Happy Play should be clear about its own reasons for moving to these larger shops and should not attempt to overplay its bargaining position because that might lead to Shopleece looking for rival offers. The fact that there are 55 vacant units will make it possible for Happy Play to attempt to negotiate a discount, but if it pushes that too far then Shopleece will have an incentive to leave Happy Play in its existing shops and to lease the vacant units to potential rivals. It may be in Happy Play's overall best interests to offer to pay the market price for these leases and to seek Shopleece's agreement that the smaller shops being vacated will not be leased to direct rival toy retailers.

SECTION 3

Real options

It would be ideal if Happy Play could have some flexibility to cancel leases on the new shops in the event that they prove too large and/or expensive to meet its needs. That possibility could be negotiated with Shopleece, but it seems unlikely that any such request would be granted because it would create the possibility that the vacant shops will be left unoccupied due to factors that Shopleece cannot control. Fixing leases at 10 years grants the lessor some security of revenue and reduces the risk of vacancies that will discourage other lessees from renewing their leases. It will benefit Shopleece to be able to inform stakeholders that Happy Play is committed to 10-year leases. Having break points in the lease will also be of limited value to Happy Play if there are no suitable properties available for it to relocate to if it cancels any of its leases. The 55 smaller shops that Happy Play will be vacating will, hopefully, be leased to other retailers long before any realistic break point is reached, and so the cancellation of a lease could lead to the outright closure of a shop.

Happy Play could consider insisting on having the flexibility to sublet retail space within these larger shops. If Shopleece agrees, then Happy Play could deal with shops being too large and costly to run by setting aside space to rent to retailers who sell a different range of products. This option would have to be defined and documented clearly before the lease is signed because Shopleece will wish to avoid third parties setting up on its property in case that disrupts business for other lessees. It might be difficult to identify suitable tenants for such a sublease. If their products are not in any way complementary to Happy Play's, then customers may be confused, and footfall may decline. Complementary products, such as children's books or casual clothes, might sell well alongside toys, but then Happy Play would risk the loss of revenue to customers who decide to buy a book or a dress instead of a toy. The tenant might also demand rights to impose penalties in the event that Happy Play decides to close a shop because of poor sales. This arrangement could actually leave Happy Play with less flexibility.

Shops on retail units are designed to be fitted out and adapted to meet the lessees' needs. If some of the shops prove too large for Happy Play's needs, then it would be possible to modify the layout by closing off part of the floor space. Customers would not have access to the whole shop and it could be operated with fewer staff. The enclosed areas would not require the same level of heating and lighting. The non-retail spaces within shops could be used for other purposes, such as inventory storage. Bulk supplies of toys could be stored there until their launch or until the busy 4th quarter. This possibility would be worth considering in terms of real options in the event that the shops are too large, but it would not be an ideal solution. The full lease charge would have to be paid in full, even if the space was not being used in full. It might also be expensive to enclose the surplus areas, bearing in mind the need to ensure that new internal walls were structurally sound and complied with fire safety regulations. The new walls would also have to be decorated.

Coaching Staff

The Motorotto staff may believe that they have little to learn about retailing because they are experienced in running large shops that sell complicated products that require technical skills to understand. They may resent the suggestion that they need to change their approach in order to adapt to a different retail environment, and so there could be conflict when experienced Happy Play staff attempt to coach them. It may be helpful to offer newly-recruited staff formal training, perhaps involving role play, to introduce the very real challenges that might arise. For example, a new appointee could be asked to deal with a tearful child who has just been told that a "must-have" toy is out of stock and will not be available for some time.

Companies have their own cultures and a sudden influx of large numbers of staff from a nearby Motorotto shop to its neighbouring Happy Play shop could lead to conflict. It is important to ensure that the incoming staff is full briefed on Happy Play's policies and that it is made clear that those will be followed, even if Motorotto's alternatives were effective and seem logical. Shop staff should report any failure to comply to their managers and further training should be offered in the case of recurring issues. Where possible, the reasoning behind the Happy Play approach should be explained in a non-judgmental manner.

Motorotto staff may resent selling toys after having been responsible for the sale of motor parts that were technically complex and could lead to expensive or even life-threatening problems in the event of a mistake. New staff could be coached by having them paired with experienced Happy Play staff who are engaged in replenishing shelves and engaging with customers in making selections. They could be encouraged to discuss the nature of the toys in different sections of the shop and their suitability for different age groups. They could also be invited to discuss the outcome of encounters with customers, focussing on whether it had been successful and how it could have been better.

SECTION 4

Value chain

Procurement will be complicated by the fact that the buyers will have to identify additional lines that can be used to fill the space that will be created by this new move. Deciding what to buy will be complicated by the fact that Happy Play is already the second-largest specialist toy retailer in Westaria and so must already sell an excellent range of toys. The Buying Department will have to make key decisions about the nature of the additional toys that will be sold through Happy Play Extra shops, whether those will be incremental additions to ranges that are already stocked or completely different products. The Purchasing Department will then have to decide on the most efficient approach to buying those toys, which will be complicated by the fact that it will be aiming to stock only 55/120 = 46% of the company's shops. It could be difficult to negotiate the best possible prices on those products because they will not be purchased in the same quantities as the normal inventory.

Inbound logistics will be complicated by the fact that the warehouse will have to deal with greater quantities of inventory to service the larger shops. There will be a wider range of goods, which could complicate storage arrangements within the warehouse, making it difficult to access each line of inventory in an efficient manner. The onward transportation of goods from the warehouse to shops will be complicated by the fact that trucks may not be able to service as many shops as before and so more trips will have to be made. That could both complicate arrangements and increase costs. The Logistics Department will also have more complicated issues with respect to slow-moving lines of items that are stocked only at Happy Play Extra shops. It may be difficult to relocate such inventory if the shops with the slow-moving lines are isolated. There may also be a greater risk of slow-moving lines because these lines will be purchased in order to fill space in the larger shops and may be less popular than the regular inventory.

Marketing might be complicated because customers might misunderstand the significance of the "Extra" designation in some shops. That could lead to a failure to recognise that Happy Play offers two levels of retail experience. Customers who wish to select and purchase a toy might simply go to their nearest shop, regardless of whether it is Extra and might not spend any more or less on the basis of the choice on offer. Some customers might choose to drive further in order to shop in Extra shops because they believe that the choice on offer will be significantly better. That could lead to sales being displaced from regular shops. It will be difficult to organise Happy Play's website because customers might browse for a particular item and then go to their nearest shop in order to buy it, without realising that the item is sold only in Extra shops. Any special offers that are advertised will have to be for toys that are available in all shops, otherwise customers could be confused and unhappy that they travelled to a shop that does not stock the item.

Accounting ratios

Happy Play will appear less profitable because capital employed will increase by more than 40% due to the new leases and any increase in operating profit is likely to be proportionately smaller. The lease payments on the larger shops will increase by 40%, increasing the principal sum shown in the statement of financial position. The terms of those leases will also be for a longer period than the leases that are about to be cancelled. Hopefully, the larger shops will have larger revenues and so more profit, but there will only be 3 months of increased activity, so the return figure is unlikely to increase by as much as 40%. Return on capital employed is the most significant profitability ratio, so the Board will have to take care to communicate the impact that these changes have had in the short term.

The gearing ratio will also increase, making Happy Play appear to be a riskier investment. The increase in the lease payments and their duration will have an immediate impact on the lease liability. That will decline slowly over the 10-year term of the leases. In the short term, the equity figure might also decrease if there are any expenses that have to be written off in relation to the move to the larger shops. Overall, that will increase the ratio of debt to equity even further.

The inventory turnover ratio will also appear to be slowing down because the larger shops will require additional stock to keep them active. This ratio is calculated on the basis of the relationship between inventory and cost of sales and it seems likely that inventory will increase in line with the increase in shop space, while the cost of sales will increase by a limited extent due to the fact that only 3 months of the year remain. Hopefully, that will be a temporary issue and the ratio will recover after the next full year of operations of the new shops.

MANAGEMENT CASE STUDY

November 2022 & February 2023

EXAM ANSWERS

Variant 5

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

Accounting for costs

All three of these matters should be accounted for in terms of the requirements of IAS 37 *Provisions, contingent assets and contingent liabilities*.

The possibility that claims could be made against Happy Play for injuries caused by the deterioration of the balls is difficult to assess. At present, no claims have been lodged against the company alleging injury. That could change in the event of a recall because the publicity might encourage customers to reflect on their experience with the product and lodge claims in relation to any damage or injuries incurred. The Board will have to determine the likelihood of material claims against Happy Play, which will be difficult to check objectively because there is no historical data to draw on. In this case, it might be sensible to disclose the possibility of a loss as a contingent liability, thereby warning the shareholders that Happy Play may suffer costs arising from claims but without necessarily quantifying the likely payment. The alternative would be to make no reference to the matter in the annual report, which would be consistent with IAS 37 if the Board believes that the likely claims are immaterial. It could, however, leave Happy Play's Board open to criticism in the event that claims materialise after the financial statements are published.

It could be argued that the cost of a recall should be accounted for as a provision under IAS 37. That would be required if there was an obligation to incur that cost and the cost could be estimated reliably. The question of whether there is an obligation is complicated by the fact that there is no specific legal requirement to do so. The Board could consider that there is a constructive obligation, which would arise if there was a reason for customers to believe that a recall would be announced. If there are no precedents that would clarify expectations relating to Happy Play, or even toy retailers in general, then it is unclear whether that criterion has been met. There is also the question of whether the cost of the recall can be measured accurately. Apart from the cost of publicising the recall, Happy Play will have to organise the logistics of collecting or accepting the toys and of their disposal in a manner that is safe and meets all legislation.

The question of the potential recovery against the manufacturer is a contingent asset. As such, it would not be disclosed in the financial statements. The problem that creates is that the shareholders might believe that Happy Play's Board has failed to seek redress from the manufacturer and so has incurred an unnecessary expense. It would be possible for the Board to explain that it intends to pursue a claim against the manufacturer without describing that claim as a contingent asset. If any such claim is successful, then the amount received from the manufacturer will be recognised and offset against operating expenses in the year in which the claim is settled.

Business risks

Product risk could be affected by pricing and by the implications associated with toys carrying the Happy Play brand. Manufacturers might find it necessary to charge more for products branded as Happy Play because they will have shorter production or print runs. The manufacturers will pass those costs on to Happy Play. If that price increase is passed on to customers, then even a few Cents added to the retail price could affect sales if the selling price exceeds a psychological price point. There could also be problems with perceptions of quality because of connotations of “own brand” products being of lesser quality in the case of supermarkets. Rather than being excited at being able to buy Happy Play branded toys, customers might favour toys from leading brands or even unbranded goods. It will be difficult to predict the impact that this specific branding will have on demand. It might not necessarily be consistent across the whole range of products.

This arrangement also creates additional product reputation risk. It is likely that Happy Play will buy generic toys that have been rebranded with its name and logo from many different companies. Those companies may not necessarily have brand names of their own, and so they may not have reputations to be concerned about. It will always be undesirable for Happy Play to sell products that are of poor quality or that prove to be hazardous, but it will be significantly more of a problem if the products carry the Happy Play brand. Customers will expect these toys to have been subject to stringent quality control procedures before they are released for sale with this branding. Any issues will reflect badly on other products that have been branded in this manner, even if they have been made by different manufacturers. It will be difficult for Happy Play to mitigate this risk through quality control or product testing because some problems will only arise over time and may require mishandling to bring them out.

SECTION 2

Project team

The Board should develop a clear set of objectives for the team so that the team members can be briefed and work together in order to develop a plan of action that is consistent with the Board's wishes. The Board should identify the factors that the directors wish the project team to investigate and the factors that it should consider in making a recommendation. A recall will clearly involve conflicting costs and benefits and so the outcome of the first phase must equip the Board to make an informed and defensible decision. The project should have a tight deadline, otherwise any recall will be too late to prevent accidents or restore Happy Play's reputation.

Clearly, the project team will require a range of skills and backgrounds to ensure that the key issues that are affected by this decision are considered and understood. Arguably, the project team should be led by a manager from Marketing because the key question is how the recall would affect customers' perceptions about service and product quality. The Board should also include legal expertise, perhaps hired from a legal firm if the company does not have a suitably qualified manager in-house. This decision could have legal consequences, especially if Happy Play does not recall this product. Finally, the team should include representatives from Logistics and Management Accounting, both of whom will have insights into the practical issues associated with the collection and disposal of the product.

The recall should be planned as a separate project once the Board has decided to commit itself to a recall. Using the same team who developed the recommendation could lead to confusion, with managers focussing on their intentions during the earlier stage rather than the Board's expectations. Again, the team should be given a clear set of criteria that should be taken into account in planning the recall, including a deadline for completion and a financial budget.

The recall team should be led by the Logistics Department because its managers understand the whole process of tracking inventory levels and transporting goods efficiently. There may be a need for external support from a consultant specialising in recycling waste materials. Ideally, Happy Play will be able to recover the plastic used to make the balls, which would be more sustainable than dumping it. The Marketing Department will have to be involved in communicating the recall, both through making customers aware that the recall is in effect and by communicating the responsible manner in which Happy Play is dealing with this incident. The Finance Department will also be involved in tracking the costs associated with the recall and the subsequent recycling or destruction of the products. Finance will also have to devise a secure and effective system for handling the refunds.

Data from Club Card

The Club card gathers data on interactions between Happy Play and its customers. When a customer makes a purchase online or in a shop, the card records that data. It also tracks data relating to customers browsing the website, even if they do not purchase anything.

The data means that Happy Play has a profile of the shopping and browsing histories of customers who purchased the defective product. The data will enable Happy Play to establish whether customers who bought one of these balls tend to be heavy spenders. If they are, then it would make sense to proceed with the recall in order to retain their loyalty. The data will also give some insight into customers' future spending plans. Customers who have recently browsed for an expansive toy could return to the website to make a large purchase. Again, those customers are worth encouraging. It will also be possible to track whether customers who purchased one of the defective items have reduced the frequency of their visits to the website or purchases from shops. Any such reduction would further justify the decision to recall. Analysing other purchases will give Happy Play an impression of the age ranges of the children in the households that purchased this product. That could be useful information in terms of deciding on the business risks that might be avoided through a recall.

The data collected through the card will assist in the planning and implementation of the recall if it goes ahead. The customer data collected by the card will provide information such as the home addresses of customers and so their distribution in relation to individual Happy Play shops. Knowing where customers live will enable Happy Play to make plans for the management of any recall. It will also be helpful for Happy Play to determine how many customers who bought this defective product can be contacted directly through the app on their phones or other contact details collected by the app. If Happy Play has direct contact with a significant proportion of those customers, then it will be possible to simplify the arrangements for organising returns and refunds. It may also be possible to justify publicising the recall in a relatively low-key manner through other media, thereby minimising the adverse publicity associated with admitting to have sold an unsafe product.

SECTION 3

Munntoy

In order to be classed as an associate, this investment would have to meet the definition set out in IAS 28 *Associates*. In order to be applicable, Happy Play will have to be capable of exercising significant influence over Munntoy, which implies the ability to participate in operating decisions but not the ability to control. In this case, Happy Play will have one-third of Munntoy's equity and the ability to appoint one of three directors. That would normally give a shareholder significant influence. The ownership and management rights are complicated by the fact that Amal Thukku will retain a controlling interest in terms of equity and will have control over two of the board seats, giving him a guaranteed vote on all board decisions. The fact that Mr. Thukku is selling shares in order to raise external equity funding also implies that he has no intention of giving up his position of outright control.

It may be possible to renegotiate the terms of the agreement with Mr. Thukku in order to address the uncertainty about Happy Play's position. One possibility would be to seek the right for Happy Play to appoint two directors, giving a total of four. That would enable Happy Play to take an active role in management, without having control over Munntoy's board. The alternative would be to make the agreed investment and to observe the relationship between Happy Play and Munntoy. It should be possible to establish whether Happy Play has influence through the outcomes of board meetings. Happy Play's director should make a point of attending all board meetings and studying all reports and statements and attempting to take an active part in management. His or her ability to influence decisions will then be apparent. There is also the extent to which Happy Play's role as a major customer might also grant some influence. The director will be able to point out that Munntoy might lose orders if Happy Play is unhappy with the manner in which it operates.

Pricing

Happy Play should start by considering the nature of the products that it will purchase from Munntoy. These will not be made or advertised by a recognised manufacturer, and so they should be regarded as generic, even if they carry the Happy Play brand. Generic toys are generally less expensive to buy and are sold at lower retail prices than their branded equivalents because they do not carry the benefits of brand recognition and they are not supported by expensive marketing. It will be difficult for toy retailers to compete with one another on the basis of the retail pricing of their generic toys because they are not directly comparable based on price. A generic toy might be more expensive because it is of higher quality than similar products sold by competitors. Retailers might address that issue by offering a selection of generic toys of a particular type and pricing them according to the wholesale price paid to suppliers. Customers can then decide on the amount that they are willing to spend, with a more expensive toy being of a higher quality. The decision about the trade-off between price and quality is clearly a subjective matter and will be difficult for retailers to judge precisely.

It would be logical for Happy Play to sell its branded products at a higher price with the expectation that doing so will signal higher quality. If customers believe that, then they may be inclined to pay more and so margins and revenues will increase. Customers might be prepared to pay more for products that carry Happy Play's name, and so the retailer is effectively endorsing their quality. Customers might even believe that Happy Play has manufactured the toys itself, thereby adding credibility to quality control procedures. It would be acceptable for Happy Play to create such perceptions because Munntoy is a high-quality manufacturer that is trusted by manufacturers of branded goods to undertake manufacturing on their behalf. Customers who shop in Happy Play's stores will be able to examine these toys before they buy and so they will be able to form an opinion on their quality.

It would be foolish for Happy Play to reduce its prices because it should aim to make the maximum possible profit from its association with Munntoy. It is paying W$25 million to develop a trading relationship, and it is appropriate to take every opportunity to signal the quality of its products. There is no great competitive advantage in reducing the prices of generic toys. Customers cannot compare prices between retailers because of differences in quality and features. Happy Play aims to match the cheapest prices on branded toys and so it should already have a reputation for competitive pricing. Generic toys are often intended as impulse buys or as pocket money products. That suggests that there is little need to sell them at reduced prices because customers will often pick up one or two generic items when they are in a shop anyway to make a larger purchase. If sales are slow, suggesting that Happy Play has overpriced these products, then the company can always create a sales promotion by offering a temporary price reduction in order to investigate whether demand improves. Customers might then be enticed to buy in order to take advantage of the resulting savings. That approach avoids the opportunity cost that would arise from an under-priced introduction.

SECTION 4

Conflict

Happy Play is concerned that Munntoy refuses to commit to a profitable order worth W$1.78 million because a third party might offer Munntoy an even larger order. There is clearly a conflict between the commercial interests of the two companies in this case because Munntoy's production capacity is a finite resource and Happy Play appears to expect priority that Munntoy is unwilling to grant. Munntoy appears to be willing to delay acceptance of an order from Happy Play even though there is no guarantee that it will be able to win the preferred order from the brand-name manufacturer. The interaction between Aileen and Mol appears to suggest that the management teams of the two companies have a different understanding of the relationship arising from Happy Toy's equity investment in Munntoy. Happy Toy believes that there is a deeper business relationship between the companies, while Munntoy views the investment as a means to an end in the longer term.

Happy Play should be clear about its needs and expectations from Munntoy. It has already made a large investment in Munntoy's equity, and it would be difficult to sell its shares because Munntoy is an unquoted company. It should not rely on its shareholding to force any concessions from Munntoy. In the first instance, Happy Play should approach Munntoy and should aim to identify ways in which the two companies could develop a mutually beneficial trading relationship. Happy Play funded the expansion of Munntoy's production capacity, so it clearly has an interest in buying from the company. It would make sense for the two companies to coordinate their plans so that orders could be placed to put the increased capacity into production as soon as it is ready. In the short term, Happy Play should point out that it is a major retailer that can offer Munntoy a significant amount of business, subject to there being a mutual desire for cooperation and support. In this case, Happy Play could reinforce that by attempting to delay placing its order until Munntoy knows whether it has secured the larger contract. If Munntoy succeeds, then Happy Play can find an alternative supplier.

Product design

Careful analysis of any new product can create the opportunity to design costs out at the design stage. Removing parts or simplifying the design can reduce the unit cost throughout the product's lifecycle. Munntoy's experience in manufacturing makes it capable of accurately costing the savings associated with modifications to a design. As a retailer, Happy Play's expertise is in evaluating the sales potential of toys that have been designed and are being produced by third parties. Happy Play has no manufacturing experience. The toy will hopefully retain its basic characteristics and will still be of the high quality associated with Munntoy products, and so it will still meet Happy Play's requirements.

Given that Munntoy has limited production capacity, simplifying Happy Play's design will commit less of that capacity, and so it will be easier for Munntoy to fulfil this order. If Happy Play accepts this advice, then it might help to develop a strong business relationship between the two companies. Happy Play will be demonstrating trust in Munntoy and also recognising the need to adapt. If the production run is shorter because of those adjustments then, Munntoy will be ready to start work on the next order.

Munntoy's modifications will reduce production costs slightly, but this was already a profitable product for Happy Play. It planned to pay W$3.56 for a product that would retail for W$9.99. The W$3.56 was described as generous and seems to have been acceptable to Munntoy. Thus, it is debatable whether the modifications are actually beneficial. Simplifying the design could have an adverse effect on the aesthetics of the toy. That could have an impact on the number of units that will be sold. In this case, the toy will be less colourful and will not be the same shape, which could make it less realistic or less tactile. Happy Play has much more contact with customers and much greater experience of marketing toys than Munntoy, and so it could be unhelpful to implement the changes.

Permitting Munntoy to suggest design changes could undermine trust between the two companies because it will be difficult for Happy Play to check that prices are realistic. Munntoy could make changes that are motivated more by a desire to reduce its own production costs, and there is no guarantee that those reductions will be passed on to Happy Play. If Munntoy changes designs significantly, then Happy Play will find it difficult to compare prices charged by rival manufacturers for similar products, and so Happy Play could be overpaying a major supplier.

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

MANAGMENT CASE STUDY

NOVEMBER 2022 & FEBRUARY 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

Happy Play App

The data will give Happy Play the ability to chart the distribution of customers living within the catchment areas of each of its stores, identifying characteristics such as household income and spending habits. That data will enable the company to identify shops that have a concentration of customers who might be willing to buy expensive items such as prams and cots for their own infants or as gifts for family members. That would enable Happy Play to select branches that might be suitable bases to trial the sale of baby products before rolling it out across all shops if it is successful.

Customers might be reluctant to buy a product such as a pram unless they can see it and handle it in a shop. The geographical analysis might be particularly useful in identifying customers who tend to shop online, but who live within convenient driving distance of a Happy Play shop. Those customers might be receptive to an invitation to visit their local shop if they are in the market for a baby product. The website might also be programmed to use data from the App to recommend products such as prams and costs when customers who have babies are browsing.

Cardholders can be encouraged to update their records whenever a baby is born into their family. That would enable Happy Play to target those customers with information and offers about products that would be suitable for the child at different stages of infancy. For example, parents often prefer to use a pushchair

rather than a pram once a baby is a few months old. For the moment, Happy Play can use the data to establish how many of its App users are known to have small babies, who might be a suitable target audience for this new range of products.
This data will only be of value if potential customers are signed up for the App. Many of the customers who have expressed an interest seem to be buying baby toys as gifts rather than for children of their own. Such customers might not have downloaded the App, or they might have done so but input the ages of their own children. That could lead to Happy Play understating the potential market for baby products amongst its App members, which could lead to an opportunity cost if possible ventures are passed over.

The data that has been collected to date could be biased because the App has only been operational for 10 months and does not even capture an entire annual retail cycle. It might be necessary to collect data for longer and also to sign up a larger proportion of the toy-buying public. Happy Play might have to incur some cost in order to attract more members, perhaps by offering a discount against the first purchase after signing up.

Usefulness of financial statements

The financial statements will enable Happy Play to observe the revenue earned by the two retailers, which will provide an important insight into market demand for baby products. The comparative figures in the latest financial statements will provide two years' data, and it should be possible for Happy Play to obtain financial statements going back several years and so to observe trends. These figures can be combined with industry data for baby products in order to estimate the revenues earned by non-specialists, such as department stores and other retailers who sell these products to establish the market that may be accessible to Happy Play. The value of that information could be limited if the retailers sell different ranges in terms of price points and quality. It is unlikely that the financial statements will enable Happy Play to learn much about the respective demand for upmarket versus budget brands. Revenues reported by specialist retailers might not be relevant to Happy Play's decision about selling a limited range of baby products alongside toys because it could prove difficult for Happy Play to capture market share.

Happy Play can apply ratio analysis to obtain insights into pricing and profitability in this market. For example, the gross profit percentage will enable Happy Play to determine the margins generated by the specialists. Unfortunately, that information might mean relatively little in terms of predicting the margins that Happy Play is likely to earn because the specialists will probably have higher volumes and so will be able to negotiate better prices from manufacturers. The specialists' financial statements will not necessarily enable Happy Play to measure relevant profit margins based on the cost price of goods for resale. The cost of sales figures could include operating costs for shops that are not relevant. Happy Play will require an accurate estimate of the potential margins from these sales because there is a significant opportunity cost associated with setting aside less space for the sale of toys in order to display baby products.

SECTION 2

Baybebed

Happy Play's Board must avoid demotivating Baybebed's Board. This is a newly-acquired subsidiary that has a strong reputation for product quality. Happy Play has no direct experience of managing production. Baybebed is also in a business sector that is unfamiliar to the Happy Play Group, even if it is complementary in some respects. Presumably, Baybebed's directors have experience and expertise in developing new products that respond to trends in baby care and also in the supervision of manufacturing products that are safe and reliable. The fact that 35% of Baybebed's sales revenues will be to third-party retailers means that its directors must have the flexibility to manage the company in a manner that will enable it to engage with customers and manage product quality so that it remains competitive. At the very least, Happy Play should establish Baybebed as a profit centre so that its Board has sufficient discretion to operate freely in its market and so that key managers remain keen to remain with the company.

It might even be appropriate to make Baybebed an investment centre, giving its Board discretion over investments, particularly in the development of new products. As an independent company, its Board would have had the ability to make investments that were expected to return a positive net present value. Presumably, they were effective in doing so, otherwise the company would not have been an attractive purchase for Happy Play. If Happy Play insists on retaining absolute control over investments, then it could constrain Baybebed's ability to remain competitive against other brands and so its attempt to sell baby products could fail. The fact that Baybebed's founder will have a seat on Happy Play's Board will enable the parent's directors to seek reassurance from her with regard to investments that are being made. Her role on the main Board as Production Director means that she will be required to take an active interest in Baybebed's activities because that is the only group member that is engaged in manufacturing.

If Baybebed is to be an investment centre, then Happy Play will have to take care over the source of the funds, given that the founder will retain a 20% stake in the company. There has to be a mechanism in place to protect the respective interests of the founder and Happy Play, otherwise there could be scope for dysfunctional behaviour. The manner in which any investment is financed could affect the risks faced by the two shareholders in different ways. One concern might be that if Baybebed is free to borrow at the discretion of its directors, then the founder will enjoy 20% of the benefit from the additional funding if the investment is a success. If it fails, then Happy Play might be forced to support the company without any assistance from her if she cannot contribute her share. The discretion granted to Baybebed's Board should be restricted, perhaps by setting a budget for investments, with a requirement that large outlays should be authorised by Happy Play's Board. The funding for investments might be raised through the retention of profits so that Baybebed builds up reserves rather than distributing them all as dividends.

Development costs

IFRS 3 *Business combinations* require the group to take account of the fair value of the identifiable assets and liabilities of the newly-acquired subsidiary. The fact that Baybebed has already accounted for the development costs as intangible assets in its own financial statements suggests that these assets can be defined as identifiable under the requirements of IAS 38 *Intangible assets*. The value attached to any assets, including development costs, will have a direct impact on the value attached to goodwill on acquisition. The higher the value of identifiable assets, the lower the value of goodwill. Fair value is defined in IFRS 3 *Fair value measurement* in terms of the asset's market value. That will clearly complicate matters because there is unlikely to be an observable market in intellectual property.

It may be possible to argue that Happy Play should know how much it is to choose to pay for the intellectual property included in Baybebed's development costs. While such a sum is not the same as an observable fair value, it would be a valid starting point for this estimate. Happy Play's Board should discuss the extent to which the value of Baybebed's proprietary designs featured in the decision concerning the amount paid for the controlling interest in the company.

The fact that these assets have been carried in Baybebed's financial statements at cost, less amortisation implies that Baybebed's management team has been reviewing the book values for impairment. That could suggest that the fair values of the assets exceed their present book values and could even justify treating the book value as an estimate of the fair value. Alternatively, Baybebed's design staff should be asked to list the products whose design costs are reflected in the financial statements as intangible assets and to estimate the cost of creating those designs from scratch. Given the nature of the products, the replacement cost of the intellectual property would be a reasonable estimate of its market value.

SECTION 3

Business model

The business model currently describes a focus on toys. That will change because Happy Play plans to add a range of baby products to complement the toys that have been the basis of the business model to date. That change will be relatively minor in terms of the business model itself because the new range of baby products will be sold to the same customer base, which has demonstrated an interest in buying these products from Happy Play.

Happy Play presently defines the delivery of value in terms of choice. It could be argued that the approach to baby products will deviate from that approach because Happy Play will sell only a single manufacturer's products. It may be that the restricted choice of prams and cots does not matter in this case because Happy Play aims to expand the overall choice offered to customers who wish to purchase an expensive item as a gift for a very young child and its family.

Happy Play creates value through having a close relationship with manufacturers so that it can offer customers a good selection of the latest and best products. The spirit of that approach is being honoured through the acquisition of a manufacturer that is noted for the quality of its products. Having control over Baybebed will enable the Happy Play Group to be responsive to any changes in fashions for baby products.

It is unlikely that Happy Play's inventory management system will offer any specific benefits to customers who are interested in baby products. It may be that Happy Play will simply rely on Baybebed's inventory management system to store and distribute its products. Presumably, demand for baby products will be steady throughout the year, and so there will be no real need to manage the timing of deliveries to match product launches and specific times of the year.

Happy Play captures residual value through both the location of its shops, which will remain unchanged, and the interpersonal skills of its sales staff. Happy Play will have to ensure that shop staff is properly trained to advise on the features on the Baybebed ranges of products. That should not be particularly difficult because staff is already used to dealing with the launch of new toys and the need to offer considered advice to customers, many of whom will be selecting a product as a gift.

Accounting treatment

The treatment of the vouchers should comply with the requirements of IFRS 15 *Revenue from Contracts with Customers*. The standard applies when there is a contract between the entity and another party that creates rights and obligations. In this case, the rights and obligations exist, even though the customer who buys the voucher is likely to pass the right to exchange it on to someone else. The contract clearly has a commercial substance, in that the customer who buys the voucher makes an immediate payment to Happy Play and the recipient can use the voucher to make payment for goods.

The IFRS requires Happy Play to identify its performance obligations. The voucher scheme requires the company to accept the voucher in full or part payment for goods chosen by the recipient of the voucher. When the voucher is first issued, Happy Play receives cash in return for providing a payment token that can be used by the purchaser's nominated recipient. Happy Play is required to maintain an accurate and secure record of the voucher in order to ensure that it is honoured at the time of exchange. It is also required to accept the voucher in accordance with the rules in force when it was sold.

Happy Play must determine the transaction price that applies to the vouchers that it issues. The logical treatment in this case is to value the vouchers at their retail face value throughout the transaction. If Happy Play issues the vouchers at face value, then they will eventually be redeemed against products of the holders' choice at some future date. The cost to Happy Play of fulfilling that obligation will not be known until the time of exchange. It seems logical to treat the issue of vouchers as an increase in bank and a corresponding increase in the exchange value, with outstanding vouchers shown as current liabilities value at their face value.

The terms of the vouchers will have to be considered in order to establish whether there could be more than one performance obligation. Any unspent balance on a voucher that has been used but not spent in full will have to be carried forward as a current liability. Any fresh obligations, such as warranties on products purchased using vouchers, will really be accounted for as separate transactions that are not affected by the fact that they were paid for using vouchers rather than a direct payment.

The revenue from a voucher will be recognised at the time the voucher is exchanged for goods, either through a transaction as a shop or online. Even though the sale of a voucher amounts to an advance payment for goods, there is no way to tell how much profit will be earned on the subsequent redemption of the voucher. If vouchers are sold at a discount, then the discount should be recognised as an expense at the time of issue.

SECTION 4

Transfer prices

Ideally, transfer prices would be set so that market forces would align the interests of Baybebed and Happy Play's shops in a manner that would maximise profits for the Group as a whole. In this case, the transfer price that would achieve this would be to set the transfer price at the marginal cost of making a pram, plus the lost contribution that would be earned if more capacity was available. That would imply a transfer price of W$2,600 for prams transferred from Baybebed to the shops. If Happy Play's shops were permitted to resell the prams at full market value, they would sell them for W$3,500 and so total Group profit would be maximised. Unfortunately, Happy Play's Board has decided to sell the prams at a retail price of W$2,500 in order to maximise the publicity value associated with selling this popular product at its regular price. Under those circumstances, the interests of the shops and Baybebed are clearly not aligned because a transfer price of W$2,600 would suggest that the shops would incur a W$100 loss on each unit sold. The fact that Helena owns 20% of Baybebed suggests that she refuses to accept any decision by the Board to impose a transfer price that is less than W$2,600 while market demand is boosting prices in this artificial manner.

The only way to resolve this dilemma using transfer pricing would be to use dual pricing for internal transfers of prams. Baybebed would be credited with the W$2,600 that it could have achieved on the open market, while Happy Play would be charged the W$1,900, which is the usual transfer price. That would have the advantage of avoiding any resentment within the group and would also prevent the minority shareholder from taking action against the Group. It would, of course, have the disadvantage of requiring Happy Play to recognise more profit within its 80% subsidiary, and so 20% of that additional profit would belong to Helena. That need not be a significant cost because the higher profit will not necessarily involve an increased dividend payment by Baybebed. If the Board should revisit any plans to ignore market forces relating to prams once the market has had the opportunity to settle down. If demand for these prams remains high, then the lost revenue associated with maintaining a low retail price could become significant.

Target costing

Jamil plans to develop a pram that would be sold for roughly half the cost of Baybebed's cheapest current product. That would have the advantage of capitalising on the positive brand image that has been established by the subsidiary. Not all customers can afford to pay W$2,500 for a pram, but they may be willing to pay W$550 in order to be associated with the brand. The fact that this range of prams will be exclusive to Happy Play shops will help to establish the company's reputation as a suitable place in which to shop for baby products. Customers will be able to buy good quality products at reasonable prices. That may attract customers into shops and the additional footfall might boost sales of other products. Those customers might also return to Happy Play when it is time to buy toys as gifts for the recipient of the pram**.** The fact that these prams will not be sold through specialist baby product retailers will avoid the risk of diluting the Baybebed brand in the minds of customers who are willing and able to pay for an expensive pram.

The fact that Baybebed's founder is now the Group Production Director means that the company can draw upon her expertise in designing the new range. The present range required choices to be made to achieve a balance of cost and quality and that experience will help develop new designs that are cheaper to make but that will continue to be of an acceptable quality to justify the use of the Baybebed brand name.

The target cost could be difficult to achieve for Baybebed. The current best-selling pram costs W$1,200 to manufacture, which is greater than the retail price for the new product. If the new pram will have the same margin as the current model, then it will be necessary to be able to make it for W$1,200/W$2,500 x W$550 = W$264, which is less than a quarter of the current model's manufacturing cost. Cutting costs to that level might result in a product that feels cheaply made and might even prompt safety concerns amongst customers.

Baybebed prams are exclusive products. Their retail prices are higher than for most other brands, and so it may be that customers choose to pay more to be associated with an exclusive brand name. Selling a pram at a price that matches competing brands could undermine that exclusivity. Customers may be reluctant to buy prams at the top of the Baybebed range if cheaper prams make the brand seem commonplace. If the company succeeds in developing a satisfactory pram that sells for W$550, then customers might start to wonder whether the more expensive prams are simply overpriced rather than better quality.

Given the risks associated with making this less expensive product, it should be borne in mind that Baybebed's production capacity cannot keep pace with demand for the existing range of expensive prams. Unless the cheaper product is easier and less time consuming to build, the diversion of resources into manufacturing the new pram could cost more than the profit that it will yield.

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

Management level case study – Examiner's report

November 2022 – February 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 November 2022 and February 2023 were based on a pre-seen scenario relating to Happy Playz, a quoted toy retailer that operates a large number of branches spread across its home country. This is a complex business that is subject to constant change. Toy manufacturers are constantly innovating in order to capture market share since children's tastes evolve and develop very quickly.

Six variants were set on Happy Playz:

- Variant 1: Individual shops are managed as profit centres, despite the limited authority granted to shop managers.
- Variant 2: Inventory management is complicated by the desire to buy potentially popular toys.
- Variant 3: Happy Playz is considering the acquisition of a factory to manufacture generic toys.
- Variant 4: The opportunity has arisen to relocate some shops to larger premises.
- Variant 5: Defects have been discovered in a defective toy that has been on sale for some time.
- Variant 6: The sale of baby products is under consideration.

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 based on 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 retailer that competes against a variety of competitors that include small, independent shops, supermarket toy departments and one major specialist retailer.

Toy manufacturers are constantly launching new products. 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 into 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.

There were several areas of weakness in the candidates' scripts. The main weakness was very poor knowledge of the F pillar and a lack of understanding of accounting standards.

Bullet point answers will not score high marks; it is expected that points will be well developed and relate to the scenarios in the case study.

Most of the marks are for application to the scenario and not for demonstrating knowledge or rote learning.

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

Task 1

Happy Playz has many shops that are spread across the company's home country. Each shop manager is responsible for the supervision and motivation of staff and for merchandising products in order to make them attractive to customers. Head office makes a number of decisions centrally, including staffing shops by conducting online interviews. Happy Playz suffers a steady loss of experienced shop managers.

The first sub task asked for the advantages and disadvantages of treating shops as profit centres for the purposes of evaluating shop managers. That requires some thought about the extent to which shop managers can discharge the responsibilities associated with running their shops as profit centres. There are certainly arguments that they can influence both costs and revenues and so enhance profits. Conversely, they do not have absolute control over factors such as the selection of products for sale or the number of staff. The requirement did not ask for an overall recommendation on whether or not the shops should be profit centres. Rather, it asked for an overview of the arguments both for and against. Level 1 answers tended to state facts without offering any argument in support of them implying either advantages or disadvantages of this type of responsibility centre. Level 1 answers also tended to focus largely on the disadvantages and said little about the possibility that there are advantages to shops being profit centres. Level 3 answers drew upon information from the exhibit to the task and from the pre-seen in order support arguments that there were both advantages and disadvantages to managing the shops as profit centres.

The second sub task asked about the difficulties associated with ensuring that each shop is staffed by an effective team, with recommendations as to how those difficulties might be overcome. Most candidates identified the potential conflicts associated with interviews being conducted online by Human Resources, with interviewers who do not necessarily understand the needs of individual shops for particular skills or the cultures within shops that could lead to conflict if an appointee's personality was unsuitable. Level 1 answers were generally on track, but brief. Level 3 answers were both full and offered a good justification for both the position being taken and the recommendations for improvement.

Task 2

Happy Playz's regional sales managers have proposed that shop managers should have greater control over the allocation of inventory to their shops. Requests for larger or smaller allocations of particular products should be reviewed and agreed by regional sales managers. At present, inventory is allocated to shops by Head Office. Shop managers have little or no control.

The first sub task asked for the impact that the proposal might have on Happy Playz's product risk, reputation risk and operational risk. The quality of answers varied significantly. Level 1 answers often struggled to distinguish the three risks listed in the requirement. Some candidates offered the same answer three times, describing the same risk as product, reputation and operational. Other answers at this level ignored the nature of the business and wrote about risks associated with Happy Playz's shops designing and manufacturing their own products. Level 3 answers generally distinguished the three risks and offered realistic discussions of each.

The second sub task asked about the implications of this proposal for the leadership roles of sales managers and shop managers. The proposal will increase the responsibilities of managers at both levels with respect to the operation of the shops. Level 1 answers generally ignored the requirement and wrote in very general terms about leadership. Level 3 answers tended to approach the requirement by considering the roles that shop and regional sales managers have within the company and their relationships as at present. Those answers reflected the nature of the business and the changes to the leadership structure that could be brought about through the increased responsibilities.

Task 3

The Board is considering establishing five regional warehouses that will be used to manage inventory more efficiently. The increased storage capacity will help to place larger orders in advance of the fourth quarter holiday period, and the locations will also assist in moving inventory to and from shops in response to local demand.

The first sub task asked candidates to discuss the challenges associated with identifying and estimating the cash flows arising from the creation and operation of these regional warehouses. Level 1 answers generally offered very generic answers on investment appraisal, often failing to focus on cash flows as requested. The requirement did ask specifically about cash flows, so matters such as the cost of capital were not relevant. Level 3 answers were often quite creative in their discussion of cash flows. For example, many good answers wrote about the lifespan of the project, which was a legitimate issue in estimating the relevant cash flows. Candidates often suggested credible solutions to that problem, for example, by linking the project's life to the lifespan of the lease on the warehouses.

The second sub task asked about the challenges associated with accounting for the software that the new warehouses will require in order to deal with the additional complexity in managing the additional locations at which inventory can be stored and the additional management options that will be created. A disappointing number of answers failed to reflect the possibility that an investment in software could lead to the acquisition of an intangible asset. Level 1 answers were generally disorganised and failed to identify the key financial reporting issues that were involved. Level 3 answers recognised the accounting problems and discussed them in relation to the relevant reporting standards and the estimates and assumptions implicit in those requirements.

Task 4

The Board has been offered the opportunity to purchase 60% of a consultancy firm that has expertise in inventory management. The consultancy will not work for any other company in the toy industry for seven years if Happy Playz buys these shares. The terms of the acquisition give the present owner of the firm the right to control the Board of Directors and an option to repurchase the 60% holding at cost in seven years.

The first sub task asked whether the arrangement offered by the consultancy would grant Happy Playz control and also asked for a recommendation as to how the investment should be reflected in the Happy Playz Group financial statements. Level 1 answers generally stated that ownership of more than 50% of equity automatically gives control and so the consultancy is a subsidiary. Level 3 answers generally recognised that Happy Playz would be unable to control the consultancy because it could appoint only a minority of the board. Answers at this level recognised the need to offer consistency between the discussion of control and the accounting treatment of the investment. A disappointing number of candidates argued that control would not be achieved and yet treated the consultancy as a subsidiary.

The second sub task asked for recommendations concerning the management of the consultancy support that Happy Playz will receive from this arrangement. This section was generally answered well, with most candidates offering a reasonably relevant argument. The distinction between different levels of answer tended to be based on the level of detail that was offered.

Variant 2 Comments on performance

Task 1

The scenario begins with the Happy Playz Buying Department sending a team to the January Eastland Toy Fair, where they identified a new toy which they believed would be popular. The Senior Buyer signed an agreement to buy the toy, although this is not legally binding. Candidates were first asked to evaluate the arguments for empowering the senior members of the Buying Department to commit Happy Playz to making large orders and to explain how this empowerment should be managed.

Level 3 answers covered both the arguments for empowerment and appropriate management. Arguments for the Buying Department team being permitted to commit the company included the need to act quickly to secure supplies of toys which are likely to prove popular and will also be targeted by competitors. It would also strengthen the department's negotiating power. Drawbacks identified included the need to coordinate with other departments regarding inventory management and sales promotion and a potential lack of negotiating skills. Management suggestions included pre-agreed constraints and communication of issues such as availability of storage space.

Level 2 answers often identified issues correctly but did not develop their discussion as fully. Arguments about empowerment were often larger than discussion of management, with some candidates omitting this completely. Some responses were too focussed on the size of the orders rather than empowerment.

Level 1 answers briefly identified some issues but lacked justification.

The second sub task asked candidates to discuss the arguments both for and against capitalising the cost of Happy Playz's attendance at toy fairs and product demonstrations as assets, given that the Buying Department spends W$8 million a year on travel and accommodation for these events.

Level 3 responses discussed the capitalisation in the context of IAS 38 rules, identifying that it will be difficult to argue that there is a separable asset or that future economic benefits will flow to Happy Playz.

Level 2 responses often correctly identified the IAS criteria but did not apply them to the scenario.

Some level 1 answers did not show technical knowledge of IAS 38, with candidates recommending that capitalisation should go ahead as this would increase profits.

Task 2

In the second task, candidates were informed that only two thirds of the toys ordered have been delivered and the manufacturer has decided to allocate the next shipment to other retailers in order to preserve its relationship with them. The first requirement was to recommend how Happy Playz should negotiate with the manufacturer over the remaining one third of the order.

Level 3 responses often suggested checking the legal agreement in case it would be possible to compel the manufacturer to complete delivery. Candidates also recognised that negotiation could include pointing out the potential reputational damage to the manufacturer of failing to honour their contract.

Level 2 responses were often less well targeted, with candidates making more general comments about approaches to negotiation with less reference to the specific scenario presented here.

Level 1 answers often referred to the need to negotiate and to identify a win-win situation but lacked depth and detail.

In the second sub task, candidates were asked to discuss the potential advantages and disadvantages of Happy Playz selling the toy at a high retail price, assuming the company is able to obtain the entire order and given that the company already has an inventory the Board has chosen not to sell.

Level 3 responses explored issues such as the opportunity to earn a windfall profit and could benefit from exploiting this, particularly as the toy is in high demand with individuals reselling them at higher prices. This could earn shareholders additional profits and enhance the company's reputation. Candidates also explored the downside, in which Happy Playz could be viewed as greedy or seen as an expensive toy retailer.

Level 2 answers were often less well developed and did not justify their arguments in as much detail.

Level 1 answers briefly identified some advantages and disadvantages but did not go beyond the identification.

Task 3

In task 3, Happy Playz has made huge profits from the Robbott toy sales. The Senior Buyer who spotted the toy's potential used to work for Toy Consulting, and the Happy Playz Board wish to acquire the company as a subsidiary.

Candidates were first asked to discuss the challenges associated with determining the goodwill on the acquisition and to explain how they could be overcome.

Level 3 responses correctly identified issues such as the likely difficulty in determining the value of proprietary software, and how these might be overcome, for example, by using the cost of commercially-available packages with similar features. Many also recognised that the valuation of overseas assets could be challenging. Answers were well developed.

Level 2 answers often explained in more general terms what goodwill is, rather than focussing on the specific scenario. Level 1 responses sometimes identified some accounting issues but showed little understanding of how they might be overcome. Some candidates focussed on difficulties in determining the purchase price.

The second sub task asked candidates to evaluate the product risk, commodity price risk and contractual inadequacy risk that might arise from Happy Playz basing large purchasing decisions on recommendations made by Toy Consulting.

Level 3 responses evaluated each of the listed risks in turn, for example, discussing the risk that large orders for newly-developed toys could lead to unsold inventory, that manufacturers could raise prices if they are aware of a Toy Consulting recommendation and that the contractual relationships between Happy Playz, Toy Consulting and the manufacturers could be complex. Answers were well thought through.

Level 2 answers were often less detailed and focussed on describing risks rather than evaluating them. Product risk was generally the best addressed. Level 1 responses tended to be brief, and many did not explore all three of the risk categories set out in the requirement.

Task 4

In the final task, candidates were informed that an initial offer for Toy Consulting had been rejected and the Happy Playz Board was considering offering W$60 million in Happy Playz shares.

Candidates were first asked to explain why the acquisition might increase Happy Playz weighted average cost of capital and to explain the implications of any such increase.

Level 3 answers explained WACC and discussed the issue that it would be likely to rise if the proposed purchase is funded through shares, since equity is more expensive than debt, and also that any perceived increase in risk would also cause an increase. They also explored the impact of any such rise, such as pressure to provide investors with an increased rate of return or a decrease in share price and a need for a higher return on any future investment projects.

Level 2 responses tended to be less detailed and more focussed on the meaning of WACC rather than specifically why it might rise in this scenario. Discussion of the implications of an increase were often limited.

Level 1 answers were sometimes confused and often only identified potential market reaction as a cause for change in the rate, ignoring the impact of changes in the proportions of debt and equity.

The final sub task asked candidates to explain the difficulties Happy Playz would face when trying to calculate the net present value from buying Toy Consulting.

Level 3 responses correctly identified issues such as the fact that estimating the value that Toy Consulting will add to Happy Playz will be difficult, as Happy Playz already successfully selects toys, and also that there is no guarantee that successful consultants will be retained by the company after acquisition.

Level 2 answers were often more generic, talking in general terms about the fact that accurately forecasting future cash flows is difficult rather than considering the Toy Consulting acquisition.

Level 1 responses were often very brief, identifying some difficulties but not discussing them in any depth or detail.

Variant 3 Comments on performance

Task 1

Task 1 begins by presenting candidates with an extract from Board minutes describing an opportunity to acquire a toy manufacturer located in neighbouring Eastland.

Candidates were invited to discuss the impact that the acquisition would have on Happy Playz's business model.

Level 3 responses tended to highlight each of the different areas of the business model in turn and showed how the acquisition of Playamk would improve the options available to Happy Playz.

Level 3 responses usually tied the answers back into the scenario and were very specific to Happy Playz environment. Level 2 responses tended simply to cover fewer separate elements or not in such depth. Level 1 responses tended to be more generic in nature and gave less insight to detailed activity within the Happy Playz environment.

In the latter part of task 1, candidates were asked to discuss the impact on product reputation risk and operational risk that could arise after Plavamk is acquired and is manufacturing 50% of Happy Playz's generic toys.

Level 3 candidates showed awareness of potential opportunity to provide cost effective good quality generic toys with Happy Playz branding and so enhance both reputation and marketing awareness; they often discussed the potential downside of having Happy Playz branding associated with poor quality cheap product. Good candidates were able to highlight that operational risk should decline as Happy Playz has better control over the procurement and manufacturing of generic toys, allowing their Purchasing Department to have better focus on the remaining areas of generic toy procurement.

Level 2 responses tended to cover similar ground but in less detail, often omitting some issues.

Level 1 responses tended to be more generic and less able or less specific in relating back to the scenario presented.

Task 2

A month has elapsed, and Task 2 requests that candidates consider conditions put forward by the owner of Plavamk to sell 80% of the equity but insisting that the current management team remain in place reporting to Happy Playz's MD and that the current owner of Plavamk retains a power of veto over any major decisions. Candidates are asked to explain whether these conditions would affect the company's status as a subsidiary within the Happy Playz group.

Level 3 responses showed an awareness of the problems caused by Plavamk's owner in retaining veto, thus conflicting with the definition of control. Good responses were able to highlight this and often presented arguments both for and against the ability to exercise power by each party.

Level 2 responses were generally less balanced or detailed in the arguments presented, whereas level 1 candidates tended to simplify the situation and presented only one side of the argument.

Task 2 requests candidates to evaluate whether Plavamk should be operated as a cost centre after acquisition of an 80% holding.

Level 3 responses recognised the need to retain the skills and experience within the Plavamk management team. Happy Playz has no manufacturing experience and is therefore heavily reliant on Plavamk being capable and effective in managing all aspects of that business. Attracting and retaining talent in the Plavamk management team is probably best achieved through affording high levels of local responsibility and accountability, therefore a profit centre with full control of costs and revenues seems logical as this protects the interests of all parties; Happy Playz, Plavamk management and Plavamk's former owner.

Level 2 responses tended to be more generic in their presentation, with less detailed arguments. Level 1 responses generally failed to "Evaluate" and gave a rather one-sided argument with little depth.

Task 3

Task 3 presents candidates with a dilemma that generic toys need significant efforts in design specification before being manufactured. Candidates are asked to recommend, with reasons, the composition of a suitable project team to be responsible for the creation of a Design Department for Happy Playz and to identify, with reasons, project leader and deputy project leader roles.

Level 3 responses followed the brief and answered the elements of the question. Good answers presented their candidates and explained their choice; there were many alternatives for this, but popular inclusions were for a senior buyer with market knowledge, members from design and production, and finance and logistics must also be represented to ensure cost and practicality of product and distribution are fully considered.

Level 2 responses tended to be generic in their role definition with “All parties” and “Spread of experience” often cited without much development. Level 1 responses were generic and often spoke of storming norming without getting into any real detail of answering the question posed.

Task 3 concludes with a request to identify the challenges associated with accounting for the costs of design work and to recommend responses to those challenges.

Level 3 responses highlighted IAS 38 and the need to maintain accurate tracking of all activities differentiating research and actual design of future product which will be brought to market as defined within the standard. Good candidates were able to outline the need for separate project tracking. Level 2 answers often gave good arguments but with less depth or detail, while level 1 responses tended to be generic and miss elements of discussion.

Task 4

Task 4 opens with candidates being asked to recommend how behavioural issues which could arise as a result of the Logistics Department reallocating inventory should be addressed.

Level 3 responses showed an awareness of difficulties presented by regional seasonal differences. Clearly, if all parties can be motivated to contribute to the maximisation of the overall profitability of the organisation, that will give optimal results. Level 2 responses were less able to define detailed context here and gave more generic transfer pricing theories, whereas level 1 responses tended to abrogate all responsibilities to central management taking authoritative control and exercising transfers without consultation.

The task concludes with candidates being asked to explain how the dependence on Plavamk for generic toys might complicate the inbound and outbound elements of Happy Playz value chain.

Level 3 responses highlight the fact that a single supplier now controls 50% of all generic toys. This means that any risk to that supplier has a far greater impact on Happy Playz than was previously the case for any other single supplier.

Good candidates also highlighted quality and branding differentials between Playamk’s products and other suppliers which may be less desirable. Level 2 responses tended to cover similar issues but with poorer detail and less persuasive argument. Level 1 answers were brief and did not relate to the scenario.

Variant 4 Comments on performance

Task 1

Happy Playz's shops are located in retail parks. A major retailer intends to vacate large shops at 55 of the retail parks from which Happy Playz operates. The retail parks are owned by Shoplease, who has approached Happy Playz to ask whether it wishes to upgrade its shops at these 55 sites. That will increase the retail space available at each of these parks by 50%, which may be to Happy Playz's benefit. The larger shops will cost more to lease and operate. There will also be a need for a significant investment in legal costs and in fitting out the shops in the Happy Playz style.

The first sub task asked candidates to identify and explain the difficulties associated with quantifying cash flows for use in determining the net present value associated with accepting the offer to take over the larger shops that will soon be vacated. The quality of answers varied significantly for this task. Weaker answers generally overlooked the requirement and addressed the usefulness of the net present value criterion. Many candidates wrote about the issues associated with the required rate of return, which is an important aspect of net present value, but was not required by the task. Level 1 answers generally said very little that was relevant, perhaps focussing on the specific problems associated with the move. Level 3 answers generally identified a wide range of problems associated with cash flows, often demonstrating some commercial awareness in the process. For example, stronger answers often pointed out the difficulties associated with determining whether the larger shops would attract more customers or generate additional revenue.

The second sub task asked about the characteristics of debt and equity that should be considered when sourcing funds for the W$120 million required for the move. This task was generally answered well, with many candidates demonstrating a good knowledge of the implications of raising finance through debt and equity. Level 1 answers were generally descriptive summaries of the features of debt and equity, with no real attempt to relate that discussion to the situation that Happy Playz finds itself in. While some credit could be awarded for such answers, they did not really address the question. A senior manager seeking advice would expect a clear recommendation that was properly justified. Level 3 answers reflected the situation that was described in the scenario, drawing upon matters such as Happy Playz's present gearing ratio and the nature of the outflows that must be funded.

Task 2

The Board plans to pay for two consultancy reports that will, hopefully, inform decisions relating to decisions that will have to be made regarding the move to the larger shops. The Board is keen to know how the cost of those reports will be accounted for in the company's financial statements. There is also the question of how Happy Playz should go about negotiating the terms of the leases on the larger shops if it does decide to proceed.

Answers to the first sub task were generally disappointing. The basic question that has to be considered with respect to most outlays is whether they should be written off as expenses or carried forward as non-current assets. In this case, the costs of the reports should be considered for capitalisation as intangible assets. If they meet the relevant criteria, then they may be capitalised and amortised over the years that will benefit from the advice that is being purchased. Level 1 answers ignored the question of whether the costs should be capitalised or written off. Many candidates wrote at length about criteria for distinguishing research from development costs, with little or no attempt to link those criteria to the scenario. Level 3 answers addressed the relevant accounting decisions that must be made and offered realistic applications of the requirements of IAS 38 to the scenario.

The second sub task asked about negotiating the terms of the leases on the 55 shops with the owner of the properties. The quality of the answers varied according to whether they reflected the scenario and attempted to advise accordingly. Level 1 answers often consisted of a summary of study materials on the topic of negotiation, with no real application. There was also a tendency to recommend seeking a win-win outcome without any attempt to indicate how the mutual interests of both parties might be reconciled. Level 3 answers often brought out specific and relevant issues, such as the fact that Happy Playz already has a significant number of the lessor's properties under lease and is potentially offering to take even more space.

Task 3

The proposal to lease the larger shops is still under consideration. Happy Playz's management team continues to seek advice about issues associated with the possible move.

The first sub task asked about real options that would be available to Happy Playz in the event that it decided to enter into new leases. The quality of answers varied according to the extent to which candidates offered realistic responses to the information in the scenario. Level 1 answers generally summarised study materials on the topic of real options with little consideration of the ways in which that material might be applied to this case. Level 3 answers were generally focussed on Happy Playz and the ways in which the company might use real options that are implied by the scenario. Some candidates explained how they might create real options through negotiation with the lessor, which was also an acceptable response to the question.

The second sub task asked about the challenges associated with staffing Happy Playz toy shops with staff who will be made redundant by the outgoing retailer, who sold car accessories. This requirement was generally answered well. Level 3 answers generally picked up the fact that the new staff who will be taken on will be unfamiliar with Happy Playz's products and may be faced with difficulties in adapting to the culture of the toy shops. Level 1 answers tended to make similar points but developed the arguments to a lesser extent.

Task 4

Happy Playz has signed the leases on the larger shops. The final task introduces further implementation issues that must be considered.

The first sub task asks about the impact that the move will have on procurement, inbound logistics and marketing activities in Happy Playz's value chain. This requirement was generally answered well. Level 3 answers demonstrated a clear understanding of the elements of the value chain and offered a sensible explanation as to how each would be affected by the move to larger shops. Level 1 answers tended to demonstrate a lesser knowledge of the elements and/or offered less development in the discussion of the impact.

The second sub task asked how the move would affect three key accounting ratios. The quality of answers to this requirement varied substantially. A substantial minority of candidates could not identify accounting ratios. Level 3 answers identified relevant ratios and explained how the move to larger shops would affect those. The very best candidates tended to pick out the temporary impact, such as the fact that capital employed will increase but the company will have only a few months in which to earn additional return from that investment. Level 1 answers often did little more than list accounting ratios with no explanation as to whether they would appear to improve or deteriorate because of this investment.

Variant 5 Comments on performance

Task 1

The scenario begins with concerns about the HP Ball, one of Happy Playz most popular toys. Cracks in the outer coating leaves the product with the potential to cause injuries. The ball is made by an Eastlandian manufacturer and is branded with the Happy Playz logo. The manufacturer had assured Happy Playz that the ball met safety standards but is not accepting any responsibility for the issues and Eastlandian courts tend to be unsympathetic to foreign claims. No injuries have been reported, but complaints have been received and the Marketing Director believes that the toy should be recalled.

Candidates were first asked to identify the difficulties associated with accounting for costs, assets and liabilities associated with claims against Happy Playz arising from injuries, the cost of conducting a product recall and the compensation Happy Playz might receive from the ball's manufacturer.

Level 3 responses considered each category separately and made correct recommendations based on IAS37, recognising that the possibility of loss through claims might be disclosed as a contingent liability, the cost of a recall might be accounted for as a provision if the Board considered there to be a constructed obligation, and that the recovery from the manufacturer should not be disclosed in the financial statements. Level 3 answers recognised that the most appropriate treatment might be uncertain and gave good justification for their recommendations.

Level 2 answers often correctly identified IAS37 and stated its requirements but did not clearly apply this to the scenario or support the recommendations made.

Level 1 responses often tackled the injury claims, recall costs and compensation as a single item and made one recommendation for the treatment of all three. Some discussed the issues in general but not their accounting treatment.

Secondly, candidates were asked to identify and evaluate the product risk and product reputation risk associated with selling toys branded with the Happy Playz name and logo.

Level 3 answers evaluated both product risks such as pricing and costing issues and customer preferences, and product reputation risk such as the danger of reputational damage if poor quality products are sold.

Level 2 responses often identified risks but did not evaluate them in any depth. Many only considered product reputation risk despite describing their discussion as product risk.

Level 1 answers identified some risks but did not provide evaluation.

Task 2

In the second task, candidates were informed that the Board has not yet decided whether to formally recall the HP Ball. The Chief Executive has recommended that a project team should be established to advise on whether to recall the ball and a second team to advise on the processing of refunds and returns. Candidates were asked to recommend how the teams should be established.

Level 3 responses were well tailored to the scenario, often exploring the need for clear objectives for the team, the range of skills needed and the departments team members could be drawn from. They recognised the difference between the requirements for each of the teams, for example, that knowledge of marketing would be important for the first team as a key consideration would be the impact on customer perceptions and that the second team would need logistics and finance skills.

Level 2 answers were less well focussed on the scenario and often explained the importance of different roles and skills in teams in general terms, although they did make clear recommendations. Level 1 responses were often brief and provided a general discussion with no clear recommendations.

In the second sub task, candidates were asked to explain how the data collected through the Happy Playz Club Card could be used to inform the Board's decision as to whether or not to recall the ball.

Level 3 responses explained the potential to use the data to profile the shopping and browsing activities of people who have bought the ball, providing insight into their likely future purchases. If buying the defective ball is reducing further purchases, a recall could be more worthwhile.

Level 2 answers often took a very limited view of the information available, only discussing the availability of customer details making it easier to contact them to arrange a recall.

Level 1 answers were less precise and talked in general terms about information being useful without explaining how it could be used in this scenario.

Task 3

Happy Playz has the opportunity to buy shares in Munntoy, an established toy manufacturer. Candidates were provided with information on the proposed agreement between Happy Playz and Munntoy and were asked to identify the difficulties in deciding whether Munntoy would be an associate, and how those difficulties could be resolved.

Level 3 answers recognised that the IAS 28 requirements are relevant to this decision and discussed the issue of significant influence, recommending that the number of directors could be increased to give Happy Playz two directors and an active role in managing the company without overall control.

Level 2 answers often correctly stated the IAS 28 requirements but did not apply them to the details of the agreement provided or suggest appropriate solutions.

Level 1 responses did not go beyond stating the IAS requirements.

The second sub task was to recommend whether Happy Playz should increase or decrease the retail selling prices of toys produced by Munntoy and now carrying the Happy Playz brand.

Level 3 responses considered arguments for both increasing and decreasing the prices. For example, identifying that they could be regarded as generic toys and would therefore be expected to be cheaper, but the Happy Playz branding might signal that the toys are higher quality and therefore a higher price could be expected. They explored the potential impact on profit levels.

Level 2 answers often recommended and discussed either increasing or decreasing prices quite well but did not explore both options.

Level 1 responses were often very limited and explained the impact of increasing or decreasing prices in very general terms without application to the specific scenario.

Task 4

In the final task, despite Happy Playz providing investment to expand Munntoy, Munntoy is hesitant to accept a large order from Happy Playz because the company is planning to bid for another manufacturing contract. In addition, Munntoy has proposed modifying the design of the toy, reducing the number of colours used in order to simplify production and reduce costs.

Candidates were asked to discuss the cause of the conflict between Munntoy and Happy Playz and to recommend how a repeat of such a conflict could be avoided.

Level 3 responses explained that the conflict is caused by a conflict in the commercial interests of the two companies and recommended better communication and coordination.

Level 2 answers often restated information provided rather than explaining the cause of the conflict and made very limited recommendations to prevent future conflicts.

Level 1 responses were often very brief and lacked development and justification for recommendations.

The final sub task asked candidates to evaluate the arguments for and against Happy Playz accepting advice from Munntoy's production staff about modifying the design of products proposed by Happy Playz.

Level 3 responses evaluated the arguments, recognising that Munntoy's expertise in manufacturing could help identify cost savings but that Happy Playz are experts in evaluating the sales potential of toys. Some candidates also identified that Munntoy might be recommending simplification in order to make production easier for them, but also that reaching agreement on modification could help to build the relationship between the two companies.

Level 2 answers provided some evaluation but with less justification, and level 1 responses described the arguments but did not evaluate them.

Variant 6 Comments on performance

Task 1

Task 1 opens by presenting candidates with an extract from Board minutes describing a proposal to start selling baby products such as push chairs and cots as an extension to toys for newborn babies already stocked. The Marketing Director suggests that information harvested from the Happy Playz Club Card could be used to help evaluate the proposal.

Candidates were invited to evaluate usefulness and limitations of such data in assessing the proposal.

Level 3 responses were able to discuss details of a number of areas of interest within the potentially available data. Distribution of customers around stores, online/instore shopping habits, low end bargain shoppers versus high end spending patterns, enabling a pilot selection of stores to be made. Best candidates suggesting additional areas such as incentivising cardholders to disclose more data about family members and potential additions. Those candidates were also able to highlight the relative lack of data as the cards are still in their first year of use, and there is insufficient data to gauge seasonal or long-term patterns. These candidates also generally showed awareness of GDPR and the need to engage permission for specific data use. Good candidates also highlighted additional elements such as the benefit of early engagement in family details enabling long-term involvement and tracking of age and gender demographics for later years.

Level 2 responses covered some of the details, usually in less depth or in very generic terms with less reference back to the scenario.

Level 1 responses tended to be generic and discussed simple aspects of data harvesting often without or with very little recognition of limitations.

Secondly, candidates were asked to evaluate the usefulness of financial statements of other specialist baby product retailers in deciding whether to engage in the sale of baby products alongside existing lines.

Level 3 candidates were generally quick to highlight that several years data could easily be available and that trends could easily be extrapolated from these. These candidates were also able to discriminate between generic data available from ratio analysis and specific data as relates to individual spending patterns or geographical distribution of sales. Good candidates highlighted the potential difficulties in entering a new market and capturing market share from traditional specialist retailers in an area of particular personal spend.

Level 2 candidates either presented arguments with less detail or were guilty of imagining that simple analysis of such statements would reveal everything there was to know about the market without any substantive evidence as to how. Scant reference was made to any elements of ratio analysis.

Level 1 responses in this question were rather frequent and failed to explain any real benefits or particularly limitations from any such analysis of financial statements.

Task 2

Task 2 takes the scenario forward 3 months and presents candidates with an 80% acquisition of a manufacturer, Baybebed, who produce very high-quality baby products including prams and cots.

Candidates were asked to discuss the advantages and disadvantages for Baybebed's future success if established as an investment centre.

Level 3 responses showed good awareness of the need to maintain high motivation within the Baybebed management team. All the manufacturing and baby product development skills exist in that team, and Happy Playz are reliant on the quality of management to maintain both high standards of product availability but also to engage third-party customer outlets to sell 35% of all stock in a competitive and profitable manner. The need to retain and attract top management within the Baybebed environment is critical to the ongoing success of that part of the Happy Playz group.

Good candidates also recognised the need to maintain a suitable degree of governance and control via the Production Director of any major investment needs and decisions within the Baybebed sphere of operations, such that Baybebed maintains and improves its competitive position against its counterparts whilst recognising the dangers of potential lack of engagement at appropriate levels.

Level 2 responses tended to talk more generically about there being different market sectors and the need to maintain an identity of each of the individual elements, detailed distinction of what constitutes an investment centre was often vague.

Level 1 responses showed little understanding of the need to maintain expertise within Baybebed nor of the motivational factors involved in maintaining competitive position as a Happy Playz subsidiary.

Task 2 proceeds to request a discussion of accounting implications arising from Baybebed's capitalised development costs both for initial measurement and for ongoing treatment in the Happy Playz Group consolidated financial statements.

On the whole, this was very poorly answered, candidates showed very little knowledge of this accounting standard.

Level 3 responses were able to correctly identify the need to determine the value of identifiable assets in the calculation of goodwill on purchase. Also, that interrogation of the values placed by the Board on the expertise or intellectual property contained within the Baybebed's product development portfolio would be relevant in establishing IFRS 3 Fair value measurement. Good candidates highlighted the need for ongoing annual reviews of such intangible assets and goodwill of impairment against market values.

Level 2 candidates gave rudimentary explanations of goodwill on acquisition and reviews for impairment with some reference back to the scenario and marketplace perspective.

Level 1 candidates showed a degree of understanding of goodwill treatment, but intangible assets or intellectual property tended to be omitted altogether.

Task 3

Task 3 moves the scenario forward to accommodating the Baybebed products into Happy Playz retail outlets, making them available through the web site and providing home delivery for larger items.

Candidates are asked to evaluate the extent to which selling baby products will change Happy Playz's business model.

Level 3 responses tended to highlight each of the different areas of the business model in turn and showed relative similarities or changes in each of those areas for the specific product sets. While the existing model is toys and the new model is baby products, the fundamentals of the business remain unchanged. Customer base, retail outlet or online purchase, value creation, inventory management and logistics, residual value capture all remain largely unchanged, and good candidates identified each of these in turn. Level 2 responses tended to be more generic with coverage of most but not all areas and rather less specific detail about subtle changes between the before and after models. Level 1 responses tended to say that the new product range was simply an extension of the old without detailing any advantages or disadvantages.

Task 3 concludes with a request to recommend, with reasons, the accounting treatment for gift vouchers which are sold in any given year, which do not have an expiry date and which often may not be redeemed within the year of purchase. This task was answered poorly, with very poor knowledge being displayed.

Level 3 responses correctly identified that Revenue from contracts with Customer IFRS 15 applied and quickly ran through the requirements, although unfortunately good responses were in the minority. Level 2 responses were less accurate in identifying the IFRS issues and were often vague about obligations created. Level 1 responses were similarly vague but often inaccurate in parts as regards accounting treatment, especially revenue recognition.

Task 4

Task 4 moves the scenario forward by 6 months to a point where Happy Playz have set up a C&P Department to manage and fulfil the online sale of Baybebed's products. Popularity of certain models have resulted in marketplace price boosting with Baybebed's price to external retail outlets rising. C&P argue that transfer price rises are inappropriate for them, and candidates are asked to discuss two difficulties associated with setting appropriate transfer prices and recommend responses to those difficulties.

Level 3 responses quickly identified problems associated with transfer pricing where demand exceeds supply and pricing differentials appear. The ideal situation being where the Group's profits are maximised as a whole would require C&P's outlets to increase sales price to market value and Baybebed's transfer price would be set at cost plus lost market contribution i.e., the same as to other retailers.

Good responses identified the potential resentment and dysfunctional behaviours which can arise and suggested that C&P either match market pricing or receive an adjustment for dual pricing from group accounting. These often highlighted the difficulties which can arise if the market remains volatile or if C&P cannot adjust to those market forces.

Level 2 responses gave more generic issues relating to transfer pricing often not relating back to the scenario in great detail.

Level 1 responses generally covered transfer pricing in theory only without reference to the scenario.

The paper concludes with a request to identify and discuss project risks arising from development of an exclusive low cost Baybebed pram to be sold through Happy Playz

Good level 3 responses considered the wider implications of producing a low-cost pram for sale through Happy Playz. Many identified possible market reputation erosion, through factors such as removing the exclusive image or quality impairment through targeting low-cost production. Profit margins would also potentially be heavily impacted as current models make over 50% and current production capacity does not meet current demand. Introduction of a new model would have negative impact on this profile. Furthermore, animosity could arise between Happy Playz and Baybebed management if Baybebed perceive a toy retailer trying to erode their exclusive product leader position in favour of a cheap alternative for the wider market. Some responses included the concept of design by Baybebed and licenced manufacture by other parties for a product to be sold under a new brand image so as not to distract from the exclusive Baybebed image.

Level 2 responses tended to ignore some of the potential risks and highlighted only some of the issues or with lessor detail.

Level 1 responses tended to simply focus on possible quality and brand image impairment through cost cutting.

Tips for future candidates

There are several key points to take into account when preparing for future Management level case study examinations. These points are the same as in previous reports and are:

- Key to achieving a score at level 2 and above is to ensure that:
  - You have the technical knowledge and understanding of all of topics included in each of the core activities. It is not sufficient to rely on the fact that you remember it from the OTQ exams, because the chances are you won't. You need to revise technical material: if you don't have the knowledge, you can't score well.
  - You are able to apply your technical knowledge and understanding within the case study context. Simply reproducing rote-learned answers or pure knowledge of a topic area will score very few, if any, marks. Similarly, taking a non-targeted approach to an issue and commenting on everything that you know about it from a theoretical point of view will score few marks.
  - You are able to explain with clarity and comprehensively, rather than making unsupported statements. Writing comments such as, "this improves decision making", "this graph is essential" or "planning is enhanced" is not enough to gain any marks. Candidates must explain "how" and ''why'' this is the case. Explanations can quite often be improved by adding "because of …." at the end of a sentence. Explanations should also utilise the information given to you within the case study itself, especially financial information. For example, reasons for variances are often given to you in the unseen information, the skill is to pick this out and use it.
- To help you achieve this, you need to:
  - Study the pre-seen material in depth. Ensure that you are very familiar with the business, especially the financial information, before the exam, as this will help you with applying your knowledge and will save you time. Similarly, an awareness of the industry that the business is in will help you to think of the wider issues that might impact on decisions that you could be asked to comment on.
  - Practise, practise, practise past OCS exam tasks. Practising past tasks and then checking against the published answers will help you to understand what the examiner is looking for.

- On the day:
  - It is important to take time to plan your answer so that you are able to apply your knowledge to the specifics of the case. I suggest that for certain tasks you plan your answers on the answer screen itself. For example, if you are asked for the potential benefits and problems of activity based costing, I suggest that you first note down headings for benefits and problems. Under each heading, list your benefits and problems; these will become your sub-headings. Then you can write a short paragraph under each sub-heading. This will allow you time to think about all of the points that you want to make and will help to give your answer a clear format. Ultimately, it should save you time.
  - Please take care over how your answer looks. Some answers are very difficult to read because of poor spelling and grammar. Whilst this examination is not a test of English, it is important that answers are presented well so that markers can see that you have demonstrated clear understanding of the issues.

AICPA & CIMA
Together as the Association of International Certified Professional Accountants

Management Level Case Study November 2022–February 2023

Marking Guidance

Variant 1

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Management Case Study [November 2022 – February 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, students do not have to make all of the points mentioned in the indicative answers to receive the highest level of the marking scheme.
- An answer which does not address the requirements of the task must be awarded no marks. Markers should mark according to the marking scheme and not their perception of where the passing standard may lie.
  Where markers are in doubt as to the application of the marking scheme to a particular candidate script, they must contact their lead marker.

How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

- For each trait in the marking scheme, read each level descriptor and select one, using a best-fit approach.
- The response does not need to meet all of the criteria of the level descriptor – it should be placed at the level when it meets more of the criteria of this level than the criteria of the other levels.
- If the work fits more than one level, judge which one provides the best match.
- If the work is on the borderline between two levels, then it should be placed either at the top of the lower band or the bottom of the higher band, depending on where it fits best.

3. Select a mark within the level

- Once you have selected the level, you will need to choose the mark to apply.
- A small range of marks may be given at each level. You will need to use your professional judgement to decide which mark to allocate.
- If the answer is of high quality and convincingly meets the requirements of the level, then you should award the highest mark available. If not, then you should award a lower mark within the range available, making a judgement on the overall quality of the answer in relation to the level descriptor.

Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task weighting (% section time)
Section 1			
(a)	**C**	Manage performance and costs to aid value creation	60%
(b)	**B**	Implement senior management decisions	40%
Section 2			
(a)	**D**	Measure performance	60%
(b)	**C**	Manage performance and costs to aid value creation	40%
Section 3			
(a)	**A**	Evaluate opportunities to add value	60%
(b)	**D**	Measure performance	40%
Section 4			
(a)	**E**	Manage internal and external stakeholders	60%
(b)	**B**	Implement senior management decisions	40%

SECTION 1			
Task (a) Evaluate the advantages and disadvantages of treating the shops as profit centres for the purposes of performance measurement			
Trait			
Advantages	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies advantages	**1-2**
	Level 2	Discusses advantages	**3-5**
	Level 3	Offers good discussion of advantages	**6-8**
Disadvantages	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies disadvantages	**1-2**
	Level 2	Discusses disadvantages	**3-5**
	Level 3	Offers good discussion of disadvantages	**6-7**
Task (b) Discuss the challenges associated with ensuring that shops are staffed by effective teams and recommend responses to those challenges			
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 good justification	**4-5**
Addressing	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes recommendations	**1**
	Level 2	Discusses recommendations	**2-3**
	Level 3	Discusses recommendations with good justification	**4-5**

<table>
<tr><th colspan="4">SECTION 2</th></tr>
<tr><td colspan="4">Task (a) Discuss the impact that the regional sales managers' proposal might have on Happy Play's product risk, reputation risk and operational risk.</td></tr>
<tr><td>Trait</td><td colspan="3"></td></tr>
<tr><td rowspan="5">Product Risk</td><td>Level</td><td>Descriptor</td><td>Marks</td></tr>
<tr><td></td><td>No rewardable material</td><td>0</td></tr>
<tr><td>Level 1</td><td>Identifies issues</td><td>1</td></tr>
<tr><td>Level 2</td><td>Discusses issues</td><td>2-3</td></tr>
<tr><td>Level 3</td><td>Discusses issues with good justification</td><td>4-5</td></tr>
<tr><td rowspan="5">Reputation Risk</td><td>Level</td><td>Descriptor</td><td>Marks</td></tr>
<tr><td></td><td>No rewardable material</td><td>0</td></tr>
<tr><td>Level 1</td><td>Identifies issues</td><td>1</td></tr>
<tr><td>Level 2</td><td>Discusses issues</td><td>2-3</td></tr>
<tr><td>Level 3</td><td>Discusses issues with good justification</td><td>4-5</td></tr>
<tr><td rowspan="5">Operation Risk</td><td>Level</td><td>Descriptor</td><td>Marks</td></tr>
<tr><td></td><td>No rewardable material</td><td>0</td></tr>
<tr><td>Level 1</td><td>Identifies issues</td><td>1</td></tr>
<tr><td>Level 2</td><td>Discusses issues</td><td>2-3</td></tr>
<tr><td>Level 3</td><td>Discusses issues with good justification</td><td>4-5</td></tr>
<tr><td colspan="4">Task (b) Evaluate the impact that the regional sales managers' proposal will have on Happy Play's leadership style</td></tr>
<tr><td>Trait</td><td colspan="3"></td></tr>
<tr><td rowspan="5">Changes</td><td>Level</td><td>Descriptor</td><td>Marks</td></tr>
<tr><td></td><td>No rewardable material</td><td>0</td></tr>
<tr><td>Level 1</td><td>Identifies changes</td><td>1</td></tr>
<tr><td>Level 2</td><td>Describes changes in detail</td><td>2–3</td></tr>
<tr><td>Level 3</td><td>Describes changes in detail with good justification</td><td>4–5</td></tr>
<tr><td rowspan="5">Evaluation</td><td>Level</td><td>Descriptor</td><td>Marks</td></tr>
<tr><td></td><td>No rewardable material</td><td>0</td></tr>
<tr><td>Level 1</td><td>Describes significance of changes</td><td>1</td></tr>
<tr><td>Level 2</td><td>Evaluates significance of changes in detail</td><td>2–3</td></tr>
<tr><td>Level 3</td><td>Evaluates significance of changes in detail with good justification</td><td>4–5</td></tr>
</table>

SECTION 3			
Task (a) **Evaluate** the challenges associated with identifying and quantifying the cash flows associated with Jamil's proposal in order to determine their net present value (NPV) and suggest solutions.			
Trait			
Difficulties	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies difficulties	**1-2**
	Level 2	Discusses difficulties	**3-5**
	Level 3	Discusses difficulties with justification	**6-8**
Response	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes responses	**1-2**
	Level 2	Discusses responses	**3-5**
	Level 3	Discusses responses with justification	**6-7**
Task (b) **Identify** the challenges associated with accounting for the significant investment in software required by the proposal and recommend solutions, stating reasons.			
Trait			
Challenges	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies accounting choices	**1**
	Level 2	Discusses conflict between accounting choices	**2-3**
	Level 3	Discusses conflict between choices with justification	**4-5**
Addressing	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies standard	**1**
	Level 2	Applies standard	**2-3**
	Level 3	Applies standard with justification	**4-5**

SECTION 4			
Task (a) Discuss the challenges associated with determining whether control of LRS has been acquired and recommend with reasons the manner in which Happy Play's investment in LRS should be accounted for in the Happy Play Group's consolidated financial statements.			
Trait			
Control	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes control	**1–2**
	Level 2	Discusses control in context (with some reference to accounting)	**3–5**
	Level 3	Discusses control in context (with some reference to accounting) with good justification	**6–7**
Accounting	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies accounting issues	**1–2**
	Level 2	Applies accounting issues to context	**3–5**
	Level 3	Applies accounting issues to context with good justification	**6–8**
Task (b) Recommend with reasons the approach that Happy Play should take to the initial planning and management of the consultancy support that will be supplied by LRS.			
Trait			
Planning	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies planning issues	**1**
	Level 2	Offers recommendation of planning issues	**2-3**
	Level 3	Offers recommendation of planning issues with good justification	**4-5**
Management	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies management issues	**1**
	Level 2	Offers recommendation of management issues	**2-3**
	Level 3	Offers recommendation of management issues with good justification	**4-5**

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

Management Level Case Study November 2022–February 2023

Marking Guidance

Variant 2

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Management Case Study [November 2022 – February 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, students do not have to make all of the points mentioned in the indicative answers to receive the highest level of the marking scheme.
- An answer which does not address the requirements of the task must be awarded no marks. Markers should mark according to the marking scheme and not their perception of where the passing standard may lie.
  Where markers are in doubt as to the application of the marking scheme to a particular candidate script, they must contact their lead marker.

How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

- For each trait in the marking scheme, read each level descriptor and select one, using a best-fit approach.
- The response does not need to meet all of the criteria of the level descriptor – it should be placed at the level when it meets more of the criteria of this level than the criteria of the other levels.
- If the work fits more than one level, judge which one provides the best match.
- If the work is on the borderline between two levels, then it should be placed either at the top of the lower band or the bottom of the higher band, depending on where it fits best.

3. Select a mark within the level

- Once you have selected the level, you will need to choose the mark to apply.
- A small range of marks may be given at each level. You will need to use your professional judgement to decide which mark to allocate.
- If the answer is of high quality and convincingly meets the requirements of the level, then you should award the highest mark available. If not, then you should award a lower mark within the range available, making a judgement on the overall quality of the answer in relation to the level descriptor.

Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task weighting (% section time)
Section 1			
(a)	**C**	Manage performance and costs to aid value creation	60%
(b)	**D**	Measure performance	40%
Section 2			
(a)	**E**	Manage internal and external stakeholders	40%
(b)	**A**	Evaluate opportunities to add value	60%
Section 3			
(a)	**E**	Manage internal and external stakeholders	40%
(b)	**D**	Measure performance	60%
Section 4			
(a)	**A**	Evaluate opportunities to add value	40%
(b)	**B**	Implement senior management decisions	60%

SECTION 1			
Task (a) Evaluate the arguments for empowering the senior members of the Buying Department to commit Happy Play to making large orders and explain how this empowerment should be managed.			
Trait			
Arguments	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes arguments for empowerment	**1-2**
	Level 2	Discusses arguments for empowerment	**3-5**
	Level 3	Discusses arguments for empowerment with good justification	**6-8**
Managing	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes management issues	**1-2**
	Level 2	Discusses management issues	**3-5**
	Level 3	Discusses management issues with good justification	**6-7**
Task (b) Discuss the arguments both for and against capitalising the cost of Happy Play's attendance at toy fairs and product demonstrations as assets.			
Trait			
For	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies accounting choices	**1**
	Level 2	Discusses arguments for capitalisation	**2-3**
	Level 3	Discusses arguments for capitalisation with good justification	**4-5**
Against	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies accounting standards	**1**
	Level 2	Discusses arguments against capitalisation	**2-3**
	Level 3	Discusses arguments against capitalisation with good justification	**4-5**

SECTION 2			
Task (a) Recommend stating reasons, how Happy Play should negotiate with the Robbott manufacturer over the delayed delivery.			
Trait			
Recommendation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies need to negotiate	**1**
	Level 2	Discusses issues to be negotiated	**2-3**
	Level 3	Recommends approach	**4-5**
Reasons	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Refers top win-win	**1**
	Level 2	Discusses reasons for recommendations	**2-3**
	Level 3	Discusses reasons for recommendations with justification	**4-5**
Task (b) Discuss the potential advantages and disadvantages of Happy Play selling its stock of Robbotts at a premium retail price.			
Trait			
Advantages	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies benefits	**1-2**
	Level 2	Discusses advantages	**3-5**
	Level 3	Discusses advantages with good justification	**6-8**
Disadvantages	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies disadvantages	**1-2**
	Level 2	Discusses disadvantages	**3-5**
	Level 3	Discusses disadvantages with good justification	**6-7**

SECTION 3			
Task (a) Evaluate the challenges associated with determining the goodwill on the acquisition of Toy Consulting and explain how those challenges might be overcome.			
Trait			
Challenges	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies accounting issues	**1**
	Level 2	Discusses problem in scenario	**2-3**
	Level 3	Discusses problem in scenario with good justification	**4-5**
Overcome	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies accounting standard	**1**
	Level 2	Explains how problems might be overcome	**2-3**
	Level 3	Explains how problems might be overcome with justification	**4-5**
Task (b) Evalutate the product risk, commodity price risk and contractual inadequacy risk that might arise from Happy Play basing large purchasing decisions on recommendations made by Toy Consulting.			
Trait			
Product risk	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes risk	**1**
	Level 2	Evaluates risk	**2-3**
	Level 3	Evaluates risk with good justification	**4-5**
Commodity price risk	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes risk	**1**
	Level 2	Evaluates risk	**2-3**
	Level 3	Evaluates risk with good justification	**4-5**

Contractual inadequacy risk	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes risk	**1**
	Level 2	Evaluates risk	**2-3**
	Level 3	Evaluates risk with good justification	**4-5**

SECTION 4			
Task (a) **Explain** why this acquisition might increase Happy Play's weighted average cost of capital (WACC) and explain the implications of any such increase.			
Trait			
Increase	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines WACC	**1**
	Level 2	Explains why WACC might increase	**2-3**
	Level 3	Explains why WACC might increase with good justification	**4-5**
Implications	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes implications of increase	**1**
	Level 2	Explains implications of increase	**2-3**
	Level 3	Explains implications of increase with good justification	**4-5**
Task (b) **Explain** the difficulties we would face when trying to calculate the net present value as a result when buying Toy Consulting.			
Trait			
Identify	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes some potential difficulties	**1-2**
	Level 2	Offers description of potential difficulties	**3-5**
	Level 3	Offers full description of potential difficulties	**6-8**
	Level	**Descriptor**	**Marks**
		No rewardable material	**0**
Explain	**Level 1**	Describes implications of difficulties	**1-2**
	Level 2	Discusses implications of difficulties	**3-5**
	Level 3	Discusses implications of difficulties with good justification	**6-7**

AICPA & CIMA
Together as the Association of International Certified Professional Accountants

Management Level Case Study November 2022–February 2023

Marking Guidance

Variant 3

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Management Case Study [November 2022 – February 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, students do not have to make all of the points mentioned in the indicative answers to receive the highest level of the marking scheme.
- An answer which does not address the requirements of the task must be awarded no marks. Markers should mark according to the marking scheme and not their perception of where the passing standard may lie.
  Where markers are in doubt as to the application of the marking scheme to a particular candidate script, they must contact their lead marker.

How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

- For each trait in the marking scheme, read each level descriptor and select one, using a best-fit approach.
- The response does not need to meet all of the criteria of the level descriptor – it should be placed at the level when it meets more of the criteria of this level than the criteria of the other levels.
- If the work fits more than one level, judge which one provides the best match.
- If the work is on the borderline between two levels, then it should be placed either at the top of the lower band or the bottom of the higher band, depending on where it fits best.

3. Select a mark within the level

- Once you have selected the level, you will need to choose the mark to apply.
- A small range of marks may be given at each level. You will need to use your professional judgement to decide which mark to allocate.
- If the answer is of high quality and convincingly meets the requirements of the level, then you should award the highest mark available. If not, then you should award a lower mark within the range available, making a judgement on the overall quality of the answer in relation to the level descriptor.

Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task weighting (% section time)
Section 1			
(a)	**A**	Evaluate opportunities to add value	60%
(b)	**D**	Measure performance	40%
Section 2			
(a)	**E**	Manage internal and external stakeholders	40%
(b)	**C**	Manage performance and costs to aid value creation	60%
Section 3			
(a)	**B**	Implement senior management decisions	60%
(b)	**E**	Manage internal and external stakeholders	40%
Section 4			
(a)	**E**	Manage internal and external stakeholders	60%
(b)	**C**	Manage performance and costs to aid value creation	40%

SECTION 1			
Task (a) Discuss the impact that our acquisition of Plavamk would have on Happy Play's business model			
Trait			
Define Values	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies impact	**1**
	Level 2	Identifies impact and evaluates	**2-3**
	Level 3	Identifies impact and evaluates with justification	**4**
Create Value	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies impact	**1**
	Level 2	Identifies impact and evaluates	**2-3**
	Level 3	Identifies impact and evaluates with justification	**4**
Deliver Value	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies impact	**1**
	Level 2	Identifies impact and evaluates	**2-3**
	Level 3	Identifies impact and evaluates with justification	**4**
Capture residual	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies impact	**1**
	Level 2	Identifies impact and evaluates	**2**
	Level 3	Identifies impact and evaluates with justification	**3**
Task (b) Discuss the difficulties associated with determining the product reputation risk and operational risk associated with Happy Play using Plavamk to manufacture generic toys.			
Trait			
Product reputation risk	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies risk	**1**
	Level 2	Discusses difficulties	**2-3**
	Level 3	Discusses difficulties with good justification	**4-5**

Operational risk	Level	Descriptor	Marks
		No rewardable material	**0**
	Level 1	Identifies risk	**1**
	Level 2	Discusses difficulties	**2-3**
	Level 3	Discusses difficulties with good justification	**4-5**

SECTION 2			
Task (a) Evaluate whether the conditions imposed by Plavamk's owner would affect the company's status as a subsidiary of the Happy Play Group.			
Trait			
Defining Control	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies relevant standards	**1**
	Level 2	Discusses control as an issue	**2-3**
	Level 3	Provides detailed discussion of control as an issue	**4-5**
Application	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Relates issues to scenario	**1**
	Level 2	Discusses application of rules to scenario	**2-3**
	Level 3	Discusses application of rules to scenario with good justification	**4-5**
Task (b) Evaluate the suggestion that Plavamk should be operated as a cost centre after it has been acquired, assuming that we purchase the 80% holding			
Trait			
Advantages	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies advantages	**1-2**
	Level 2	Discusses advantages	**3-5**
	Level 3	Offers full discussion of advantages	**6-8**
Disadvantages	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies disadvantages	**1-2**
	Level 2	Discusses disadvantages	**3-5**
	Level 3	Offers full discussion of disadvantages	**6-7**

SECTION 3			
Task (a) Recommend stating reasons, the composition of a suitable project team that will be responsible for creating a Design Department for Happy Play.			
Trait			
Membership	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies accounting issues	**1-2**
	Level 2	Discusses problem in scenario	**3-5**
	Level 3	Discusses problem in scenario with good justification	**6-8**
Seniority	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies accounting standard	**1-2**
	Level 2	Explains how problems might be overcome	**3-5**
	Level 3	Explains how problems might be overcome with justification	**6-7**
Task (b) Identify the challenges associated with accounting for the costs that Happy Play will incur for design work and recommend responses to those challenges.			
Trait			
Challenges	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes accounting choices	**1**
	Level 2	Discusses challenges	**2-3**
	Level 3	Discusses challenges in detail	**4-5**
Responses	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies accounting standard	**1**
	Level 2	Recommends response	**2-3**
	Level 3	Recommends response with justification	**4-5**

SECTION 4			
Task (a) Recommend with reasons the approach that should be taken to addressing the behavioural issues associated with the transfer of inventory between shops.			
Trait			
Approach	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes behavioural issues	**1-2**
	Level 2	Addresses behavioural issues	**3-5**
	Level 3	Offers logical response to behavioural issues	**6-8**
Justification	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Explains response	**1-2**
	Level 2	Justifies response	**3-5**
	Level 3	Offers full justification for response	**6-7**
Task (b) Evaluate the suggestion that depending on Plavamk for generic toys might complicate Happy Play's value chain, in particular with regard to inbound and outbound logistics.			
Trait			
Inbound logistics	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes relationship between procurement and inbound	**1**
	Level 2	Discusses relationship between procurement and inbound	**2-3**
	Level 3	Discusses relationship between procurement and inbound with justification	**4-5**
Outbound logistics	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes relationship between procurement and outbound	**1**
	Level 2	Discusses relationship between procurement and outbound	**2-3**
	Level 3	Discusses relationship between procurement and outbound with justification	**4-5**

AICPA® & CIMA®

Together as the Association of International Certified Professional Accountants

Management Level Case Study November 2022–February 2023

Marking Guidance

Variant 4

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Management Case Study [November 2022 – February 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, students do not have to make all of the points mentioned in the indicative answers to receive the highest level of the marking scheme.
- An answer which does not address the requirements of the task must be awarded no marks. Markers should mark according to the marking scheme and not their perception of where the passing standard may lie.
  Where markers are in doubt as to the application of the marking scheme to a particular candidate script, they must contact their lead marker.

How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

- For each trait in the marking scheme, read each level descriptor and select one, using a best-fit approach.
- The response does not need to meet all of the criteria of the level descriptor – it should be placed at the level when it meets more of the criteria of this level than the criteria of the other levels.
- If the work fits more than one level, judge which one provides the best match.
- If the work is on the borderline between two levels, then it should be placed either at the top of the lower band or the bottom of the higher band, depending on where it fits best.

3. Select a mark within the level

- Once you have selected the level, you will need to choose the mark to apply.
- A small range of marks may be given at each level. You will need to use your professional judgement to decide which mark to allocate.
- If the answer is of high quality and convincingly meets the requirements of the level, then you should award the highest mark available. If not, then you should award a lower mark within the range available, making a judgement on the overall quality of the answer in relation to the level descriptor.

Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task weighting (% section time)
Section 1			
(a)	**A**	Evaluate opportunities to add value	60%
(b)	**B**	Implement senior management decisions	40%
Section 2			
(a)	**D**	Measure performance	60%
(b)	**E**	Manage internal and external stakeholders	40%
Section 3			
(a)	**B**	Implement senior management decisions	60%
(b)	**C**	Manage performance and costs to aid value creation	40%
Section 4			
(a)	**C**	Manage performance and costs to aid value creation	60%
(b)	**D**	Measure performance	40%

SECTION 1			
Task (a) Identify and explain the difficulties we will face when trying to quantify cash flows to use when calculating the net present value (NPV) of Jamil's proposal to move to larger shops.			
Trait			
1st Difficulty	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies difficulty	**1**
	Level 2	Explains difficulty	**2-3**
	Level 3	Explains difficulty with justification	**4-5**
2nd Difficulty	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies difficulty	**1**
	Level 2	Explains difficulty	**2-3**
	Level 3	Explains difficulty with justification	**4-5**
3rd Difficulty	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies difficulty	**1**
	Level 2	Explains difficulty	**2-3**
	Level 3	Explains difficulty with justification	**4-5**
Task (b) Discuss the characteristics of debt and equity that are relevant to the decision as to how we should fund the investment required for the move to larger shops			
Trait			
Debit	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes characteristics	**1**
	Level 2	Discusses characteristics in context	**2-3**
	Level 3	Discusses characteristics in context with good justification	**4-5**
Equity	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes characteristics	**1**
	Level 2	Discusses characteristics in context	**2-3**
	Level 3	Discusses characteristics in context with good justification	**4-5**

SECTION 2			
Task (a) Explain how the fees that Happy Play will incur for retail consultancy and design consultancy will be accounted for in the company's financial statements			
Trait			
Choices	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies accounting choices	**1**
	Level 2	Discusses issues associated with choices	**2-3**
	Level 3	Discusses issues associated with choices with justification	**4-5**
Treatement	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies relevant standard	**1**
	Level 2	Discusses application of standard	**2-3**
	Level 3	Discusses application of standard with justification	**4-5**
Task (b) Identify the challenges associated with negotiating the terms of the leases on these shops and recommend with reasons, the approach that Happy Play should take to negotiating with Shopleece			
Trait			
Challenges	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes challenges	**1-2**
	Level 2	Discusses challenges	**3-5**
	Level 3	Discusses challenges with justification	**6-8**
Recommendation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes win-win	**1-2**
	Level 2	Offers recommendation	**3-5**
	Level 3	Offers full justification for recommendation	**6-7**

SECTION 3			
Task (a) Evaluate the possibility that we might be able to introduce some real options into our planned investment in the move to larger shops			
Trait			
Responses	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies potential approaches to real options	**1-2**
	Level 2	Discusses potential approaches to real options	**3-5**
	Level 3	Discusses potential approaches to real options with strong links to scenario	**6-8**
Evaluation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes effectiveness of responses	**1-2**
	Level 2	Evaluates effectiveness of responses	**3-5**
	Level 3	Evaluates effectiveness of responses with good justification	**6-7**
Task (b) Identify the challenges associated with coaching staff recruited from Motorotto in toy retailing and recommend responses to those challenges			
Trait			
Problems	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies challenges	**1**
	Level 2	Discusses challenges	**2-3**
	Level 3	Discusses challenges with good justification	**4-5**
Responses	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes responses	**1**
	Level 2	Recommends responses in context	**2-3**
	Level 3	Recommends responses in context with justification	**4-5**

SECTION 4			
Task (a) Explain he impact that the planned move to larger shops will have on the procurement, inbound logistics and marketing activities in Happy Play's value chain			
Trait			
Procurement	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes impact	**1**
	Level 2	Explains impact	**2-3**
	Level 3	Explains impact with justification	**4-5**
Inbound logistics	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes impact	**1**
	Level 2	Explains impact	**2-3**
	Level 3	Explains impact with justification	**4-5**
Marketing	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes impact	**1**
	Level 2	Explains impact	**2-3**
	Level 3	Explains impact with justification	**4-5**
Task (b) Recommend *how the implementation of this plan will affect three of the key accounting ratios that will be calculated using the first set of financial statements published after implementation*			
Trait			
1st Ratio	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes effect on ratio	**1**
	Level 2	Explains effect on ratio	**2-3**
	Level 3	Explains effect on ratio with justification	**4**

	Level	Descriptor	Marks
2nd Ratio	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes effect on ratio	**1**
	Level 2	Explains effect on ratio	**2**
	Level 3	Explains effect on ratio with justification	**3**
3rd Ratio	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes effect on ratio	**1**
	Level 2	Explains effect on ratio	**2**
	Level 3	Explains effect on ratio with justification	**3**

Management Level Case Study November 2022–February 2023

Marking Guidance

Variant 5

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Management Case Study [November 2022 – February 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, students do not have to make all of the points mentioned in the indicative answers to receive the highest level of the marking scheme.
- An answer which does not address the requirements of the task must be awarded no marks. Markers should mark according to the marking scheme and not their perception of where the passing standard may lie.
  Where markers are in doubt as to the application of the marking scheme to a particular candidate script, they must contact their lead marker.

How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

- For each trait in the marking scheme, read each level descriptor and select one, using a best-fit approach.
- The response does not need to meet all of the criteria of the level descriptor – it should be placed at the level when it meets more of the criteria of this level than the criteria of the other levels.
- If the work fits more than one level, judge which one provides the best match.
- If the work is on the borderline between two levels, then it should be placed either at the top of the lower band or the bottom of the higher band, depending on where it fits best.

3. Select a mark within the level

- Once you have selected the level, you will need to choose the mark to apply.
- A small range of marks may be given at each level. You will need to use your professional judgement to decide which mark to allocate.
- If the answer is of high quality and convincingly meets the requirements of the level, then you should award the highest mark available. If not, then you should award a lower mark within the range available, making a judgement on the overall quality of the answer in relation to the level descriptor.

Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task weighting (% section time)
Section 1			
(a)	**D**	Measure performance	60%
(b)	**C**	Manage performance and costs to aid value creation	40%
Section 2			
(a)	**B**	Implement senior management decisions	60%
(b)	**A**	Evaluate opportunities to add value	40%
Section 3			
(a)	**E**	Manage internal and external stakeholders	40%
(b)	**A**	Evaluate opportunities to add value	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) **Identify** the difficulties associated with accounting for costs, assets and liabilities associated with: claims against Happy Play arising from injuries caused by this product, the cost to Happy Play of conducting a product recall, and the compensation that we will receive from the ball's Eastlandian manufacturer.			
Trait			
Injury Claims	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies accounting issue	**1**
	Level 2	Recommends treatment	**2-3**
	Level 3	Recommends treatment with justification	**4-5**
Recall	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies accounting issue	**1**
	Level 2	Recommends treatment	**2-3**
	Level 3	Recommends treatment with justification	**4-5**
Compensation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies accounting issue	**1**
	Level 2	Recommends treatment	**2-3**
	Level 3	Recommends treatment with justification	**4-5**
Task (b) **Identify** and evaluate the product risk and the product reputation risk associated with Happy Play commissioning the manufacture of toys branded with the Happy Play logo.			
Trait			
Production risk	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies risk	**1**
	Level 2	Evaluates risk	**2-3**
	Level 3	Evaluates risk with justification	**4-5**

Production reputation risk	Level	Descriptor	Marks
		No rewardable material	**0**
	Level 1	Identifies risk	**1**
	Level 2	Evaluates risk	**2-3**
	Level 3	Evaluates risk with justification	**4-5**

SECTION 2			
Task (a) Recommend with reasons how the Board should establish a project team to evaluate the merits of a product recall for HP Ball and, in case a recall is conducted, to advise on the associated system to process returns and issue refunds.			
Trait			
Recommendation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issues with team	**1-2**
	Level 2	Recommends approach to creating team	**3-5**
	Level 3	Provides well-developed recommendation	**6-8**
Reason	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes advantages of approach	**1-2**
	Level 2	Discusses benefits of approach	**3-5**
	Level 3	Discusses benefits of approach with good justification	**6-7**
Task (b) Identify the challenges associated with negotiating the terms of the leases on these shops and recommend with reasons, the approach that Happy Play should take to negotiating with Shopleece			
Trait			
Past Data	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes usefulness of data	**1**
	Level 2	Uses data to understand customer base	**2-3**
	Level 3	Uses data to understand customer base with justification	**4-5**
Future planning	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies ways to plan using data	**1**
	Level 2	Uses data to plan recall	**2-3**
	Level 3	Uses data to plan recall with justification	**4-5**

SECTION 3			
Task (a) Identify the difficulties associated with deciding whether Munntoy would be an associate of Happy Play under this proposed arrangement and explain how those difficulties could be resolved.			
Trait			
Difficulties	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes issues	**1**
	Level 2	Discusses problems in scenario	**2-3**
	Level 3	Discusses problems in scenario with justification	**4-5**
Resolution	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies standard	**1**
	Level 2	Discusses application of standard	**2-3**
	Level 3	Discusses application of standard with justification	**4-5**
Task (b) Recommend with reasons whether Happy Play should charge more or less for toys manufactured by Munntoy that carry the Happy Play brand.			
Trait			
More	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes advantages of charging more	**1-2**
	Level 2	Discusses arguments for increasing price	**3-5**
	Level 3	Discusses arguments for increasing price with justification	**6-8**
Less	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes advantages of charging less	**1-2**
	Level 2	Discusses arguments for decreasing price	**3-5**
	Level 3	Discusses arguments for decreasing price with justification	**6-7**

SECTION 4			
Task (a) Discuss the cause of the conflict between Munntoy and Happy Play over the allocation of production capacity in this case and recommend with reasons how Happy Play could prevent the recurrence of such conflicts.			
Trait			
Cause	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes possible cause	**1**
	Level 2	Discusses possible cause	**2-3**
	Level 3	Discusses possible cause with justification	**4-5**
Prevent	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes possible prevention	**1**
	Level 2	Describes possible prevention	**2-3**
	Level 3	Describes possible prevention with justification	**4-5**
Task (b) Evaluate *the arguments for and against Happy Play accepting advice from Munntoy's production staff concerning modifications to the design of products commissioned by Happy Play*			
Trait			
Arguments for	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes advantages	**1-2**
	Level 2	Evaluates arguments for	**3-5**
	Level 3	Evaluates arguments for with justification	**6-8**

	Level	Descriptor	Marks
Arguments aganist		No rewardable material	**0**
	Level 1	Describes disadvantages	**1-2**
	Level 2	Evaluates arguments against	**3-5**
	Level 3	Evaluates arguments against with justification	**6-7**

Management Level Case Study November 2022–February 2023

Marking Guidance

Variant 6

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Management Case Study [November 2022 – February 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, students do not have to make all of the points mentioned in the indicative answers to receive the highest level of the marking scheme.
- An answer which does not address the requirements of the task must be awarded no marks. Markers should mark according to the marking scheme and not their perception of where the passing standard may lie.
  Where markers are in doubt as to the application of the marking scheme to a particular candidate script, they must contact their lead marker.

How to use this levels-based marking scheme

1. Read the candidate's response in full

2. Select the level

- For each trait in the marking scheme, read each level descriptor and select one, using a best-fit approach.
- The response does not need to meet all of the criteria of the level descriptor – it should be placed at the level when it meets more of the criteria of this level than the criteria of the other levels.
- If the work fits more than one level, judge which one provides the best match.
- If the work is on the borderline between two levels, then it should be placed either at the top of the lower band or the bottom of the higher band, depending on where it fits best.

3. Select a mark within the level

- Once you have selected the level, you will need to choose the mark to apply.
- A small range of marks may be given at each level. You will need to use your professional judgement to decide which mark to allocate.
- If the answer is of high quality and convincingly meets the requirements of the level, then you should award the highest mark available. If not, then you should award a lower mark within the range available, making a judgement on the overall quality of the answer in relation to the level descriptor.

Summary of the core activities tested within each sub-task

Sub-task	Core Activity		Sub-task weighting (% section time)
Section 1			
(a)	**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)	**E**	Manage internal and external stakeholders	40%
Section 3			
(a)	**A**	Evaluate opportunities to add value	40%
(b)	**D**	Measure performance	60%
Section 4			
(a)	**E**	Manage internal and external stakeholders	40%
(b)	**B**	Implement senior management decisions	60%

SECTION 1			
Task (a) Evaluate the potential usefulness, including limitations, of the data collected through the Happy Play Club Card app.			
Trait			
Usefullness	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes uses	**1-2**
	Level 2	Evaluates uses	**3-5**
	Level 3	Evaluates uses with justification	**6-8**
Limitation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes limitations	**1-2**
	Level 2	Evaluates limitations	**3-5**
	Level 3	Evaluates limitations with justification	**6-7**

Task (b) Evaluate the usefulness of the financial statements of the specialist baby product retailers in deciding whether Happy Play should sell baby products alongside its existing products.			
Trait			
Figures	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes uses of absolute figures	**1**
	Level 2	Evaluates uses of absolute figures	**2-3**
	Level 3	Evaluates uses of absolute figures with justification	**4-5**
Ratios	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes uses of accounting ratios	**1**
	Level 2	Evaluates uses of accounting ratios	**2-3**
	Level 3	Evaluates uses of accounting ratios with justification	**4-5**

SECTION 2			
Task (a) Discuss the advantages and disadvantages of establishing Baybebed as an investment centre.			
Trait			
Advantages	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes investment centre	**1-2**
	Level 2	Offers arguments in favour of investment centre	**3-5**
	Level 3	Offers full discussion of the arguments in favour of investment centre	**6-8**
Disadvantages	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes problems	**1-2**
	Level 2	Offers arguments against investment centre	**3-5**
	Level 3	Offers full discussion against investment centre	**6-7**
Task (b) Identify the implications arising from Baybebed's capitalised development costs for the goodwill calculation that will be reflected in the Happy Play Group consolidated financial statements and recommend an appropriate accounting treatment.			
Trait			
Implications	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines goodwill	**1**
	Level 2	Describes impact on goodwill	**2-3**
	Level 3	Offers full description of impact on goodwill	**4-5**
Treatment	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies standard	**1**
	Level 2	Discusses application of standard	**2-3**
	Level 3	Discusses application of standard with justification	**4-5**

SECTION 3			
Task (a) **Evaluate** the extent to which Happy Play's launch of these baby products changes our business model.			
Trait			
Define and create values	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes changes	**1**
	Level 2	Evaluates changes	**2-3**
	Level 3	Discusses issues to be addressed with justification	**4-5**
Deliver and create values	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes changes	**1**
	Level 2	Evaluates changes	**2-3**
	Level 3	Discusses issues to be addressed with justification	**4-5**
Task (b) **Recommend** with reasons the accounting treatment for gift vouchers that are sold in any given year. Your answer should reflect the fact that it is unlikely that all gift vouchers will be redeemed during the year in which they are sold.			
Trait			
Treatment	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes accounting choices	**1-2**
	Level 2	Recommends treatment	**3-5**
	Level 3	Offers full recommendation	**6-8**
Justification	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies standard	**1-2**
	Level 2	Justifies recommended treatment	**3-5**
	Level 3	Offers full justification for recommended treatment	**6-7**

SECTION 4			
Task (a) Discuss TWO difficulties associated with setting transfer prices between Baybebed and C&P shops that will optimise the allocation of scarce inventory for the Group and recommend responses to those difficulties.			
Trait			
1st Difficulty	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes difficulty	**1**
	Level 2	Discusses difficulty	**2-3**
	Level 3	Discusses difficulty with justification	**4-5**
2nd Difficulty	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes difficulty	**1**
	Level 2	Discusses difficulty	**2-3**
	Level 3	Discusses difficulty with justification	**4-5**

Task (b) Identify and discuss the project risks that might arise from Jamil's proposed project for the development of an exclusive line of Baybebed prams to be sold through Happy Play			
Trait			
Identification	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes project risk	**1-2**
	Level 2	Identifies some project risks	**3-5**
	Level 3	Offers a full identification of risks	**6-7**
Discussion	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Expands on description	**1-2**
	Level 2	Offers a discussion of risks	**3-5**
	Level 3	Offers a full discussion of risks with justification	**6-8**