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

May and August 2022

Management Case Study and CIMA Gateway

2019 CIMA Professional Qualification

Full post exam support materials

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

Pre-seen material

The May and August 2022 management / gateway case study pre-seen can be found here

Examiner's report

The May and August 2022 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

Management Case Study Examination
May - August 2022
Pre-seen material

Piping

COVID-19 Statement
This pre-seen and the case study in general (while aiming to reflect real life), are set in a context where the COVID-19 pandemic has 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 the pandemic or social distancing will, of course, be marked on their merits. In most cases, however, candidates may find it helpful to assume that there are no restrictions to the movement of people, goods or services in place.

Table of Contents

Introduction

Piping Beverages ("Piping") is a quoted company that manufactures packaged tea for sale to retailers. Piping buys the tea that it uses in bulk on the open market.

Piping is based in Northlandia, a developed country that has a strong economy and whose citizens have a high standard of living.

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

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

The tea industry

Traditionally tea is a hot drink made by soaking the dried leaves of the Camellia sinensis shrub in boiling water. Camellia sinensis is a clearly defined family of shrubs that includes a number of specific varieties.

Leaves, plants and buds from many other plants can be used to make drinks that are often referred to as "tea", although strictly that title should be restricted to leaves from one of the shrubs belonging to the Camellia sinensis family.

All references to "tea" in this document will be to products and drinks made from Camellia sinensis leaves.

Growing and processing tea leaves

The Camellia sinensis shrub is grown commercially in South Asian and East African countries. The best tea shrubs are grown at altitudes of between 1,000 and 2,000 metres.

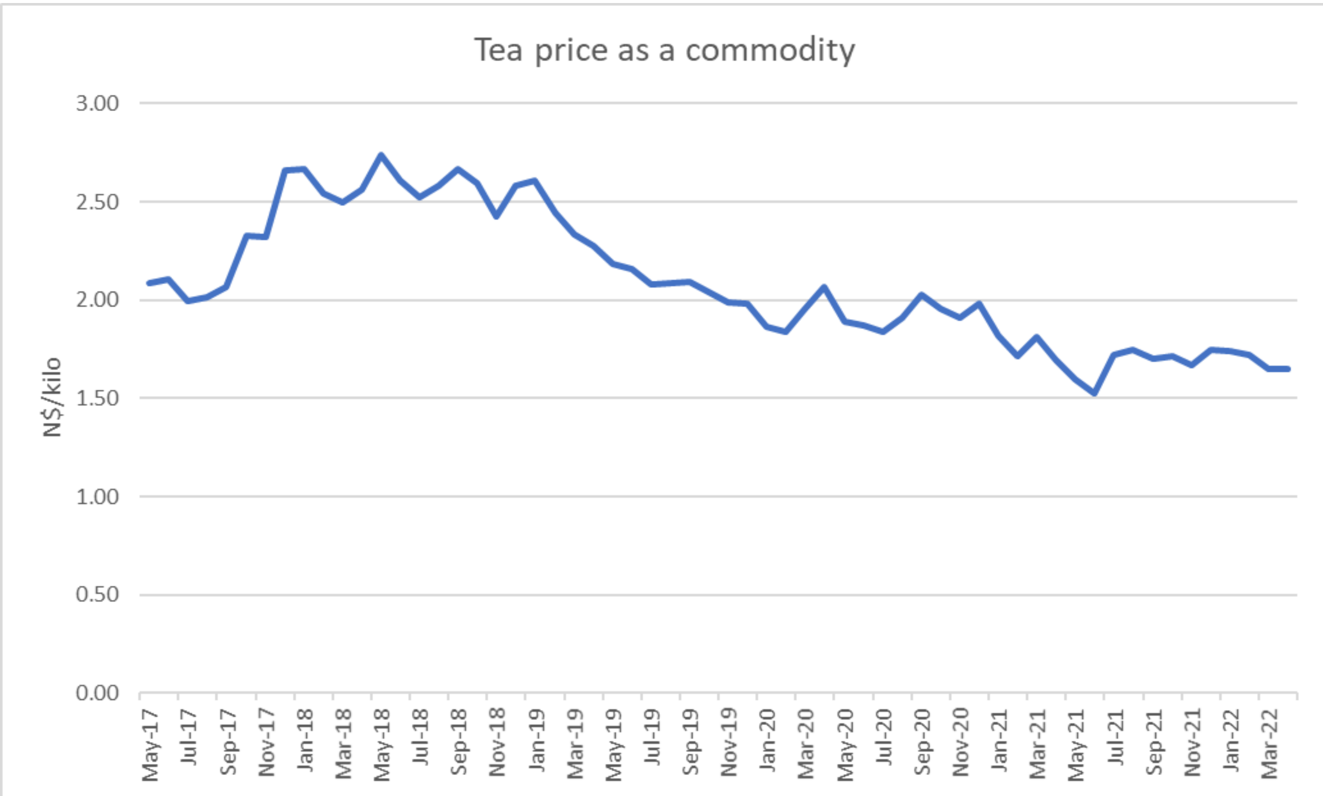
The shrubs on tea plantations have useful lives that vary between 40 and 100 years, depending on the specific variety of Camellia sinensis shrub. The leaves are harvested by plantation workers, who pluck leaves from bushes every 7–14 days. The leaves are then processed using two main methods to produce two different types of tea:

Black tea 	The green leaves are spread on racks to dry before being treated mechanically to break up the leaf cells. The processed leaves are left to absorb oxygen. Once they have oxidised, they are blown with hot dry air, which turns them black. Black tea is sometimes referred to as "made tea" or "dry tea".

Green tea 	Green tea is made by steaming and heating the green leaves after they have been plucked. The leaves are not processed further and so they remain green.

There is some further processing at the plantation, with slightly different processes depending on whether the leaves are to be sold to make loose tea or teabags. The leaves are then bagged and sold to tea manufacturers.

Black tea is sold in bulk as a commodity, with many tea-growing countries operating tea auctions that enable manufacturers to bid against one another in order to acquire a supply of tea leaves. Black tea leaves from different countries have different flavours, and flavour can also be affected by the plantation where they are grown. Manufacturers must keep the particular flavour of their tea blends and will often bid for leaves from specific plantations to help in the blending processes.



Tea manufacturing

Tea manufacturers import the tea leaves purchased at auction from growers. They are then blended and packaged, ready for sale to retailers.

Each batch of black tea has a slightly different flavour because of factors such as weather conditions during growth. Tea manufacturers deal with that by employing skilled blenders to taste samples from each batch of tea leaves under laboratory conditions. The tasters note the precise flavour characteristics of each batch and determine a blend from different batches that will create the consistent flavour associated with their particular brand or brands of tea. The mix of leaves from different sources varies slightly according to the flavours of each batch of leaves that arrive at the factory, but the tea that is sold should always taste the same when it is brewed by customers.

Once the tea is blended, it is packaged and prepared as products for sale to consumers, primarily through retailers. Tea is sold to consumers in different forms:

Loose tea 	Loose tea leaves are sold in packets. Consumers spoon the leaves into a teapot or other receptacle and add boiling water. The mix is allowed to stand until the water has been infused with flavour. Loose tea is generally made with high quality tea leaves. Depending on the drinker's taste preference, each cup of tea requires roughly 3 grammes of leaves.
Teabags 	Teabags are made by enclosing loose tea in small bags of porous material. The bags vary in composition, but they are usually made from paper, plastic or gauze (sometimes a mixture of two or more raw materials). Consumers can use a teapot, or they can simply put a teabag in a cup or mug and add boiling water. The tea then infuses as for loose tea. Teabags require the leaves to be ground more finely at the plantation because the water cannot flow through the leaves as freely as for loose leaves. A typical teabag contains 1.5 grammes of tea leaves.
Tea pods 	Tea pods are sealed plastic containers that are designed to fit in the same machines that are used to make coffee from coffee pods. Each brand of such machines requires pods that are made to accommodate its unique shape. The consumer inserts a pod into the machine and fills the machine's tank with water. The machine heats the water, punctures the pod and forces hot water through the pod.
Ready to drink 	Tea is sold in bottles that are intended to be consumed as chilled drinks. The manufacturer brews batches of tea, which are then cooled and bottled for sale to retailers.

Tea consumption

Tea is second only to water as the most widely consumed drink in the world, although its popularity varies significantly between countries. Northlandians consume an average of 1.9 kilos of tea per person each year, putting them near the top of the global rankings. Northlandia is one of 8 countries where the annual average consumption exceeds 1 kilo per person.

Tea drinking is deeply rooted in many national cultures.

Tea contains caffeine, which makes it refreshing.

Tea is hydrating, and so helps the body to store fluid, which is very beneficial in hot climates or when taking a break from work or exercise. Tea is also believed to increase the body's defences against a number of serious illnesses.

Cultural differences also affect the manner in which tea is prepared and consumed. For example, black tea is very popular in some countries and green tea is preferred in others. The relative popularities of teabags versus loose tea also varies significantly.

Piping's history and products

Piping was founded in 1852, in Northlandia's Central City. Northlandia's climate is unsuitable for the growth of tea shrubs and so tea manufacturers have always relied on imported tea leaves. Tea drinking has been part of Northlandia's culture for many years and it remains popular.

The company was listed on the Northlandian Stock Exchange in 1974.

Piping has grown steadily, focussing exclusively on black tea, and has been Northlandia's leading tea manufacturer for many years. Piping now produces several varieties of tea, including two of the most popular teas in the country:

- Piping Tea (in teabags and as loose tea)
- Piping Strong Flavour (in teabags)

Piping was the first company to manufacture teabags in Northlandia, introducing them to the market in 1958. Since then, it has created a number of innovative designs of teabags. Each design change is claimed to improve the flavour of the tea made from its teabags.

Northlandians prefer teabags to loose tea. Piping manufactures 360 million teabags every week. The company also sells loose tea in packets to cater for the demand from the minority of consumers who prefer to make tea from loose leaves.

Piping's teas are regarded as premium products that are slightly more expensive than competing brands. The company buys good quality tea leaves. It spends heavily on advertising in order to promote brand awareness. Piping's packaging is both visually appealing and is designed to keep the contents fresh.

Piping Tea is popular because it matches the preferences of Northandian consumers, who generally like a strong flavour that can be enhanced by adding both milk and sugar. Most of the company's output is sold through retailers in Northlandia, although it exports tea to countries that share a preference for strong tea. Exports are also driven by demand from Northlandian expatriates who have settled abroad and wish to continue drinking their favourite tea.

Operations

Piping has a factory in Central City in Northlandia, where it employs 700 staff. A further 200 staff are involved in buying, marketing and administration. They are based at a Head Office building that is close to the factory.

Black tea is purchased at auctions held in the various tea-producing countries. Piping has a sophisticated digital buying system that predicts the company's requirements for tea from different locations and matches those requirements to the timing of scheduled tea auctions. That enables the purchasing department to identify buying opportunities that are relevant to the company. Inventories of tea can then be managed efficiently, minimising holding costs and wastage. The price of black tea varies according to supply and demand, but it is always the single most expensive component of Piping's costs, typically exceeding 40% of total manufacturing cost.

Each batch of tea purchased is sampled on delivery by Piping's tea blenders. The company has six blenders, who have a tasting laboratory beside the factory. Each batch of leaves has its own unique flavour, which means that Piping's teas would not be consistent over time. The blenders have the skill to taste each batch and to adjust for slight differences in flavour, colour and aroma by altering the proportions of teas from different countries and different plantations. They use their judgement to decide the precise mix of different batches to be used in blending teas for production.

Black tea leaves are packed in large paper sacks at the plantation. The sacks are shipped to Piping's factory on wooden pallets that are stacked inside shipping containers. Unprocessed black tea can be stored for years, although its flavour will deteriorate slightly if stored for more than a few months. Manufacturers will, in any case, be keen to minimise inventory holding costs by processing black tea and selling the finished product as quickly as possible.

When they are required for production, the paper sacks are transported mechanically and emptied into massive metal drums, with the number of sacks from each batch of black tea specified by the tea blenders. The drums rotate slowly until the leaves from each batch have been mixed evenly. A sample is tasted by the factory's quality control technicians to confirm that the mixture of leaves in the drum is satisfactory before any further processing.

If the blended tea leaves are to be sold as loose tea then they are loaded onto production lines that weigh out the correct amount for each packet of tea. The tea leaves are then dropped onto sheets of foil that are cut, folded and sealed using heat to create packets of tea. The packets are placed in cardboard boxes that are formed on the production line. That creates the retail boxes of tea that are ready to be stacked onto retailers' shelves. The retail boxes are loaded into cardboard boxes for shipping.

The process for making teabags is very similar. The loose leaves required for each teabag are placed on a strip of paper. A second strip of paper goes on top and the two strips are fused together around the tea leaves. The fused strip is then cut to separate the individual teabags. More expensive brands of teabags, including Piping's, have a tag attached to make it easier for consumers to lift them out of their cups. Individual teabags can also be packaged in a paper envelope to maintain freshness and to permit branding to be printed on each teabag. Teabags are then packed in foil, boxed and placed in outer cardboard boxes for transportation to retailers.

There are two separate production lines for loose tea and teabags. All processes are highly mechanised. The 700 production staff are employed to monitor the operation of the machinery on the production lines, make adjustments, carry out preventive maintenance and deal with breakdowns. The machinery undertakes almost all of the manufacturing and handling of inventory.

Marketing and Distribution

Piping's products are sold through most major retailers in Northlandia. The Marketing and Distribution Department has two main functions:

Advertising	Piping invests heavily on advertising in order to maintain brand awareness. The company's brand name is one of the most recognisable in the country, but it remains important to advertise through traditional and online channels in order to prevent loss of market share. Advertising also helps Piping to develop brand loyalty from younger customers who might switch to other drinks such as coffee. The advertising team is part of Piping's Marketing and Distribution Department. It has a substantial budget for the development of new adverts and for broadcasting and publication.
Account management	Piping is the largest tea manufacturer in Northlandia and most food retailers wish to sell Piping's products. Piping strives to maintain a strong relationship with major retailers by having a designated account management team in its Marketing and Distribution Department. This team's function is to engage with buyers employed by retailers. Typically, a major retail customer will be assigned an account manager who will be the designated contact between Piping and the retailer's buying department. Account managers will also seek to encourage buyers to place regular orders, increasing their spend as much as possible. For example, an account manager might be authorised to offer a discount in return for an increase in the retailer's regular order. Account managers also keep retailers informed about forthcoming promotions, such as new advertising campaigns that will hopefully increase demand. Account managers frequently visit supermarkets to check the placement of Piping's products on the shelves. Supermarket shelf space is always limited and the extent and location of products on the shelves can have a significant impact on sales. For example, products placed at eye level tend to sell better than those on higher or lower shelves.

Piping's Marketing and Distribution Department keeps close contact with consumers to ensure that its teas remain popular. The company makes several varieties of tea, each of which aims to attract its own specific niche of tea drinkers. For example, Piping Strong Flavour was developed 5 years ago because of feedback from a sizeable minority of consumers who were using two bags per cup to get the strength of flavour that they wished. Piping's tea blenders developed a new blend that could deliver a stronger flavour from a single teabag and so created a popular new product.

Piping's Marketing and Distribution Department also has a small team of sales managers who seek to expand Piping's export sales, although the company's brand image is strongly associated with Northlandia. There are, nevertheless, some other countries in which Piping brands are popular. There are also several countries where retailers sell Piping tea to meet the demand from local communities of Northlandian expatriates, who enjoy drinking Piping tea because it reminds them of home.

Social responsibility

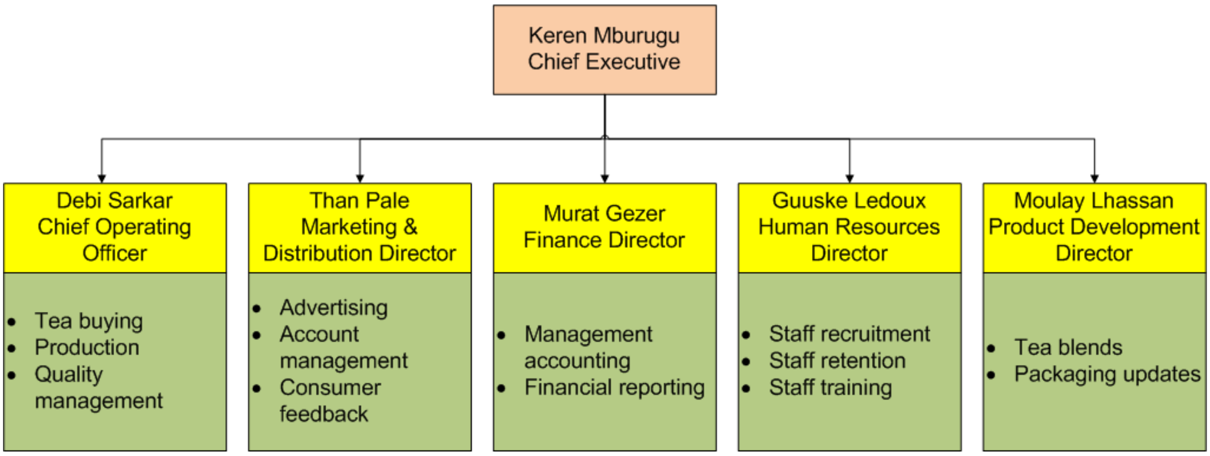
Most tea plantations are located in developing countries, which has led to some controversy over the rates of pay and the working conditions imposed on plantation workers. Piping, in common with most tea manufacturers, buys tea leaves from auctions and so the company has very little direct contact with the plantations themselves. The fact that prices are set at auction means that there is, at least, some transparency over pricing.

Piping supports a number of local charities and other initiatives in tea growing countries that are intended to encourage plantation owners to treat their workers fairly. These initiatives also offer practical support, such as funding schools and medical facilities in tea-growing regions that are too remote for government facilities to be available.

Piping's manufacturing processes are designed to use resources efficiently and with the minimum of waste. Its production lines are maintained regularly in order to reduce the amount of power required for their operation. Products are designed to eliminate waste. For example, all packaging is recyclable and uses as little material as possible in order to reduce weight, and so transportation cost.

Piping's teabags and loose tea leaves can be recycled by consumers. The paper in teabags is biodegradable and used tea leaves make excellent fertiliser. Piping's packaging provides consumer advice on recycling.

Piping's management structure



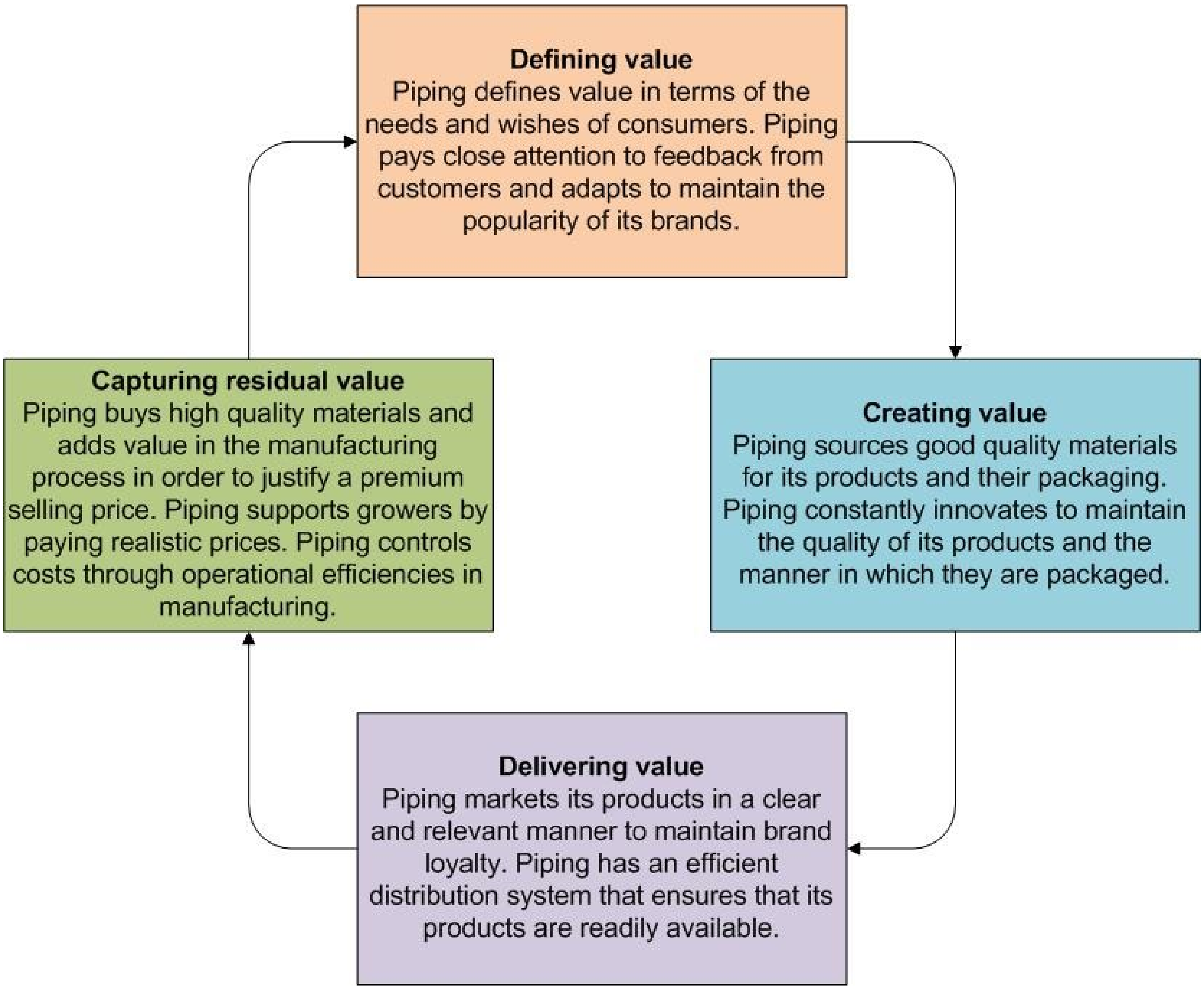
Piping's Board also includes the following non-executive directors:

- Victoria Tsang – Non-Executive Chair
- Tunde Ope-Davies
- Zasha Swan
- Fredrik Ekengren
- Juliane Pasos
- Bernard Watler

Each of the executive directors, other than the Chief Executive, is responsible for a specific functional area. Marketing and Distribution is managed as a profit centre. The other four functional areas are cost centres.

Piping's business model

The company's business model might be viewed as follows:



Piping has always used good quality tea leaves in order to ensure that consumers were prepared to pay a premium price in comparison to its main competitors. Piping's teas are slightly more expensive than competing brands. Even so, tea is a relatively inexpensive beverage when compared to other drinks such as coffee, fruit infusions or cold drinks such as sodas. Many tea drinkers are prepared to pay a little more for a brand of tea that they will enjoy.

Piping has always been at the forefront of innovation. For example, it introduced teabags to the Northlandian tea market. Since then, it has introduced a number of different products, primarily through packaging. For example, Piping has redesigned its teabags several times. The current design is a complex shape that has been engineered to permit boiling water to flow through more effectively and so to give consumers a better tasting drink. The company also uses a patented process that seals the foil that contains its loose teas and teabags so that they remain fresh for longer. Apart from extending the shelf life, it also improves the tea's flavour.

Piping pays close attention to consumer feedback:

- The company has a website and consumers are encouraged to leave comments. The Marketing and Distribution Department has a team that monitors social media looking for comments about tea drinking in general and Piping in particular.
- Marketing and Distribution has a group of facilitators who hold focus group meetings and tea tastings in supermarkets across Northlandia. Facilitators ask small groups of consumers to discuss their opinions about tea drinking. Participants are also asked to taste and comment on samples of teas made from Piping and from competing brands.

Consumer feedback has driven a number of changes, including the launch of new teas to meet changing preferences and the modification of packaging. For example, some consumers complained that the new foil packaging was difficult to open and so the design was modified slightly so that it was easier to use while still preserving the freshness of the product.

Piping's market research indicates that consumers believe that tea has health-enhancing effects. It would be against the law for tea companies to make claims to that effect unless they conducted the same tests and trials that are applied to pharmaceutical drugs. There is nothing to stop tea companies making general statements in their advertising but they must not claim health benefits:

Legally, Piping would only be in breach if it claimed that the high antioxidant quality of its tea made consumers healthier. Stating that the tea is high in antioxidants is factually correct and any inference by consumers that they will benefit from drinking a substance that is high in antioxidants is up to them.

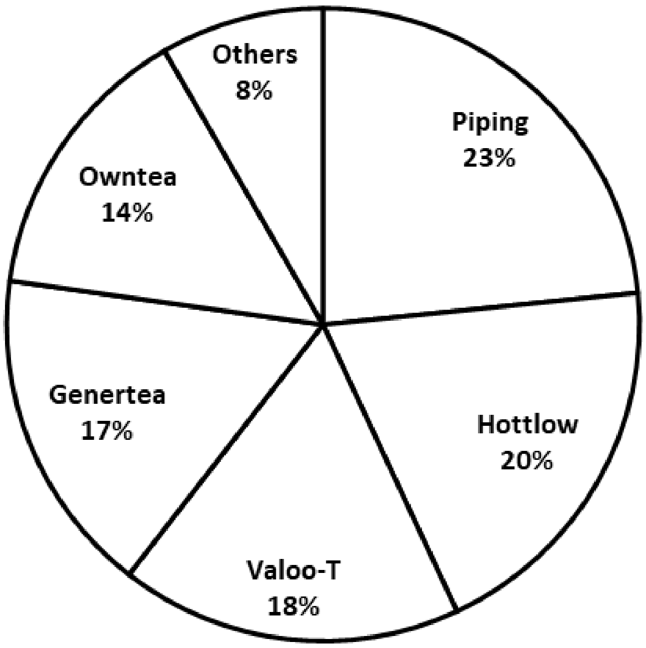
Competition

Piping's most direct competitor is Hottlow Tea ("Hottlow"). Hottlow competes in Piping's market space by producing good quality loose tea and teabags. Hottlow follows Piping's policy of selling its products in attractive and practical packaging that reflects the quality of the tea itself.

Piping also faces competition from three other large manufacturers that sell to the Northlandian market:

Valoo-T	sells its own budget brand of low-priced loose tea and teabags
Genertea	manufacture own-brand tea for retail chains
Owntea	

NORTHLANDIAN TEA MARKET BY REVENUE



Extracts from Piping's annual report

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

	2021	**2020**
	N$ million	**N$ million**
Revenue	3,080.5	3,008.3
Cost of revenues	(1,704.0)	(1,635.2)
Gross profit	1,376.5	1,373.1
Administrative expenses	(243.4)	(268.1)
Selling and marketing expenses	(757.3)	(777.4)
Operating profit	375.8	327.6
Finance costs	(49.0)	(52.5)
Profit before tax	326.8	275.1
Tax	(75.0)	(58.0)
Profit for year	251.8	217.1

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

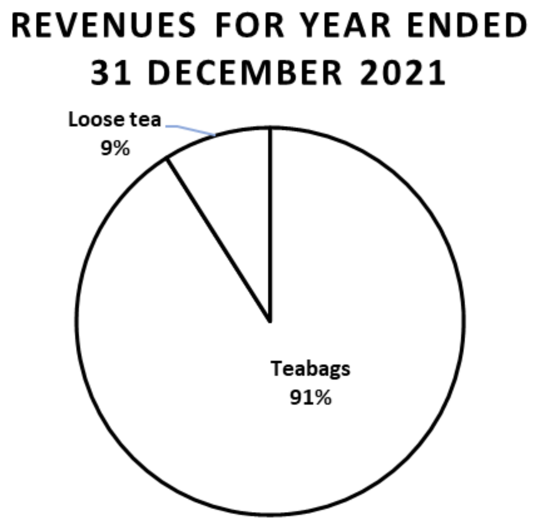
	Share capital and premium	Retained earnings	Total
	N$ million	**N$ million**	**N$ million**
Balance at 31 December 2020	500.0	629.2	1,129.2
Profit for the year		251.8	251.8
Dividends		(74.0)	(74.0)
Balance at 31 December 2021	500.0	807.0	1,307.0

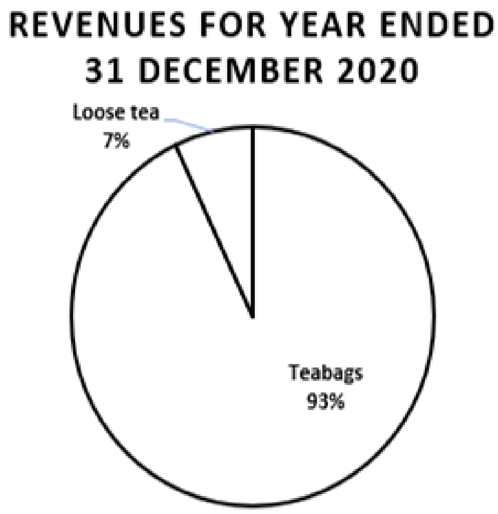
Piping Beverages Group
Consolidated statement of financial position
As at 31 December

	2021	**2020**
	N$ million	**N$ million**
Non-current assets		
Property, plant and equipment	1,501.5	1,415.1
Intangible assets	329.6	269.5
	1,831.1	1,684.6
Current assets		
Inventory	32.8	31.4
Trade receivables	330.1	331.2
Bank	47.4	41.8
	410.3	404.4
Total assets	2,241.4	2,089.0
Equity		
Share capital and share premium	500.0	500.0
Retained earnings	807.0	629.2
	1,307.0	1,129.2
Non-current liabilities		
Borrowings	700.0	750.0
Current liabilities		
Trade payables	163.4	156.8
Tax	71.0	53.0
	234.4	209.8
	2,241.4	2,089.0

Breakdown of revenues and operating profits

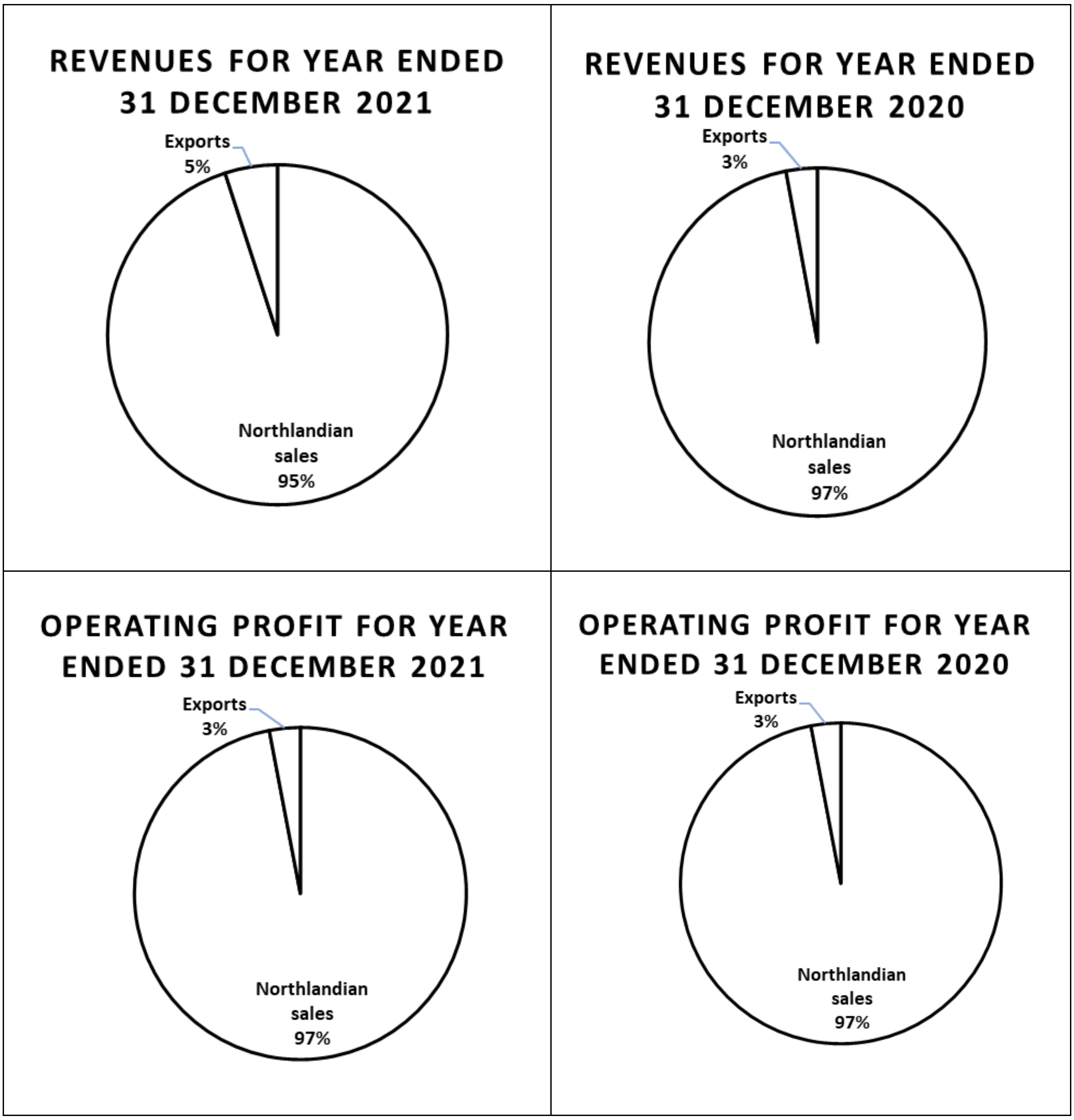
	Year ended 31 December 2021 **N$ million**	Year ended 31 December 2020 **N$ million**
Revenue from teabags	2,803.3	2,797.7
Revenue from loose tea	277.2	210.6
Total	3,080.5	3,008.3
Operating profit from teabags	349.5	304.7
Operating profit from loose tea	26.3	22.9
Total	375.8	327.6
Revenue from Northlandian sales	2,926.5	2,918.1
Revenues from exports	154.0	90.2
Total	3,080.5	3,008.3
Operating profit from Northlandian sales	364.5	317.8
Operating profit from exports	11.3	9.8
Total	375.8	327.6


REVENUES FOR YEAR ENDED 31 DECEMBER 2021
Loose tea 9%
Teabags 91%


REVENUES FOR YEAR ENDED 31 DECEMBER 2020
Loose tea 7%
Teabags 93%


OPERATING PROFIT FOR YEAR ENDED 31 DECEMBER 2021
Loose tea 7%
Teabags 93%


OPERATING PROFIT FOR YEAR ENDED 31 DECEMBER 2020
Loose tea 7%
Teabags 93%


REVENUES FOR YEAR ENDED 31 DECEMBER 2021
Exports 5%
Northlandian sales 95%
REVENUES FOR YEAR ENDED 31 DECEMBER 2020
Exports 3%
Northlandian sales 97%
OPERATING PROFIT FOR YEAR ENDED 31 DECEMBER 2021
Exports 3%
Northlandian sales 97%
OPERATING PROFIT FOR YEAR ENDED 31 DECEMBER 2020
Exports 3%
Northlandian sales 97%

Extract from Hottlow's annual report

Hottlow is Piping's most direct competitor in the Northlandian tea market. Both companies sell products that are regarded as good quality. Some consumers drink one brand of tea exclusively, but others switch between brands, based on price or personal taste.

Hottlow is based in Northlandia and is quoted on the Northlandian stock exchange.

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

	2021	**2020**
	N$ million	**N$ million**
Revenue	2,587.6	2,466.8
Cost of revenues	(1,465.4)	(1,373.6)
Gross profit	1,122.2	1,093.2
Administrative expenses	(209.3)	(227.9)
Selling and marketing expenses	(621.0)	(629.7)
Operating profit	291.9	235.6
Finance costs	(51.0)	(48.0)
Profit before tax	240.9	187.6
Tax	(55.4)	(43.1)
Profit for year	185.5	144.5

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

	Share capital and premium	**Retained earnings**	**Total**
	N$ million	**N$ million**	**N$ million**
Balance at 31 December 2020	600.0	426.1	1,026.1
Profit for the year		185.5	185.5
Dividends		(115.8)	(115.8)
Balance at 31 December 2021	600.0	495.8	1,095.8

Hottlow Group
Consolidated statement of financial position
As at 31 December

	2021 N$ million	2020 N$ million
Non-current assets		
Property, plant and equipment	1,411.4	1,344.3
Intangible assets	260.4	207.5
	1,671.8	1,551.8
Current assets		
Inventory	28.2	26.4
Trade receivables	269.6	257.5
Bank	41.3	39.7
	339.1	323.6
Total assets	2,010.9	1,875.4
Equity		
Share capital and share premium	600.0	600.0
Retained earnings	495.8	426.1
	1,095.8	1,026.1
Non-current liabilities		
Borrowings	680.0	640.0
Current liabilities		
Trade payables	183.2	171.7
Tax	51.9	37.6
	235.1	209.3
	2,010.9	1,875.4

News reports

Northlandia Business Daily

Botanists make their mark

Botany is the scientific study of plants. It was once regarded as a narrow and uninteresting branch of biology, but it is now becoming increasingly important in a variety of industries. Apart from providing food, plants are the basis for a host of products ranging from cosmetics to the rubber for car tyres. The characteristics of plants can have a significant impact on a wide variety of industries.

Research conducted by botanists can identify varieties of plants that are suited to specific needs. For example, different varieties of wheat make different varieties of flour. They also grow differently according to local weather conditions. Some are more tolerant of plant diseases or other pests. Thus, a farmer might consider seeking advice about the best seed to sow in order to get a good crop from a particular field, taking account of climate, soil type and the local insect population.

Botanists can also create their own new plant varieties. Fertilising plants of one variety with pollen from another can lead to varieties that combine the best qualities of both. So, a variety of wheat that is resistant to drought can be mixed with another that is resistant to pests and the result will hopefully be a variety of wheat that is resistant to both drought and pests.

Northlandia Daily News

Dr Maina's health column

Patients often ask me whether tea is healthier than coffee. That is a more complicated question than you might imagine because both drinks have their health benefits and their health risks.

Most of the benefits associated with tea and coffee arise because both are rich sources of antioxidants. These are chemical compounds that protect the human body from all sorts of diseases.

Tea and coffee both contain caffeine, which is a stimulant. A cup of coffee usually contains twice as much caffeine as a cup of tea. In moderation, caffeine can be beneficial. The most obvious benefit is that it can be refreshing, which explains why so many people enjoy tea or coffee with their breakfast or during work breaks. A moderate caffeine intake can also reduce the risk of certain diseases. Caffeine can, however, prove harmful to some people, particularly when consumed to excess, because it can cause anxiety, irregular heartbeat, raised blood pressure and can disrupt sleep patterns. A small number of people are sensitive to caffeine and will have a reaction that is similar to an allergic reaction if they consume even a small amount.

Tea and coffee both contain different types of antioxidants that increase resistance to different diseases. That alone makes it difficult to claim that one is healthier than the other. Tea generally contains less caffeine than coffee, but that does not necessarily make it beneficial to drink tea in large quantities.

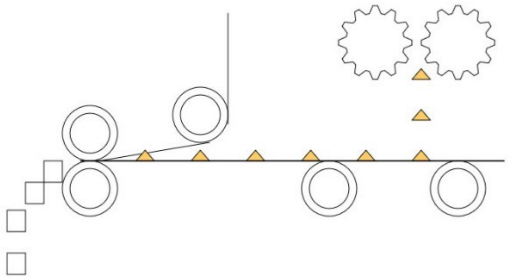
It is possible to buy decaffeinated tea and coffee that have been processed to remove most of the caffeine. That requires a chemical process to be applied to the tea leaves or coffee beans. The process removes most of the caffeine, but it also removes a lot of the antioxidants. It is impossible to remove all of the caffeine, so "decaffeinated" really means "very low in caffeine". A cup of decaffeinated coffee won't keep you awake at night, but it should still be avoided by those who are sensitive to caffeine.

Happy Comic

Readers' questions

Question: My dad opened a new box of teabags this morning and it made me think about how difficult it must be to fill all those tiny little bags with just the right amount of tea. How do they do that?

Sandy, age 11



Answer: Teabag factories start with large rolls of special paper. The paper is cut into strips by machines in the factory and portions of tea leaves are poured onto each strip to make little heaps. Another strip of paper is laid on top and the two layers of paper are fused together so that the heaps of tea are now sealed between the paper strips. Finally, the machinery cuts the paper strips in exactly the right place to separate the individual teabags. It all happens so quickly that we use machinery to do this because people wouldn't be able to keep up with production. The people who work in the factory are there to check the machinery and make sure that there is always plenty of tea and paper.

Question: When paper gets wet it disintegrates, but teabags are made out of paper and they can be dunked in boiling water for ages. How is this possible?

Vijay, age 10

Answer: It is true that water and paper don't usually mix, but teabags use paper that is made from fibres taken from banana leaves. Teabag paper wouldn't be very good to write on, but it does stand up to boiling water.

Some companies add plastic to the paper to make their teabags stronger still.

Question: I was marked wrong in a school essay because I said that peppermint tea is a type of tea. My teacher said that I should have referred to it as "peppermint infusion". Was I really wrong?

Anya, age 11

Answer: I hope that you didn't lose too many marks because most retailers sell boxes of "peppermint tea" as well as many other drinks that are called "tea" because they require leaves to be soaked in boiling water. Strictly speaking, only the leaves of the Camellia sinensis shrub and the drink that those leaves are used to make it should be described as "tea". Products made from different plants should be called "infusions".

Question: Why don't they grow more valuable crops, such as wheat, on tea plantations?

Dara, age 12

Answer: The best tea leaves are grown high up in mountainous regions. Good luck getting the equipment required by a modern wheat farm onto a typical tea plantation! It is lucky that tea shrubs grow there because the land is generally unsuitable for any other purpose, including farming most other crops. Harvesting tea is an ongoing and labour-intensive process. Tea pickers work their way along rows of shrubs and pluck the fresh growth of leaves from the top. Each row of shrubs is harvested every two weeks or so.

CIMA

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.

The 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) 40% (b) 60%
2	45	1	2	(a) 40% (b) 60%
3	45	1	2	(a) 40% (b) 60%
4	45	1	2	(a) 40% (b) 60%

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

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

Reference Material Pre-seen

Channa de Silva, Piping's Senior Financial Manager, stops by your workspace and hands you a document that relates to problems associated with Piping's recently launched decaffeinated tea.

"I have brought you a copy of a document that has been circulated to the Senior Management Team.

I need your help with the following matters before I prepare a briefing for Murat Gezer, our Finance Director.

- First, recommend with reasons whether we should change the focus when defining value in our business model away from "the needs and wishes of consumers". Consider this in the context of the criticism that we now face because of our response to the demand for decaffeinated tea.

  [sub-task (a) = 40%]

- Second, identify and discuss the impact of three major business risks that will arise from Piping's continuing sale of decaffeinated tea after the broadcast of the documentary."

  [sub-task (b) = 60%]

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

Reference Material

Close

Television documentary on Piping's decaffeinated tea

Prepared by Renata Jachowicz, Senior Manager in Quality Management

It is now 4 months since we launched decaffeinated versions of our most popular teas. We did so in response to market research indicating that many consumers are concerned that caffeine, the stimulant contained in traditional tea, is potentially harmful. Piping is the first major manufacturer to sell decaffeinated tea in the Northlandian market. We invested heavily in advertising this new product and had hoped that it would significantly increase our market share.

We have been paying a leading food technology company to process batches of tea leaves. They use a chemical process to remove the caffeine before shipping the tea leaves back to us for blending and packaging at our factory.

We have been approached by Northlandian Television and asked to comment on three matters that will be discussed in a consumer protection programme that will discuss our decaffeinated tea:

1. The decaffeination process also removes many of the antioxidants that consumers regard as offering health benefits.
2. The process leaves traces of caffeine in the tea, which can harm the very small number of people who are sensitive to caffeine.
3. Taste tests comparing Piping's traditional tea with decaffeinated versions suggest that the flavour of decaffeinated tea is impaired.

We plan to respond as follows:

1. Decaffeination does remove antioxidants, but we do not claim that decaffeinated tea contains the same levels of antioxidants as regular tea, nor do we publish the levels of antioxidants in any of our teas.
2. It is impossible to remove 100% of the caffeine from tea. Legally, tea can be sold as "decaffeinated" if at least 97.5% of the caffeine is removed. We meet that requirement. Most consumers will not notice the remaining traces. The few who are sensitive to caffeine should know to avoid any product that is "decaffeinated".
3. Taste tests are highly subjective. Our blenders agree that there is a very slight difference in the flavour of our decaffeinated teas, but they are experts. If consumers did not enjoy the tea then they would not continue to buy it.

Scratch Pad Calculator

Reference Material Pre-seen

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

Paragraph

Scratch Pad Calculator

Reference Material Pre-seen

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

Paragraph

Reference Material Pre-seen

A few days later, Channa de Silva asks you to join him at his workspace.

"I have brought an extract from the minutes of a Board meeting. I need your advice on the following before I discuss these matters further with Murat Gezer, Finance Director.

- First, evaluate Moulay's argument that the development team from Piping's Product Development Department had acted appropriately.

  [sub-task (a) = 40%]

- Second, discuss the appropriateness of the continuing treatment of the N$87 million capitalised development costs in the financial statements and explain the implications for the financial statements of any changes to this treatment that you consider necessary."

  [sub-task (b) = 60%]

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

Reference Material

Extract from Board minutes

The Board discussed the concerns that will be aired in a forthcoming television documentary concerning decaffeinated tea.

Keren Mburugu, Chief Executive, expressed dismay that Piping's Product Development Department had spent N$87 million over a 2-year period in the development of decaffeinated tea. That cost included considerable support from external food technologists who advised Product Development on the removal of caffeine from tea leaves. Keren asked why Product Development had not warned the Board that decaffeinated tea had much fewer of the antioxidants that appeal to consumers, poorer flavour and was not entirely free of caffeine.

Moulay Lhassan, Product Development Director, pointed out that the development team from Product Development had been briefed to create decaffeinated tea. It was impossible to do so without reducing antioxidant levels. It is also impossible to remove 100% of the caffeine from tea leaves and so the law permits products to be sold as "decaffeinated" provided at least 97.5% of the caffeine has been removed. Piping's tea meets that standard. Removing caffeine is a complex process that affects the flavour of the tea.

To sum up, Moulay believed that the development team had acted within its brief by creating decaffeinated teas that were not harmful to consumers. In the process, the team had taken the advice of external food technologists who were experts in that field.

Murat Gezer, Finance Director, warned the Board that the N$87 million development costs had been capitalised as a development cost. It had been intended to amortise that cost over the 20-year estimated lifespan of the products.

Close

Reference Material Pre-seen

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

Paragraph

Reference Material Pre-seen

A few days later, you receive the following email:

From: Channa de Silva, Senior Financial Manager
To: Financial Manager
Subject: FWD: Decaffeinated tea

Hi

I need your help in drafting a reply to an email from Murat Gezer, Finance Director.

- First, identify the difficulties associated with planning the Board's proposed project and recommend how they might be overcome.
  [sub-task (a) = 40%]

- Second, evaluate the challenges associated with identifying and quantifying the cash flows associated with the advertising campaign in order to determine its net present value (NPV) and suggest solutions. Consider both the initial investment and the subsequent cash flows.
  [sub-task (b) = 60%]

Regards
Channa

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

Reference Material

From: Murat Gezer, Finance Director
To: Channa de Silva, Senior Financial Manager
Subject: Decaffeinated tea

Hi Channa

The Board continues to consider the most appropriate response to the potential controversy over our sale of decaffeinated tea. The documentary's producers asked us to comment on the following matters and so we know that the programme will make the following points:

- Decaffeinated tea contains fewer antioxidants.
- Decaffeinated tea contains traces of caffeine.
- Decaffeinated tea tastes different.

The documentary will be broadcast in 2 months.

The Board is now considering creating and launching an advertising campaign that will educate consumers about the good and bad implications of drinking decaffeinated tea. That will enable consumers to make an informed choice and so the documentary will be less damaging when it is broadcast. If we succeed then we will hopefully preserve the market for our decaffeinated tea.

The Board intends to appoint a project team to develop this advertising campaign, which will be run in newspapers, television and in social media before the documentary is broadcast.

Regards
Murat

Close

Reference Material Pre-seen

Respond to Channa's requests in the box below.

From: Financial Manager
To: Channa de Silva, Senior Financial Manager
Subject: FWD: RE: Decaffeinated tea

Paragraph

Scratch Pad Calculator

Reference Material Pre-seen

Two months later, you receive the following email.

From: Channa de Silva, Senior Financial Manager
To: Financial Manager
Subject: FWD: New tea variety

Hi

Murat Gezer, Finance Director, has just forwarded an email. I need your help to brief him on some of the implications before he decides on his response:

- First, discuss the challenges associated with deciding whether Piping could achieve a higher price for the sale of decaffeinated tea made from the leaves described in Debi Sarkar, Chief Operating Officer's email.

  [sub-task (a) = 40%]

- Second, recommend with reasons the manner in which Piping should disclose its arrangement with the plantation under intellectual capital, social and relationship capital and natural capital in the Group Integrated Reporting (<IR>) report.

  [sub-task (b) = 60%]

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

Reference Material

From: Debi Sarkar, Chief Operating Officer
To: Murat Gezer, Finance Director
Subject: New tea variety

Hi Murat

A member of my tea-buying team has just returned from a very interesting trip to a tea plantation that has developed and planted a unique variety of Camellia sinensis (tea) shrub that is naturally low in caffeine. That means that the process of decaffeination requires much less of the processing that removes antioxidants and impairs flavour.

Piping's blenders are excited because they could use tea from this shrub to create a decaffeinated version of our most popular blends that would be higher in antioxidants than any other decaffeinated tea on the market and would taste exactly the same as the regular blend.

The plantation already has sufficient mature shrubs of this variety to meet all of our needs for decaffeinated tea leaves, but we have had to enter into a commitment to buy all of their low-caffeine black tea at 15% above the market price of full-caffeine tea leaves in order to secure all of the plantation's output. This will significantly increase the manufacturing costs of this new decaffeinated tea compared with our regular tea. That could complicate our pricing because we currently sell our existing decaffeinated tea at the same price as the comparable full-caffeine blend, but we may be able to sell the new decaffeinated tea at a higher price because of consumer perception that decaffeinated tea is healthier.

Regards
Debi

Close

Scratch Pad Calculator

Reference Material Pre-seen

Provide the response requested by Channa in the box below.

From: Financial Manager
To: Channa de Silva, Senior Financial Manager
Subject: FWD: RE: New tea variety

Paragraph

CIMA

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.

CIMA

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.

The examination is structured as follows:

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

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

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

Channa de Silva, Piping'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 help to prepare a briefing that Murat Gezer, our Finance Director, will present to Piping's Board:

- First, discuss the challenges associated with predicting the cash flows from operating Sloping Tea as a 100% subsidiary in order to determine the net present value (NPV) of this investment.

[sub-task (a) = 60%]

- Second, discuss the characteristics of debt that would affect its suitability as a means of financing the acquisition of Sloping Tea."

[sub-task (b) = 40%]

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

Reference Material

Extract from Board minutes

Moulay Lhassan, Product Development Director, informed the Board of a proposal that he had received from the directors of Sloping Tea, a company that owns a tea plantation in Eastland. Sloping Tea has developed a new variety of Camellia sinensis (tea) shrub that produces leaves that have a very high concentration of antioxidants and a delicious flavour. The directors have offered Piping the opportunity to purchase 100% of Sloping Tea's equity for N$210 million. That price would include the land and the tea shrubs, as well as the buildings and machinery used to process freshly picked leaves into black tea that is ready for shipment to Piping's factory in Northlandia. The price also includes the knowledge required to grow the new variety of tea shrub.

One third of the land was replanted 3 years ago and those shrubs are now ready to harvest. The remainder of the plantation is suitable for replanting with the new variety, but Sloping Tea has waited until now in order to generate revenues from its existing shrubs.

Piping's tea blending experts are excited by this new variety of shrub. They believe that it could form the basis of a new blend of tea that could be sold at an even higher price than the company's existing products.

Piping, in common with most tea producers, buys all of its tea leaves at auction. A minority of tea companies own plantations.

Sloping Tea is an independent company, registered in Eastland, but not quoted on the Eastland Stock Exchange. Nishara Fernando, who inherited Sloping Tea from his parents and has never taken an active role in the operation or management of the company, owns 100% of the equity.

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

Paragraph

Six months later, you receive the following email:

From: Channa de Silva, Senior Financial Manager
To: Financial Manager
Subject: Sloping Tea

Hi

I have attached a copy of a news article that I downloaded.

The Board is planning to create a team of managers from Sloping Tea to advise us as to how we might get the best use from our new tea plantation in terms of harvesting and processing leaves in large quantities and with consistent quality for our proposed new premium blend of tea.

I need your help with two matters:

- First, discuss the challenges associated with creating an effective team from Sloping Tea's managers that will assist in Piping's product development and manufacture.

[sub-task (a) = 40%]

- Second, discuss the implications for the Piping Group's financial statements of a significant fall in the value of Eastland's E$.

[sub-task (b) = 60%]

Regards
Channa

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

Reference Material

Northland Business Daily

Piping faces some major challenges

The Board of Piping, the leading tea manufacturer, has rejected claims that it will struggle with the implementation issues associated with the acquisition of Sloping Tea, a company which owns a large tea plantation in Eastland. The transaction was completed yesterday and Piping now finds itself in control of one of the largest tea plantations in a remote corner of Eastland.

A spokesperson for Piping admitted that the company had no experience of tea growing but pointed out that Sloping Tea is a 100% subsidiary and that it had been acquired with its management team and workforce in place.

Piping made no comment on the recent economic forecasts that predict a significant fall in the value of Eastland's currency, the E$.

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

From: Financial Manager
To: Channa de Silva, Senior Financial Manager
Subject: RE: Sloping Tea

Paragraph

Six months after Piping's acquisition of the Sloping Tea subsidiary, Channa de Silva, Piping's Senior Financial Manager, says to you:

"The Board is concerned about this report. We bought Sloping Tea because of this exciting new shrub, "Variety-R", but the high cost of labour at the Sloping Tea plantations could threaten the profitability of that acquisition. Murat Gezer, Piping's Finance Director, has suggested that Sloping Tea should adopt the CGMA Cost Transformation Model.

I have spoken to the report's author. She tells me that the Botany Laboratory has always been highly influential at Sloping Tea.

I need your help with the following:

- First, evaluate the possibility that generating maximum value through new products and incorporating sustainability to optimise profits might assist in the management of the issues raised in the report.

  [sub-task (a) = 60%]

- Second, recommend with reasons the style of leadership that Piping should apply to Sloping Tea."

  [sub-task (b) = 40%]

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

Reference Material

Close

Labour costs at Sloping Tea Plantation

Executive summary

Prepared by Samudra Senarath, Plantation Accountant

Sloping Tea replanted one third of its plantation with Variety-R shrubs 3 years ago. We started to harvest leaves just in time to provide Piping with samples while the purchase terms for the company were negotiated. We intend to replace the remainder of the plantation's shrubs with Variety-R gradually over the next 2 years. In the meantime, we will be able to provide Piping with leaves from both Variety-R and the existing shrubs that will continue to be harvested until they are replaced.

Two issues have been identified with respect to labour costs at Sloping Tea:

Staffing of Botany Laboratory

Variety-R was developed in Sloping Tea's Botany Laboratory located in the plantation. The laboratory employs 40 botanists who monitor the health of the shrubs on the plantation and who develop new varieties. Most plantations employ far fewer botanists.

The Botany Laboratory is heavily engaged in studying the characteristics of Variety-R now that it is being grown and harvested under normal commercial conditions. The Head Botanist is also keen to continue to improve Variety-R and to produce even better varieties of shrub. That will require a significant increase in the Laboratory's staffing levels.

Harvesting leaves from Variety-R

Variety-R shrubs are delicate and easily damaged. Damaged shrubs are vulnerable to plant diseases. Tea pickers must be gentle when picking leaves and so have been trained in new harvesting techniques. Unfortunately, these techniques are slower than traditional methods and so additional pickers have had to be employed to work on Variety-R shrubs.

Scratch Pad Calculator

Reference Material Pre-seen

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

Paragraph

A week later, you receive the following email:

From: Channa de Silva, Senior Financial Manager
To: Financial Manager
Subject: FWD: Sloping Tea

Hi

I have forwarded an email.

Murat Gezer, Piping's Finance Director, has asked me to advise him on two implementation matters arising from this email and I require the following from you:

- First, assuming that our application to the Northland Medicine Authority (NMA) is successful, evaluate the likelihood that the ability to claim health benefits from drinking high antioxidant tea will be disruptive and will fundamentally change the tea industry.

  [sub-task (a) = 40%]

- Second, explain the potential advantages for the Piping Group of Samudra's suggestion that Sloping should transfer all of its ordinary tea to Piping, using the market price as the transfer price. Also highlight any difficulties we might face when determining this market price and recommend how they might be overcome.

  [sub-task (b) = 60%]

Regards
Channa

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

Reference Material

From: Samudra Senarath, Plantation Accountant, Sloping Tea
To: Channa de Silva, Senior Financial Manager
Subject: RE: Sloping Tea

Hi Channa

At present, only one third of our tea shrubs are Variety-R. The remainder are just ordinary tea shrubs. We had intended to replant the whole plantation with Variety-R, but we have been told to postpone that while Piping seeks the necessary authorisation to claim that drinking Variety-R tea will have significant health benefits because of its high concentration of antioxidants.

The Northland Medicine Authority (NMA) is considering the evidence submitted by Piping. If permission is granted, Piping will be the first tea manufacturer to be able to claim that drinking its tea regularly can prevent illness.

In the meantime, it will be at least 2 years before we replace all of our ordinary tea shrubs on the remaining two thirds of our plantation. These produce good quality tea that we sell at auction to many tea manufacturers, including Piping. When we were an independent entity, we regularly sold up to 60% of our output to Piping.

Now that we are part of the Piping Group, I propose that Sloping Tea should sell all of its ordinary tea to Piping's factory in Northlandia at market value. Sloping Tea and Piping's factory in Northlandia are managed as two separate profit centres.

Regards
Samudra

Close

Reference Material | Pre-seen

Provide your reply to Channa's requests in the box below.

From: Financial Manager
To: Channa de Silva, Senior Financial Manager
Subject: RE: FWD: Sloping Tea

Paragraph

Management Case Study Exam - Candidate Name

CIMA

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

CIMA

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.

The 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.

Channa de Silva, Piping's Senior Financial Manager, stops by your workspace.

"I have brought you an extract from the minutes of a Board meeting. As you can see, the Board is considering the development of a new product.

Murat Gezer, Piping's Finance Director, has asked me to brief him on some of the issues arising from this proposal and I need your help with the following:

- First, identify and evaluate how manufacturing and selling ready-to-drink tea fits with Piping's business model.

[sub-task (a) = 60%]

- Second, identify and explain product and product reputation risks that could arise by selling Piping Go ready-to-drink tea."

[sub-task (b) = 40%]

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

Reference Material

Extract from Board minutes

Moulay Lhassan, Product Development Director, proposed that Piping should create a range of ready-to-drink teas. Tea would be brewed, cooled and packaged in 500 millilitre bottles. The tea would be consumed as a cold drink and would not be reheated. Bottles of ready-to-drink tea would be sold by retailers and cafes as a soft drink under the brand name Piping Go.

Discussion followed. Ready-to-drink tea is manufactured and sold in several countries, but not in Northlandia. Hottlow manufactured ready-to-drink tea 5 years ago, but withdrew from the market after a year because of disappointing sales.

Piping's Product Development Department has experimented with different recipes and has discovered that adding sugar and fruit juice to the tea before it is bottled improves the flavour. Limited consumer testing has already been carried out on these recipes, with younger consumers saying that they enjoyed the drink and that they would consider buying it. Older consumers were less enthusiastic, stating that they preferred hot tea.

The sugar content of Piping Go would be much lower than that of traditional carbonated soft drinks such as cola. Product Development's consumer testing indicates that most consumers agree that cold tea would be a healthier alternative to many cold drinks.

The shelf life of the bottled drink would be comparable to that of carbonated drinks. The product does not require refrigerated storage.

This proposal will not affect Piping's capacity to manufacture and sell its existing teabags and loose teas.

Close

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

Paragraph

Scratch Pad Calculator

Reference Material Pre-seen

A week later, Channa de Silva, Senior Financial Manager, hands you a document and says:

"The Board has decided to proceed with the new Piping Go product. I have printed a copy of the initial plan.

I need your help to prepare a briefing for Murat Gezer, Finance Director:

- First, recommend with reasons how we should maximise the return from Piping Go over its life cycle.

[sub-task (a) = 60%]

- Second, discuss the characteristics of debt and equity that are relevant to the decision as to how we should fund the investment required for Piping Go."

[sub-task (b) = 40%]

The plan referred to by Channa can be found by clicking on the Reference Material button above.

Reference Material

Planned launch of Piping Go ready-to-drink tea
Executive summary

Prepared by Katherine Martin, Senior Product Development Manager

We plan to launch Piping Go in two flavours: peach and strawberry. Additional flavours can be added once the product has become established.

The product launch will require the following investment:

	N$ million
Property, plant and equipment	160.1
Inventory	4.7
Launch costs, including advertising	88.6
	253.4

The property, plant and equipment will comprise a factory building constructed from prefabricated metal panels that will be built in a vacant space alongside the existing factory. The new factory building will accommodate the relatively simple equipment required to brew the tea and mix in sugar and fruit juice. There will also be bottling machinery and equipment for filling and packaging bottles and loading them onto trucks.

Construction and installation work will require 4 months. We should be ready to bring Piping Go to market in 6 months.

The Marketing and Distribution Department will also require some time to persuade retailers to stock the new product and to design an advertising campaign. A detailed marketing plan is being developed.

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

Paragraph

Three months later, you receive the following email:

From: Channa de Silva, Senior Financial Manager
To: Financial Manager
Subject: FWD: Large order for Piping Go

Hi

I have forwarded an email from Piping's Marketing and Distribution.

Murat Gezer, Finance Director, is keen to encourage Marketing and Distribution to renegotiate the contract slightly so that we agree a delivery schedule from the outset. That will avoid the need to hold inventory of bottled drinks.

I need your help with two matters:

- First, identify the challenges associated with determining the correct accounting treatment for this order and recommend responses.

[sub-task (a) = 60%]

- Second, recommend with reasons the approach that Piping could take to renegotiating the delivery schedule for this order of Piping Go.

[sub-task (b) = 40%]

Regards
Channa

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

Reference Material

From: Isabel Trancoso, Senior Marketing and Distribution Manager
To: Channa de Silva, Senior Financial Manager
Subject: Large order for Piping Go

Hi Channa

Production of our Piping Go ready-to-drink bottled tea will commence in less than a month. The Marketing and Distribution Department has been working closely with Northlandia's major retailers while the new factory has been under construction and I am pleased to report that we have had our first major success.

Sellrite Supermarkets ("Sellrite") has signed an order for N$180 million of Piping Go, to be delivered over a period of 2 years. That price reflects a 20% discount from our usual wholesale price that we gave in recognition of the size of this order.

Sellrite is already a major customer, buying 60% of its branded teabags from Piping, so we are pleased that they plan to support the launch of this new product.

The terms of our contract state that the Piping Go drink will be delivered in batches, with the timing and size of deliveries to be determined by Sellrite. We must be prepared to deliver batches within 48 hours of any request made by Sellrite. That will require us to hold some inventory of bottled drinks to ensure that we can meet that deadline.

If Sellrite does not take the whole N$180 million by the end of the 2-year period then the 20% discount will not be applied to any purchases of Piping Go after that time.

Regards
Isabel

Close

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

From: Financial Manager
To: Channa de Silva, Senior Financial Manager
Subject: RE: FWD: Large order for Piping Go

Paragraph

A week later, Channa de Silva, Senior Financial Manager, stops by your workspace and says:

"I have brought you an extract from a meeting that took place this morning. This was intended to address some of the issues raised at the senior management meeting that could arise when Piping Go ready-to-drink tea goes into production.

I need your help with two matters:

- First, discuss the advantages and disadvantages of using market price as the transfer price of the blended tea that will be supplied to Piping Go by Piping's Marketing and Distribution Department.

  [sub-task (a) = 60%]

- Second, discuss the problems that we will face in ensuring that there is a competent management team at Piping Go and recommend responses to those problems."

  [sub-task (b) = 40%]

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

Reference Material

Close

Minute extract from senior management meeting

The meeting's convener drew the meeting to a close by summing up the key matters that had been agreed:

- The Piping Go products will be produced in a factory built on vacant land beside the existing Piping factory.
- The Piping Go factory will be established as a profit centre ("Piping Go").
- Piping Go must buy all of its blended tea from Piping's Marketing and Distribution Department. The transfer price of the blended tea will be set at market value.
- Blending tea for Piping Go products is less critical than blending tea for traditional hot tea. The addition of sugar and fruit juice means that consumers are less likely to notice any variation in flavour if the mix of teas is altered slightly.
- Piping Go will require its own management team. Some managers will be transferred from the existing Piping factory. The company will then recruit externally to replace managers transferred from the Piping factory and to fill any management vacancies that remain at Piping Go.

Scratch Pad Calculator

Reference Material Pre-seen

Provide your reply to Channa in the box below.

Paragraph

CIMA

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.

CIMA

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.

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.

You receive the following email:

From: Channa de Silva, Senior Financial Manager
To: Financial Manager
Subject: FWD: New competitor

Hi

I have forwarded an email from one of Piping's account managers.

I am working on a briefing for Murat Gezer, Piping's Finance Director, and I need your help with the following:

- First, recommend with reasons 3 areas of Piping's value chain that should be reviewed in response to the potential competition from Eastland Tea Corporation (ETC) and recommend actions that should arise from the review.

[sub-task (a) = 60%]

- Second, explain why Piping could have little bargaining power if it tried to negotiate with Sellrite in an attempt to persuade them not to sell ETC's teabags.

[sub-task (b) = 40%]

Regards

Channa

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

Reference Material

From: Cynthia Mooketsi, Senior Account Manager
To: Channa de Silva, Senior Financial Manager
Subject: New competitor

Hi Channa

I am the Account Manager responsible for maintaining Piping's trading relationship with Sellrite Supermarkets ("Sellrite"). Sellrite is Northlandia's largest food retailer and Piping's largest customer.

I had a worrying conversation with the buyer responsible for hot beverages at Sellrite. She told me that they would be reducing their next order by 10% in order to create shelf space for a trial sale of a new brand of teabags from Eastland Tea Corporation ("ETC").

ETC is based in Eastland, where a lot of tea is grown. ETC buys black tea at auction from Eastlandian plantations, which it blends and packages as packets of loose tea for sale to Eastlandian food retailers. Local consumers prefer to use loose tea rather than teabags.

ETC has now started producing teabags at its factory and plans to export them to Northlandia. Sellrite's buyer claims that ETC's wholesale price is 60% cheaper than Piping's, even after shipping costs. Sellrite has conducted tests on ETC's teabags and has concluded that their flavour is almost as good as Piping's.

I will keep you informed of developments.

Regards

Cynthia

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

From: Financial Manager
To: Channa de Silva, Senior Financial Manager
Subject: RE: FWD: New competitor

Paragraph

Reference Material Pre-seen

A week later, Channa de Silva, Senior Financial Manager, stops by your workspace and hands you a document:

"The Board is still planning its response to the increased competition from Eastland Tea Corporation (ETC), which has only just started to export teabags to Northlandia. Major retailers are evaluating consumer demand for ETC's teabags because its wholesale prices are presently 60% lower than ours.

I require your advice on two matters before I brief Murat Gezer, Finance Director.

- First, evaluate the usefulness of ETC's financial statements in deciding whether it can sustain the low wholesale prices that it is charging retailers. I am not looking for detailed comments on the table of figures in this document.

[sub-task (a) = 60%]

- Second, drawing on the information from this document, recommend with reasons whether Piping should reduce its selling prices to compete directly with ETC."

[sub-task (b) = 40%]

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

Reference Material

Information based on the published financial statements of Piping, Hottlow and ETC for the year ended 31 December 2021

	Piping	Hottlow	ETC
Revenue (N$ million)	3,081	2,588	4,313
Property, plant and equipment (N$ million)	1,502	1,411	1,577
Return on capital employed (%)	19%	16%	31%
Gross profit %	45%	43%	35%

- Hottlow is Piping's main competitor. It sells a similar product range to Piping.
- ETC is based in Eastland. Its financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). ETC's figures have been restated as N$.
- ETC buys all of its black tea at auction from Eastlandian plantations.
- Eastland's population is twice that of Northlandia's. The country's economy is based largely on agriculture and the standard of living of its citizens is generally low in comparison to that of Northlandia.
- ETC's export sales to Northlandia did not commence until 2022.

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

Paragraph

Reference Material Pre-seen

Three months have passed. Channa de Silva, Senior Financial Manager, says to you:

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

Murant Gezer, Finance Director, has asked for some advice and I require your help with the following:

- First, identify and explain difficulties we will face when trying to quantify cash flows to use when calculating the net present value (NPV) of relocating and producing in Eastland.

[sub-task (a) = 60%]

- Second, discuss the characteristics of debt and equity that are relevant to the decision as to how Piping will finance this investment."

[sub-task (b) = 40%]

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

Reference Material

Extract from Board minutes

Moulay Lhassan, Product Development Director, informed the Board that Piping was unable to compete effectively with Eastland Tea Corporation (ETC) because of prices. The new company had set its wholesale prices at 60% less than Piping's when it first entered the market. ETC continues to maintain those prices and it has promised not to increase its prices for at least 18 months.

Debi Sarkar, Chief Operating Officer, commented that ETC had a lower cost base because it manufactured its teabags in Eastland, where operating costs are much lower than in Northlandia. Piping has to pay significantly more for wages and also for the electricity used to power its production lines.

The Board discussed the possibility that Piping might purchase a factory in Eastland in order to benefit from the same cost savings that enabled ETC to compete in the Northlandian tea market. Piping would continue to buy black tea at auction as before. Tea is a very popular drink in Eastland and so there are many tea factories. Debi Sarkar reported that his staff had already identified potentially suitable factories that would be suitable acquisitions.

In the event that a suitable factory is purchased, Piping will close its Northlandian factory once production starts in Eastland. The Northlandian factory staff will be made redundant. Piping's Head Office will remain in Northlandia and so all current management and administrative staff will keep their jobs.

Murat Gezer, Finance Director, warned the Board that this proposal would require significant additional investment of up to N$1,600 million. Up to half of that would be recovered from the sale of the Northlandian factory, but that sale could not be completed until the Eastland factory was fully operational.

The Board agreed that a decision on this matter would be deferred until the net present value of the relocation could be determined.

Close

Scratch Pad Calculator

Reference Material Pre-seen

Draft your reply to Channa's requests in the box below.

Paragraph

Four months later, you receive the following email:

From: Channa de Silva, Senior Financial Manager
To: Financial Manager
Subject: Moving production to Eastland

Hi

I have attached an extract from the Board minutes.

I am working on a briefing for Murat Gezer, Finance Director, and I need your help with the following:

- First, recommend with reasons the approach that should be taken to managing the conflict in Piping's Human Resources (HR) Department.

[sub-task (a) = 60%]

- Second, explain why it is important to analyse the impact of the stress test on each of the two specific matters suggested by Than Pale, Marketing and Distribution Director.

[sub-task (b) = 40%]

Regards

Channa

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

Reference Material

Close

Extract from Board minutes

Keren Mburugu, Chief Executive, informed the Board that Piping has successfully negotiated the acquisition of a tea factory in Eastland. This transaction was negotiated in secret. Piping has not yet signed contracts.

Guuske Ledoux, Human Resources (HR) Director, informed the Board that implementing redundancy plans could be difficult. She reported that when she briefed the Senior HR Managers in confidence just before the Board meeting, they expressed some reluctance to comply with the request to start work on a redundancy plan. They also warned her that the junior HR staff may be even more unwilling to cooperate with making their friends and colleagues in the factory unemployed.

Than Pale, Marketing and Distribution Director, warned the Board that the Board did not fully understand the risks associated with relocating production from Northlandia to Eastland. Noting that 80% of the black tea used by Piping is grown in Eastland, she proposed a stress test to explore the impact of a significant increase in wages paid to plantation workers in Eastland. She suggested that the analysis of the results of the stress test should focus on two specific matters arising from that wage increase:

- How the increased cost of black tea due to the wage increase at Eastland's plantations will affect Piping if its factory is based in Eastland.
- How the availability of staff needed to operate and maintain the machinery at Piping's factory in Eastland might be affected by the availability of well-paid jobs on tea plantations.

Scratch Pad Calculator

Reference Material Pre-seen

Provide the responses requested by Channa in the box below.

From: Financial Manager
To: Channa de Silva, Senior Financial Manager
Subject: RE: Moving production to Eastland

Paragraph

CIMA

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.

CIMA

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.

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) 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

Channa de Silva, Senior Financial Manager, stops by your workspace and says:

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

Murat Gezer, our Finance Director, has asked me to help prepare a briefing for the Board and I need your help with the following:

- First, evaluate the implications for Piping's business model of the consumer feedback on buying habits.

[sub-task (a) = 60%]

- Second, discuss the impact that holding inventory as a result of the decision to manufacture at a constant rate will have for Piping's accounting ratios."

[sub-task (b) = 40%]

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

Reference Material

Extract from Board minutes

Than Pale, Marketing and Distribution Director, reported that monthly sales volumes were becoming increasingly volatile because of retailers' promotional activities. Supermarkets often attempt to attract more shoppers by selling a small range of popular goods at a loss. The losses on reduced goods are more than compensated by profits on increased sales of full-priced items. Teabags are sometimes included in those promotional activities.

Sellrite Supermarkets ("Sellrite") reduced this month's order of Piping Teabags by 40% compared to usual. It has since announced that it will sell Hottlow Teabags at half their usual selling price for the next 6 weeks in order to attract customers into Sellrite stores. Sellrite clearly expects to sell fewer boxes of Piping Teabags than usual in this period and wishes to clear space for Hottlow's products. Than Pale expected that other retailers would also order less of our tea for the duration of Sellrite's promotion.

Consumer feedback conducted by the Marketing and Distribution Department indicates that many consumers enjoy good quality tea, but they perceive little difference between leading tea brands. Some of the consumers who usually buy Piping Teabags will switch to another quality brand, such as Hottlow, for the duration of a cut-price offer. Those consumers might even build up a stock of cut-price teabags, taking advantage of tea's long shelf life.

Debi Sarkar, Chief Operating Officer, pointed out that it is inefficient to reduce production levels temporarily when demand decreases temporarily. That means that Piping's inventory of finished goods increases during those periods. Fortunately, that enables Piping to respond quickly when a major supermarket wishes to buy Piping Teabags in bulk for sale at a discount.

Close

Scratch Pad Calculator

Reference Material Pre-seen

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

Paragraph

Reference Material Pre-seen

Three months later, you receive the following email:

From: Channa de Silva, Senior Financial Manager
To: Financial Manager
Subject: Investment in Yumsave

Hi

I have attached a scanned copy of a letter. Yumsave manufactures high quality packaging materials that are used by the food industry. Yumsave has invested N$100 million in the development of Drirap, a new type of foil that is much less harmful to the environment than the existing packaging materials used by Piping and its competitors.

Northlandian consumers are becoming increasingly interested in the impact of their consumption on the environment. There is considerable evidence that Piping will gain market share if we relaunch our teabags in packaging that is more environmentally friendly than that used by our competitors.

Yumsave will use N$150 million of our N$250 million investment to complete development of Drirap. Our investment will guarantee us exclusive rights for the purchase of Drirap.

Murat Gezer, Finance Director, needs to brief the Board and I require your help with the following:

- First, discuss the arguments for and against treating Yumsave as an associate of Piping and identify the key accounting problems that will be created for Piping if Yumsave is an associate.

[sub-task (a) = 60%]

- Second, discuss the challenges that will be faced by Piping in maximising the return from its use of Drirap over its life cycle.

[sub-task (b) = 40%]

Regards

Channa

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

Reference Material

Decalle Corporate Law

Ms Keren Mburugu
Chief Executive
Piping Beverages

Dear Ms Mburugu

Memorandum of Understanding – Investment in Yumsave

We represent Yumsave, an unquoted manufacturing company registered in Northlandia. We understand that Piping Beverages ("Piping") intends to invest N$250 million in newly issued Yumsave shares, which will give Piping 15% ownership of Yumsave.

The following matters have been agreed between the two companies:

- Yumsave will use the funds invested to complete development work on Drirap food packaging. This product will be patented and the patent will belong to Yumsave.
- Drirap will be sold exclusively to Piping. Yumsave will be free to sell all existing and future products, other than Drirap, to all other customers.
- Piping will have the right to appoint a director to Yumsave's Board. That director will have a right to speak and vote at Board meetings. The Board will comprise Piping's appointee and four others, whose appointments will be agreed by a majority vote of the shareholders.
- Yumsave reserves the right to issue further shares at any time, with the share price to be set by an independent financial adviser, who will estimate the market value of the new shares.

Yours sincerely

Martine Chandler

Partner

Close

Reference Material | Pre-seen

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

From: Financial Manager
To: Channa de Silva, Senior Financial Manager
Subject: RE: Investment in Yumsave

Paragraph

A month later, you receive the following email:

From: Channa de Silva, Senior Financial Manager
To: Financial Manager
Subject: FWD: Drirap packaging

Hi

I have attached an email that I received from Murat Gezer, Finance Director. He has since asked me for some advice and I need your help:

- First, identify and evaluate 3 major business risks associated with our agreement with Yumsave and our switch to Drirap in the manner described in Murat's email.

[sub-task (a) = 60%]

- Second, recommend with reasons a suitable membership of a team to manage the transition from our current packaging material to Drirap.

[sub-task (b) = 40%]

Regards

Channa

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

Reference Material

From: Murat Gezer, Finance Director
To: Channa de Silva, Senior Financial Manager
Subject: Drirap packaging

Hi Channa

I am emailing to update you on our relationship with Yumsave and the launch of its new Drirap packaging material.

We now own 15% of Yumsave's equity and we have a director on their Board. Yumsave hopes to complete development work on Drirap within 5 months and to put it into full-scale production 1 month later. Piping will have exclusive rights to buy Drirap. The manufacture of Drirap packaging will cause very little damage to the environment and used wrapping can be recycled. Yumsave also believes that the new packaging will make our tea taste fresher, with no deterioration in flavour once our teabags have been packaged.

We will have to plan ahead for the launch of Drirap, which we will promote heavily. We will also have to cancel orders for the conventional foil that we currently use in our packaging. We will also have to replace some of the packaging machinery on our production line and modify the rest to cope with Drirap. Our engineering staff have been working with test samples produced by Yumsave in order to ensure that we are ready.

Keren Mburugu, Piping's Chief Executive, is keen for us to switch to Drirap as soon as it goes into production, with a major promotion to ensure that consumers are aware of the improved packaging.

Regards

Murat

Close

Scratch Pad Calculator

Reference Material Pre-seen

Draft the responses requested by Channa in the box below.

From: Financial Manager
To: Channa de Silva, Senior Financial Manager
Subject: RE: FWD: Drirap packaging

Paragraph

Three weeks later, Channa de Silva, Senior Financial Manager, stops at your workspace and says:

"I have brought you the summary of a report relating to the redesign of our packaging to deal with the introduction of Drirap foil.

Murat Gezer, Finance Director, is concerned about the points being made and has asked for some recommendations. I require your help with the following:

- First, recommend with reasons how we could manage the conflict within the team of maintenance engineers and designers that is responsible for introducing Drirap.

[sub-task (a) = 40%]

- Second, explain the issues that should be considered when designing non-financial performance indicators that will be used to demonstrate the Board's interest in and appreciation of the work done by support departments such as Design and Maintenance Engineering."

[sub-task (b) = 60%]

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

Reference Material

Close

Report on packaging redesign

Prepared by Jess Daniels, Senior Manager in Product Development

Executive summary

The preparations for the switch to Drirap packaging have revealed some conflicts between the needs of the Maintenance Engineering Department, which is responsible for adapting Piping's production line and the Design Department, which is responsible for deciding on the appearance of Piping's packaging.

Maintenance Engineering wishes to use a relatively thick Drirap foil because that will be less likely to tear and jam when it runs at high speed through the machinery in Piping's factory. Maintenance Engineering would also prefer the Drirap to be left unprinted, as a shiny metal foil, because that will make it easier for the factory machinery to use.

The Design Department would prefer a thinner Drirap foil because it would result in packaging that is more pleasant for consumers to handle. The Design Department also wishes the Drirap to be printed with the Piping logo and the slogan "Drirap foil is good for our planet". Piping's existing foil wrap is printed with the Piping logo.

This debate is revealing a larger problem within Piping. The managers in charge of the Design and Maintenance Engineering departments have complained that they and their colleagues feel that they are undervalued within Piping and that managers from other support departments have similar concerns.

Scratch Pad Calculator

Reference Material Pre-seen

Provide the responses requested by Channa 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

CIMA

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.

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

Channa de Silva, Senior Financial Manager, says to you:

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

I checked the exchange rates between the N$ and Middland's M$. The rates have been volatile.

I need you to do two things for me:

- First, discuss the validity of the argument that the Middland Sales and Distribution Centre ("the Centre") should not be evaluated on the basis of any measure that includes the actual manufacturing cost of teabags because of the volatile nature of black tea prices.

[sub-task (a) = 60%]

- Second, discuss the impact that acquiring the Centre as a 100% foreign subsidiary will have on the interpretation of Piping's published financial statements."

[sub-task (b) = 40%]

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

Reference Material

Board Minutes | Task

Extract from Board minutes

Keren Mburugu, Chief Executive, expressed concern that export sales provide only 5% of Piping's revenues and 3% of its operating profit. 70% of exports go to Middland, a prosperous country that has a large community of expatriate Northlandians who live and work there. Middland's largest retail chains stock Piping Teabags and other imported products in order to attract Northlandian shoppers.

Keren Mburugu proposed that Piping should establish a sales and distribution centre in Middland. It would receive regular bulk shipments of teabags from Piping's factory in Northlandia, which would speed up deliveries to retailers. It would also provide a marketing base from which sales managers, who would be recruited locally, could promote the Piping brand in the hope of increasing sales to Middland's wider population.

Staff from the Chief Executive's office have already identified a distribution company in Middland that has suitable facilities that could be repurposed to meet Piping's needs. The company's existing business activities could be discontinued without penalty. The company is unquoted and Piping could buy 100% of its equity.

The Board discussed the need to monitor the performance of the Middland Sales and Distribution Centre ("the Centre"). It was agreed that it should be overseen by a team of senior managers based at the Centre. It was further agreed that the Centre should be organised as a profit centre. The Centre would receive credit for all Middlandian sales revenues. It would be charged with the actual manufacturing costs of teabags, plus shipping to Middland and all local operating costs.

Keren Mburugu expressed concern that the Centre's management team would be held responsible for the manufacturing costs of teabags, which are affected by volatility in the unit cost of black tea. She reminded the Board that the cost of black tea accounts for at least 40% of the total manufacturing cost and that unexpected price rises can arise without warning.

Close

Scratch Pad Calculator

Reference Material Pre-seen

Provide your response to Channa in the box below.

Paragraph

Reference Material Pre-seen

Six months later, the Middland Sales and Distribution Centre ("the Centre"), has been fully operational for 4 months. Following previous discussions, the Board decided that the Centre's teabags will be supplied by Marketing and Distribution at a transfer price of budgeted unit cost plus 5%.

Channa de Silva, Senior Financial Manager, stops by your workspace and hands you a document:

"I have brought you an extract from this morning's Senior Management meeting.

Murat Gezer, Piping's Finance Director, has asked me for a briefing on some of the matters arising from this meeting and I require your help with the following:

- First, evaluate the risk of dysfunctional behaviour associated with Piping's Marketing and Distribution Department transferring finished goods to the Middland Sales and Distribution Centre ("the Centre") at budgeted cost plus 5% and recommend an alternative basis with reasons.

[sub-task (a) = 60%]

- Second, discuss the merits of the Centre basing its selling prices to retailers on the transfer price it is charged plus a markup."

[sub-task (b) = 40%]

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

Reference Material

Close

Minute extract from Senior Management meeting

The Board discussed the performance of the Middland Sales and Distribution Centre ("the Centre"), which has been fully operational for 4 months. It was previously an independent logistics company but is now a 100% subsidiary of the Piping Group.

The Centre was established to act as a distribution centre and to promote sales to Middland, Piping's largest export market. Early signs have been promising. The local sales team has made excellent use of social media to promote Piping Teabags to Middlandian consumers. The country's largest supermarkets have increased their orders.

Piping's Marketing and Distribution Department has been supplying the Centre with teabags. Marketing and Distribution and the Centre are both managed as profit centres. The Board has imposed a transfer price of budgeted unit cost plus 5% for the teabags supplied to the Centre by Marketing and Distribution.

The senior managers at Marketing and Distribution have recently been reluctant to fulfil all of the Centre's requests for teabags. Bad weather in Eastland caused a shortage of an important variety of black tea, which restricted production of teabags. The shortage has also inflated the cost of the black tea to the point where Marketing and Distribution will be suffering a loss on transfers at budgeted unit costs plus 5%.

Reference Material Pre-seen

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

Paragraph

Reference Material Pre-seen

Two weeks later, you receive the following email:

From: Channa de Silva, Senior Financial Manager
To: Financial Manager
Subject: FWD: Plantation in Eastland

Hi

I have attached an email from one of our tea buyers.

The Board is considering establishing a project team to investigate the commercial logic of us acquiring the plantation described in the tea buyer's email and taking control over it.

Murat Gezer, Finance Director, has indicated that we would have to use debt to fund this acquisition in the event that we decide to proceed.

I need your help with the following:

- First, discuss the manner in which the Board should set and communicate the project objectives for the team that will be appointed.

  [sub-task (a) = 60%]

- Second, discuss the characteristics of debt that would help us to decide whether to borrow the N$250 million cost of the plantation, or its equivalent in Eastland's E$, from a lender in Eastland or Northlandia.

  [sub-task (b) = 40%]

Thanks

Channa

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

Reference Material

From: Dilshad Shaik, Senior Tea Buyer
To: Channa de Silva, Senior Financial Manager
Subject: Plantation in Eastland

Hi Channa

The flavour of our tea is created by blending black tea leaves from different tea-growing countries. Roughly 80% of our blend consists of leaves grown in a specific region of Eastland. Unfortunately for us, the weather in that region is unpredictable and so supplies of tea can be erratic, which makes the price volatile.

I visited Eastland recently and identified a plantation that grows excellent tea in sufficient quantity to meet our needs. The plantation's owner is willing to sell the plantation for N$250 million.

It is unusual for tea manufacturers to own their plantations, but Piping could benefit from acquiring this plantation because it would give us a secure source of black tea.

Regards

Dilshad

Close

Scratch Pad Calculator

Reference Material Pre-seen

Draft the responses requested by Channa in the box below.

From: Financial Manager
To: Channa de Silva, Senior Financial Manager
Subject: FWD: RE: Plantation in Eastland

Paragraph

Reference Material Pre-seen

After initial discussion, the Board decided not to acquire the tea plantation in Eastland.

A week later, Channa de Silva, Senior Financial Manager, hands you a letter and says:

"The Board believes that this proposal from Central City University should be considered in detail. The University could develop shrubs that are suited to our needs. We could then pay a plantation in Southland to grow those shrubs on our behalf in sufficient quantity to meet our needs and for our exclusive use. The Board believes that would reduce our production costs by at least 15%. Piping's Board is also keen to prevent competitors from acquiring the process if we reject the University's proposal.

I need two things from you:

- First, discuss the implications that our control and use of the University's new botanical process will have on Piping's business model.

[sub-task (a) = 60%]

- Second, discuss the difficulties associated with accounting for the payments to Central City University and recommend an appropriate treatment."

[sub-task (b) = 40%]

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

Reference Material

Central City University

Ms Keren Mburugu
Chief Executive
Piping Beverages

Dear Ms Mburugu

Request for funding

The Botany Department at Central City University has developed a new botanical process for modifying the characteristics of the Camellia sinensis shrub. Our process makes it possible for any plantation to grow shrubs whose leaves yield black tea that has the exact flavour selected by the grower. Our process is protected by patent.

We believe that our botanical process has significant commercial advantages:

- It will no longer be necessary for tea manufacturers to blend teas from different sources to achieve their desired flavour.
- Black tea can be sourced from less expensive tea-growing countries such as Southland.
- Popular flavours of tea can be replicated. There is no copyright or patent protection for the specific flavour of any brand of tea.

The University is prepared to sell Piping the exclusive use of our process for N$150 million. In addition, Piping would have to pay N$15 million each year for 2 years for technical support from our botanists, who will assist in the application of the process to grow shrubs that meet your specific requirements. Thereafter, we will require an annual royalty payment of 2% of the revenues from the sale of tea using leaves from those shrubs.

Yours sincerely

Henning Ulfarsson

Henning Ulfarsson

Dean of Science

Close

Scratch Pad Calculator

Reference Material Pre-seen

Provide the responses requested by Channa in the box below.

Paragraph

Thank you for completing the Management Case Study Exam.

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

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

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

MANAGEMENT CASE STUDY

MAY 2022 & AUGUST 2022

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

Defining value

Products must fulfil a need or wish in order to generate sales. Consumers will not buy something unless it meets a practical or a perceived need. Piping invests heavily in maintaining a dialogue with consumers to ensure that Piping Tea continues to be desirable to them, otherwise sales could decline. It could be argued that while Piping Tea is a long-established brand and that tea is well established as a staple commodity, tastes might change, or a new fashion might emerge that reduces demand for tea. It would be foolish for Piping to take a less active interest in consumers' perceptions of tea or their reasons for choosing Piping over other brands.

Piping has been selling tea in Northlandia for 170 years. Consumers have grown up with the Piping brand, and it should take care to recognise that as a feature of meeting the needs and wishes of its consumers. Most consumers will have been drinking Piping Tea since childhood, and they may be resistant to major changes in the product range. It would be preferable for Piping to endeavour to maintain the values associated with its brand and only make those changes that are specifically requested by consumers.

It could be argued that Piping should not permit consumers to dictate how their needs and wishes should be met because that is a commercial decision for the company itself. If consumer feedback indicated a concern about caffeine, then it might have been more cost-effective for Piping to have offered advice and education about caffeine and the health issues associated with drinking tea. It might have been sufficient to have helped consumers understand the risks caused by drinking traditional tea. Those risks could also have been compared to other drinks such as coffee and other beverages.

Business risks

The most immediate risk is the product risk associated with decaffeinated tea. Consumers may be discouraged from buying it because of the documentary. The criticisms that are being voiced in the documentary do not have to be true for them to affect customer perceptions. For example, having a so-called expert conduct a taste test on the new brand could lead to consumers deciding that they do not enjoy drinking decaffeinated tea. The fact that the difference in flavour is very slight, and could only be detected by an expert, may be sufficient for many tea drinkers to stop buying the tea, even if they are incapable of doing so once they have flavoured their tea with milk and sugar. Also, supermarkets may employ their tasting teams before placing an order. In the worst possible case, demand for the new tea may fall to the point where Piping has to stop manufacturing it. The costs of creating and promoting decaffeinated tea will be sunk, but they will still have to be recognised as expenses in Piping's next set of financial statements, with any development costs being written off as impaired.

The documentary could cause wider product reputation risks for Piping, with consumers associating Piping's whole product range with the concerns expressed in the documentary. Viewers may believe that all of Piping's teas are low in antioxidants and have had their flavour affected by chemical processes. They may not fully appreciate that the criticisms are directed at the new decaffeinated tea. Viewers may also believe that the company has been guilty of dishonesty in promoting its decaffeinated tea and so may be guilty of false advertising with regard to its more traditional products. Claims such as the ability of Piping's packaging to preserve freshness and flavour may be suspect, which could create opportunities for competitors such as Hottlow to claim that their tea is superior. This documentary could create an ongoing narrative on social media, with consumers making what may be unfounded assertions about the flavour of their regular Piping Tea.

The failure of this new brand could have significant implications for Piping's relationship with supermarkets and other retailers because they will be left with unsold inventory if consumers stop buying. There could be a contractual risk, with retailers seeking compensation for unsold inventory. Even if Piping is not required to do so, it may be necessary to offer retailers a refund on the basis that the decaffeinated tea is effectively defective as a marketable product. Piping may also have to offer individual consumers refunds on any decaffeinated tea that they have purchased. Apart from the direct costs of reimbursement, Piping will have to create and operate systems for dealing with retailers' and consumers' refund requests. In the case of bulk returns from supermarkets, Piping may also have to deal with the disposal of packaged tea in a manner that is sustainable and does not cause any unacceptable pollution or emissions.

SECTION 2

Development team

The Board appears to be dissatisfied with the new product because of the controversy arising from the television documentary. This is not necessarily a valid basis for criticising the development team. The team did succeed in delivering a viable product in the sense that Piping did have a decaffeinated tea to launch on the open market. The tea sold in sufficient volume to attract the interest of the documentary maker, which implies that it was initially successful from a commercial point of view. The possibility that the press might find serious fault with a product that meets all applicable standards, and is of interest to retailers, is hardly a valid criterion on which to base a criticism.

The fact that the development work was expensive and that it required considerable support from external consultants should not be viewed as criticisms of the development team. This was a complicated task and so the cost seems realistic. The fact that the team called in help from outside implies maturity on the part of the team's leaders and is preferable to a failed project. This was a significant project, both in terms of initial cost and ongoing commercial interest, and so the Board should have been monitoring progress and should have raised any concerns about cost, time or staffing while it was in progress.

It is a matter of some concern that the Board appears to have been unaware that it would be impossible to remove 100% of the caffeine or that the flavour and antioxidant content would be compromised. It could be argued that Piping's Board should have made its expectations clearer. It can also be argued that the development team should also have recognised that there would be some compromises in the development process, and so the Board should have been briefed accordingly. The team's leader should have taken the initiative to brief Moulay Lhassan so that the Board could have made an informed decision as to whether the development work should be completed.

Reporting issues

The N$87 million has already been capitalised as an intangible asset. It seems almost certain that Piping's decision to capitalise can be justified in terms of the criteria set out in IAS 38 *Intangible Assets.* The fact that the product was developed using the technical support of consultants who were experienced in this field suggests that there were no practical limitations that would have required a write-off. It is also clear that the commercial criteria were met because the product was launched commercially and is being stocked by supermarkets.

It seems logical that the subsequent measurement of the development cost should be determined using the cost model because there is no active market for this type of asset to use the revaluation model. The estimated useful life of the product seems generous at 20 years but could be justified on the basis that tea brands tend to have long lives. Piping has been selling its traditional teas for a very long time, and so it may be realistic to assume that the life of its teas can be predicted based on experience.

The biggest complication that arises with respect to this asset is the question of its possible impairment. A television company plans to broadcast a documentary that may have a negative impact on demand for the new tea. In the worst possible case, the new product will be withdrawn from sale indefinitely and the asset's value will have to be written off in its entirety. Ideally, the documentary will be broadcast in time for Piping to observe the impact that it has on demand before the financial statements are finalised. If that is not possible then the Board should start to plan for the most likely outcome of the documentary and its implications for future net revenues for the decaffeinated tea. The Board should attempt to estimate whether the net present value (NPV) of future cash flows from the sale of the tea would exceed the book value of the development work. If NPV exceeds the book value, then the asset is not impaired, and it can be written off over the remainder of its expected useful life.

Any impairment will have to be written off through Piping's statement of profit or loss as an operating expense. In the worst possible case, it could have a significant impact on operating profit because the 2021 operating profit was N$291.9 million, which suggests a potential write-off of up to one-third of the operating profit for the year. The associated decrease in intangible assets will have a positive impact on capital employed and so the negative impact of the lower return in the return on capital employed ratio will be slightly offset by a decrease in capital employed.

SECTION 3

Project planning

The most immediate difficulty arises from the very tight deadline that has been imposed by the proposed broadcast date which is only 2 months away. To be effective, the advert will have to be ready for release much sooner than the broadcast date so that it can be broadcast with sufficient repetition to achieve its purpose, in advance of the documentary. Piping's Board will have to ensure that the project team has all that it requires to meet its objectives with the least possible delay. This will include a detailed brief that is sufficient to enable the team to make decisions. The Board will have to commit to reviewing any drafts and providing feedback as quickly as possible to avoid introducing any delay that could diminish the effectiveness of the advert. The project team should make an early decision as to the media that are most suitable for the broadcast of the advert so that, say, newspaper space or airtime can be purchased in advance.

The project team will have to take care to avoid reinforcing any negative publicity associated with the programme. There is a concern that the tone of the programme will be negative, and that it will imply that Piping has been dishonest in its initial launch and promotion of its decaffeinated tea. If Piping's adverts focus on the three bulleted points in Murat's email, then the advert could undermine Piping's reputation and might simply help viewers to better understand the documentary's criticisms. The difficulty might be overcome by focussing on simple and positive facts, such as the fact that there are often compromises associated with the development of new products. Customers can then make an informed choice between traditional tea, which is high in antioxidants and also contains caffeine, and decaffeinated tea which has less of both. Customers might consider drinking regular tea when they need a refreshing boost and decaffeinated tea when they wish to relax. If a suitable advert is created, then Piping might consider buying additional airtime in order to broadcast it immediately before and after the broadcast.

Net present value

The initial cost of this investment will be affected by the type of advert and the manner in which it will be broadcast. For example, a live-action television advert will require significant investment in cast, production crew and advertising space on television channels. Piping must decide how much it needs to spend in order to achieve a beneficial, but cost-effective outcome. Imposing too small a budget could lead to a wasted effort. Setting an initial budget may result in the project team setting out to spend the funds that have been made available in order to create the impression that they have worked hard and been inventive. One response would be to align the adverts to Piping's existing promotional activities. If consumers are used to seeing Piping advertising on television or in magazines, then the same approach should be considered for these adverts. It will be easier for Piping to budget for the cost of an advertising format that it is already familiar with, and the company's experience will give it a clearer insight into the amounts that have to be spent for an effective advert.

The impact that this documentary will have on future revenues from this product is difficult to predict. In the worst possible case, Piping will have to cease production because of reduced demand, but it may be that viewers care little about the allegations. If Piping cannot predict the outcome of the broadcast, then it will be difficult to estimate the benefits associated with creating and broadcasting its own advert. It may be possible for Piping to make use of the framework that it already has in place for seeking feedback from consumers. For example, focus groups could be convened at short notice, and the facilitator could ask consumers to discuss their reactions to the points that will be made in the documentary. Ideally, Piping will be able to evaluate the likelihood that demand will decrease and whether any decrease will be temporary or permanent. Different groups could be asked to help Piping consider the likely impact that broadcasting its adverts will have. Consumers may feel that they do not require such information to interpret the broadcast.

It will be difficult to predict the impact that the advert might have on consumers' understanding of the health issues and the benefits of drinking decaffeinated tea. The choice of a particular brand of tea may have more to do with flavour and the manner in which the brand is perceived by consumers, so there may be very little point in advertising in advance of the documentary. The impact that the advert has on public awareness could also be difficult to predict. It may be that consumers will respond badly to any attempt by Piping to justify its behaviour. The proposed advert could cause more damage to future cash flows than the documentary itself. The Board should consider delaying the creation of its advert until after the documentary has been broadcast. The advert could then be adjusted and adapted to address any consumer concerns that arise. Tailoring the response in this manner will reduce the risk of wasting money on an ineffective response.

SECTION 4

Pricing

Piping's regular tea is already selling at a higher price than other brands, which implies that consumers are prepared to pay a little more for good quality tea. This does not necessarily mean that they will be willing to pay even more to drink decaffeinated tea. The additional cost will make Piping's decaffeinated tea even more expensive, and this could be sufficient to discourage consumers from buying. The main selling proposition for this tea is complicated by the fact that Piping is proposing to charge a high retail price for a combination of high antioxidants and low caffeine. Consumers can obtain those benefits separately from buying either traditional tea for the antioxidants or decaffeinated tea for the low caffeine. They may not necessarily be prepared to pay more for both.

It would be difficult to tell how much, if anything, tea drinkers would be willing to pay for a healthier blend of tea. Northlandians enjoy drinking tea and have been willing to pay more for Piping because it is believed to taste better. It has not been suggested that tea drinkers base their choice of the blend on differences between the health benefits associated with different brands. The caffeine content of regular tea is not particularly harmful, and so tea drinkers may be unlikely to pay more to drink tea that contains less of it.

Any concerns about higher pricing could be exploited by competitors. They might offer a price promotion that coincides with the launch of the new tea, which would make the price even higher and could create a persistent perception that Piping's brand is overpriced. Competitors could also seek to persuade tea drinkers that they consume tea largely because it is refreshing and much of that refreshment comes from the caffeine content. Competitors could also launch their decaffeinated teas, using traditional processes for decaffeination, that are not as expensive as Piping.

Integrated reporting (<IR>)

Piping will have to be careful in reporting its access to this new variety of black tea as intellectual capital because it does not have any real legal protection to prevent access by competitors. The plantation controls the intellectual property in the new variety of bush, but there is nothing to prevent other plantations from developing equivalent strains of bushes and selling their black tea to Piping's competitors. Piping can claim that it has been creative in the development of new blends of tea, working to meet the needs of consumers in order to increase market share. In making that claim, it does not need to go into detail about the manner in which the new decaffeinated tea was developed, because that could result in encouraging competitors to enter this new market segment. Piping can combine such claims with a more generic discussion of the ways in which the company uses other product features, such as packaging and the design of teabags, to obtain a competitive advantage.

Piping's discussion of social and relationship capital could feature the fact that the company works closely with plantations in order to develop mutually beneficial outcomes.

The fact that most black tea is sold at auction would suggest that tea manufacturers do not generally engage directly with plantations, and so Piping may be able to differentiate itself from competing tea manufacturers. Care will have to be taken to ensure that Piping’s work with plantations is not exaggerated because this appears to be the only plantation with which Piping engages directly. The fact that Piping has been the subject of a recent negative television documentary implies that it may be foolish to overstate its support for plantations and so risk further press criticism. Again, there could be a risk of giving competing tea manufacturers useful insights into the source of this new black tea, although any advantage that Piping has is likely to be relatively short-lived and so secrecy need not be a major concern.

Piping’s use of this tea is a major step forward in terms of natural capital, in the sense that the new tea bush is a means of creating a product without the chemical and industrial processes that decaffeination usually involves. Piping cannot claim that it was the creator of this new product, but its interest has offered the plantation a boost in the form of a guaranteed market and a higher price for its output. There is also a commercial advantage in being able to claim that Piping’s decaffeinated tea is a more natural and unprocessed product because consumers generally prefer simpler production methods. Other plantations may now be encouraged to work on their new varieties that have their commercial benefits. Doing so creates professional jobs in the plantations’ home countries and results in more sustainable products. Strictly, Piping cannot claim to be the driving force behind this approach to tea growing, but the plantation’s owners are unlikely to contradict anything that the company says.

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

MANAGEMENT CASE STUDY

MAY 2022 & AUGUST 2022

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

NPV challenges

Owning a plantation will affect the cost of acquiring black tea, but that impact will be difficult to predict. At present, Piping buys its black tea at auction, bidding against other manufacturers in order to set the prevailing market price. The market price of tea is effectively set by supply and demand, with prices falling when weather conditions promote better growth and larger harvests. Owning a plantation will mean that the cost of the tea will be determined by the plantation's running costs, and those costs are unlikely to vary in accordance with market forces. This could put Piping at a disadvantage if there is a prolonged period of good harvests that depress the market price of tea because competing tea manufacturers will be able to take advantage of low costs. Conversely, if market prices are high because of poor growing conditions, then the output from Piping's plantation may be insufficient to meet its needs, and so Piping will have to compete with other bidders at auction in order to secure the shortfall in its requirements.

Predicting cash outflows associated with operations could be complicated by the fact that Piping will be directly responsible for paying plantation staff, and so it may be subject to criticism if it does not pay a rate that would be considered to be a reasonable living wage by Northlandian consumers. Piping is based in Northlandia, which is a developed country with a good standard of living. Northlandian consumers may be concerned that Piping is exploiting the plantation workers if their rate of pay seems low in comparison to their own, and they may feel uncomfortable about buying Piping's products because of this. Piping may be forced to pay what would amount to an uneconomic rate of pay when compared to local norms to protect its reputation and avoid a boycott of its products by consumers. Estimating the costs of satisfying public opinion in Northlandia could be further complicated by the possibility that indirect costs, such as better accommodation, medical care and even pensions, will have to be considered.

Potential revenues from this plantation will be difficult to predict because there is no guarantee that Northlandian consumers will enjoy tea brewed from this new variety of black tea leaves. Tea drinking is part of national culture, and so tea drinkers from any given country may not wish to switch to a blend that has a different flavour from their usual tea. The fact that the new tea has high antioxidant levels will not necessarily attract consumers because they may be more concerned about flavour than health benefits. Piping would, in any case, have to be careful not to market the new tea on the basis that it will improve consumers' health. It would only be permitted to disclose the antioxidant content.

Predicting future revenues will be further complicated by the fact that Piping may attract competitors into this market for tea that is high in antioxidants. Rival companies' tea blenders can taste Piping's new tea and create their blends that mimic its flavour using tea leaves that are high in antioxidants. Ongoing cash revenues from this new tea could be threatened by the fact that Piping's success can be undermined by rivals who may take advantage of the fact that Piping has opened up this new market niche.

Debt funding

Lenders generally require security in order to protect them from loss in the event that the borrower defaults on the loan repayments. It is often more convenient to pledge the asset that is to be acquired as security. In this case, it may be difficult for Piping to persuade a bank or other lender to accept a tea plantation in a foreign country as collateral, because it may prove difficult and expensive for the bank to take possession of the foreign property. Banks may also be concerned that a tea plantation will prove difficult to sell if it is forced to take possession. The plantation has no real use other than for growing tea, and so the market may be quite narrow in the event of foreclosure.

If Piping grants a floating charge against its assets in general, then potential lenders would not necessarily be restricted to taking possession of the tea plantation and so that would enhance their security. Unfortunately, Piping might already have pledged some of its assets to existing lenders, who may have covenants in place that could restrict Piping's ability to offer further security on new loans.

Debt generally requires a fixed series of payments for interest and the repayment of principal. This could assist the borrower to understand the commitments associated with the loan. The fact that Piping's goal is to secure a source of materials with which to manufacture teabags is reassuring because tea is a staple commodity that has a steady commend, so there is little risk that Piping will have erratic cash inflows from which to make those payments. This could be an important consideration because Piping's gearing ratio is presently 35%, but this loan will increase that to 41%, which is a significant jump and could be viewed as a source of additional risk.

Debt is usually less expensive than the alternative of increasing equity. In this case, Piping has sufficient profit from which to pay the additional finance charges. The company also pays tax, and so it will have tax expenses against which to offset the finance costs, thereby further decreasing the cost of funding.

SECTION 2

Effective team

Piping's Board and the management team at Sloping Tea may struggle initially in deciding what knowledge and information they need to share in order to collaborate effectively. Piping knows how to process black tea after it has been purchased at auction and shipped to its factory, but the company has no prior exposure to the growth and harvest of tea leaves. In the same way, the managers at Sloping Tea know how to grow leaves and process them prior to the auction, but they have no further involvement in the manufacture. They do not necessarily understand the issues facing Piping's Board and so may not be able to offer suitable recommendations for team members. Tea growers do not necessarily have much contact with manufacturers and so do not necessarily know what issues manufacturers face. Manufacturers generally buy black tea at auction after it has been processed, and so the managers of plantations will not necessarily know why their leaves are attractive to any given buyer.

The management team at Sloping Tea may be worried that Piping will use its ownership of the plantation to reorganise its operations and that job losses could occur. Managers might compete to be on the team so that they can make a case to Piping's Board to retain their services and favour their departments in the event of any restructuring. Membership of the team could become a matter of internal politics at Sloping Tea rather than an effective and logical grouping of managers with the backgrounds required to educate Piping's Board.

It may prove difficult to release the members of Sloping Tea's management team to support Piping's Board because the management of the plantation is a constant activity. Leaves go through a growth cycle that last for only 2 weeks before they are picked and processed, and so there isn't an extended period in which the managers might be released from their normal duties to prepare and present a detailed brief to the Board. The danger is that selecting team members will involve a compromise between identifying suitable members and leaving the plantation without suitable supervision.

Fall in the E$

Sloping Tea is an Eastlandian company, and its functional currency will be the E$. The routine operating costs will be paid in the local currency, and the E$ will govern the market forces that affect the market price of Eastlandian tea. Most sales will be internal transactions with Piping, but they are likely to be set in terms of E$ if only to ensure that Sloping Tea has sufficient local currency to meet its obligations.

If the E$ weakens against the N$, then the overall cost of operating Sloping Tea will decrease because costs such as wages will be fixed in E$, and so they will be lower when translated into N$ for consolidation purposes. Internal sales from Sloping Tea will be invoiced in E$ and settled in E$, so there will be no exchange adjustment on settlement. Piping will, however, have an exchange gain on the settlement of payables when they are converted to N$ if the decrease in the E$ is ongoing. Operating profits will also increase because costs such as depreciation charges will be set in E$ and will have a lower value when converted to N$.

Sloping Tea’s net assets will be translated to N$, using the rate in force as at the date of the subsidiary’s acquisition and each subsequent year-end (“the closing rate”). Any weakening of the E$ will lead to a loss on translation of assets and a gain on liabilities when the E$ opening balance is restated in terms of closing rate N$. Sloping Tea is likely to have net assets, and so there will be an overall loss on translation. The loss on translation will be taken to the currency reserve and will be reflected in other comprehensive income in the statement of profit or loss and other comprehensive income.

The exchange movement will also affect goodwill on acquisition. The value determined at the date of acquisition or at the previous year-end will be restated using the closing rate. The weakening of the E$ will be calculated and treated in the same manner as the loss of net assets. It will further increase the debit to the currency reserve. The loss would have been shared with non-controlling interest in Sloping Tea, but the company is a 100% subsidiary, and so there is no need to make such an adjustment.

Overall, the decrease in E$ will increase Piping Group’s profit for the year and will lead to a decrease in equity because of the debits to currency reserve. The overall impact will be to increase the return on capital employed, which may make the group appear more efficient due to its ability to make more profit from what appears to be a smaller asset base. Sophisticated readers may not necessarily accept that the additional profit is indicating of better management, and so Piping’s Board should be careful not to claim too much credit.

SECTION 3

Cost transformation

Generating maximum value through new products is concerned with assessing the potential profitability of new tea varieties before growing and harvesting these teas has begun. In the short term, Piping should work towards creating a new premium tea blend that capitalises on the availability of Variety-R and, hopefully, offers a commercial advantage over existing brands. There have been significant costs associated with the development of the Variety-R shrub and the planting of a third of the plantation, but those are sunk costs that have already been incurred. At the very least, it would be sensible to test the market's reaction to this tea, even if it may prove more expensive to make than competing brands due to the costs associated with harvesting leaves.

Generating value is also associated with making product design as flexible as possible in order to meet market needs. The fact that new shrubs take three years to grow to the point of producing a crop suggests that flexibility may be difficult to achieve. Piping's Board should reject calls to expand the Laboratory and may even consider the possibility of redundancies unless the Head Botanist can make a convincing case for expansion. It would enhance flexibility if the Botany Laboratory could modify Variety-R so that it was more robust and harvesting became less labour intensive. If the cost of picking tea at Sloping Tea can be reduced, then it may be possible to move forward and make better use of Variety-R in creating new products that would be commercial successes.

The fact that Variety-R requires additional labour to tend and harvest could be viewed as an advantage from a sustainability point of view. Growing those bushes will create additional jobs for plantation workers, which can be promoted as an incentive to consumers who wish to support people in the developing countries where tea bushes are grown. Even the fact that the tea pickers are being trained to work with these delicate shrubs could be presented as evidence that Piping is creating skilled jobs and so is contributing to the local community. Piping can also claim that the local Botany Laboratory creates professional jobs for locals. Plantations that simply grow established varieties of tea shrub will not require this degree of scientific support for their activities. Presumably, the Laboratory is also working to develop Variety-R so that it is suited to the soil and local climate at the Sloping Tea plantation, which further promotes the contribution that Piping is making to secure local employment.

There will be an environmental cost associated with digging up mature bushes so that the remaining 2/3 of Sloping Tea can be replanted, although the environmental damage is unlikely to be catastrophic because the shrubs will be replaced and much of the work will be manual. The replanting and associated care and nurture of the new shrubs will enable Piping to retain staff at Sloping Tea and so maintain the image of being a responsible employer. If the new blend is a commercial success, then Piping may even consider expanding further by acquiring other nearby plantations and so creating further opportunities for the local population.

Leadership style

It could be argued that a participative style of leadership would be the most suitable in this case because Piping is essentially taking ownership of a business that it knows nothing about. None of the existing Board or members of the senior management team knows how best to grow tea or manage the operation of a tea plantation, and so it would be ideal to work closely with the experienced managers and staff at Sloping Tea. Demonstrating an interest in the opinions of the local managers will encourage them to offer relevant and realistic advice based on their knowledge and experience of growing tea in Eastland. The local managers could become a valuable resource through such interaction because they may be reassured that their jobs are secure despite Sloping Tea having been taken over.

A participative leadership style will enable Piping's Board to learn from the plantation management team, simply by asking them to identify priorities and to justify their recommendations. Such learning opportunities would be lost in the event that the plantation managers are left to manage the plantation independently. A failure to engage could also leave the managers feeling demotivated because Piping's Board would appear to have little real interest in the performance of the plantation.

It is unusual for tea manufacturers to own their tea plantations, and so the acquisition of Sloping Tea could unsettle the plantation workers because they are unsure how their employment will be affected. Piping could face risks that might not arise for other manufacturers who simply buy their tea at auction. For example, industrial action or whistleblowing at Sloping Tea could create adverse publicity for Piping. Piping could also suffer if local staff engage in dysfunctional behaviour, either due to anger or fear arising from what is perceived as mistreatment. A participative leadership style might assist in dealing with those concerns.

SECTION 4

Disruptive technology

To be classified as disruptive, tea manufacturers would have to make fundamental changes to their businesses in response to this freedom to promote their tea based on health-giving qualities. If Piping's application succeeds, then it will be legitimate to claim that there are specific health benefits associated with drinking Variety-R tea, which could have an impact on the industry if other manufacturers decide to compete on the basis of antioxidants. The other large tea manufacturers may make their applications to the NMA, particularly if their teas are especially high in antioxidants. Manufacturers may work with botanists and health professionals in order to identify further ways in which the perceived health benefits of teas can be enhanced. There may be attempts to claim that some varieties of tea contain more of a specific antioxidant than others or that it has other content that promotes consumer health.

It is debatable whether this development will disrupt the industry. Variety-R was developed by Sloping Tea for this specific purpose and then required a 3-year growth period before Variety-R leaves were available in commercial quantities. It seems unlikely that Piping's competitors will permit Piping to obtain a significant advantage that will persist for 3 years. Drinking tea is part of the Northlandian culture because it is enjoyable and refreshing. Tea manufacturers may aim to undermine Piping's claim that Variety-R tea is significantly healthier than existing tea blends, which are all known to contain antioxidants. Variety-R tea could easily become a niche product that enjoys steady sales, but that will not spark a significant demand for tea that has specific health properties. It may be that consumers are not as interested in the antioxidants in their tea as they are in its flavour and the ease of opening the packaging.

Internal transfers

Setting market prices will enable the plantation managers to maintain the same profit figures from those bushes as they would have as an independent entity. This will reduce the risk of the plantation managers becoming demotivated because their contribution to the overall performance of the Group is not being recognised.

The cost of this transfer will be borne by Piping's Operations. Arguably, buyers at operations should accept the market price as a fair and realistic transfer price because the alternative to this internal trade would be to buy black tea at auction, paying the full market price. The transfer price will reduce internal conflict and will enable all managers to be evaluated in a fair manner that is goal congruent.

Paying market prices for this tea will, hopefully, encourage Sloping's managers to expedite the replanting so that bulk supplies of Variety-R become available. The new variety will have a higher value to the Group, and so there will be no incentive to delay the replanting.

The fact that the plantation is located overseas offers a further advantage to the use of market prices because the tax authorities in Northlandia and Eastland will both accept the market price as a valid transfer price. The alternative would be to risk complaints from either or both tax authorities that the Piping Group was underpaying its tax, which could be a major distraction for the Board.

The fact that tea is sold at auction indicates that market prices are volatile and not necessarily observable because each plantation’s output has its unique characteristics, and they change from batch to batch. Disagreement between Sloping Tea and the Piping factory staff could lead to wasted time and ill-feeling, with both sides feeling that they are being misled.

It may be possible to estimate the market price by identifying a plantation that produces similar black tea to Sloping’s and observing the auction prices that it achieves. Any disagreement should be referred to Debi Sarkar, the Chief Operating Officer, for resolution.

There could be problems if poor weather, pests or other problems lead to a harvest of poor-quality leaves at Sloping Tea. Even though that will reduce the market price, Piping’s factory might have no real use for the batch if it is to maintain the quality of its tea bags and loose tea.

There should be a mechanism that will require Sloping Tea to inform the factory of any problems with the quality of its tea and enable Piping to refuse delivery. In that case, Sloping Tea should be free to sell the batch at auction and be given full credit for the proceeds.

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

MANAGEMENT CASE STUDY

MAY 2022 & AUGUST 2022

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

Piping claims to define value in terms of consumer needs and wishes, but there was no specific feedback from consumers to create ready-to-drink tea. The fact that Hottlow failed to create its own ready-to-drink tea suggests that there could be a lack of interest in the concept. There is, however, nothing wrong with identifying potential product lines that could be of interest to consumers and conducting market research to determine whether there might be a demand. In this case, it could be argued that Piping is attempting to make inroads into the massive market for cold drinks which is effectively a parallel industry to tea manufacture. The extensive market research that is being carried out by Piping suggests that potential consumers are being allowed to provide feedback on this product, and that their views are being taken seriously.

The current business model focusses on product quality, both in terms of tea and packaging, as a basis for creating value. There is nothing in the Board minutes to suggest that will be the main source of value from Piping Go. The drink itself will be made from Piping Tea, which is regarded as a high-quality tea. Unfortunately, Piping Go has to be flavoured with sugar and fruit juice to make its taste acceptable to consumers. The packaging will undoubtedly be in the form of standard 500ml bottles, and so it will not continue Piping's tradition of distinguishing itself through better quality packaging that is designed to be easy to use.

Piping currently delivers value by exploiting the fact that Northlandian consumers drink hot tea throughout their lives and can be persuaded to consider Piping as their favourite brand. Piping will have to establish a new marketing and distribution approach that stimulates market demand and ensures that retailers have the drink on sale. Piping Go will effectively be a new drink that competes with other cold drinks rather than loose tea and teabags, and so the company cannot count on brand loyalty in that market. Marketing Piping Go will require a new business model because Piping has many years' experience of being regarded as a major manufacturer in an industry in which it is a dominant player.

The current business model captures residual value through adding value to a very simple product that requires little work other than blending and packaging. Piping knows how to operate efficiently when manufacturing teabags and can afford to do so without exploiting the plantations that produce the black tea. Piping has no experience in manufacturing cold drinks. It may be difficult to do so and sell the resulting cold tea in competition with manufacturers of traditional cold beverages. Existing cold drink manufacturers are often global brands that have significant economies of scale in manufacturing and distribution, and so it may be difficult for Piping to recover its costs and make a realistic profit from the sale of Piping Go.

Product risk and product reputation risk

Piping Go effectively faces two product risks. The first is that retailers will refuse to stock Piping Go. Supermarkets already stock a wide range of cold drinks, and they may be reluctant to take additional shelf space for Piping Go. Ready-to-drink tea is not sold on the Northlandian market currently, and Hottlow's attempt to launch such a product failed five years ago. Retailers may be unable to commit themselves to buy Piping Go until the development and market research has been completed, and even then, they may place small initial orders in case the product fails.

The second product risk is that consumers may not be prepared to try Piping Go because they view tea as a hot drink. Cold tea tastes different and may sound unappetising. Consumers may also think that they drink large quantities of hot tea, and so they may wish to drink something different when they have a cold drink.

The launch of Piping Go could have an adverse impact on Piping's brand image. The initial test marketing suggests that younger consumers are more open to Piping Go than older tea drinkers. This suggests that Piping Go might have to be marketed and advertised in a manner that appeals to a younger audience. This could undermine the perception of Piping's traditional hot tea being shared and enjoyed by tea drinkers from across the different generations.

If tea drinkers dislike the idea of ready-to-drink tea, then they may have negative connotations about Piping Teabags if the advertising and promotion associates the brand with a product that they consider to be unpleasant. It could be even worse if consumers could be persuaded to try Piping Go through promotional offers, and they associate the brand name with an unpleasant taste.

SECTION 2

Life cycle

The starting point, in this case, would be to minimise costs at this early stage of product development. This will increase returns throughout the product life cycle. Eliminating costs will give Piping greater flexibility in pricing, which could enable Piping Go to be sold at a competitive price that undercuts traditional cold beverages. This could require care in selecting ingredients, including the quality of the tea that is to be used. It may not be necessary to use the best quality tea if its flavour is to be masked by the addition of sugar and fruit juice. Care should be taken over the planning and construction of the manufacturing and distribution facilities, because this is an area where existing cold drink manufacturers have an obvious advantage in terms of experience and also economies of scale. The fact that the building is to be constructed from prefabricated panels may offer an opportunity to extend it at a relatively low cost in the event that demand for Piping Go exceeds expectations. It may require forward planning with respect to the location of the building and the layout of the machinery within the building.

Minimising the time to market will also be important. At present, there is no direct competition in the form of ready-to-drink tea on sale in Northlandia, and there is an advantage to having sole control of this market. The sooner Piping launches this drink, the less opportunity that competitors will have to launch a competing product that takes advantage of the generic boost to sales of ready-to-drink tea that Piping's marketing and promotion will create. The fact that Hottlow has already had a similar product for sale could mean that it is in a strong position to relaunch its drink very quickly. Presumably, it already has recipes and feedback from market research. If consumers develop a taste for Piping Go, then they may be less inclined to try competing brands. Being first will also give Piping an advantage in terms of winning space on supermarket shelves. There will be no particular reason for retailers to wish to display several brands of any given product line, and so the second to market may struggle to compete.

Piping should also aim to maximise the length of the life cycle. It helps that tea is a favourite drink in Northlandia, and it might help to promote Piping Go as a new way to enjoy tea rather than as a wholly new product in itself. Encouraging tea drinkers to regard Piping Go as tea rather than just another cold drink should help to instil brand loyalty. Piping should consider creating a separate advertising and marketing budget for Piping Go, partly to maintain consumer interest in the product but also to respond to the inevitable attempts by manufacturers of traditional cold drinks to protect their markets. Piping Go should also pay close attention to consumer feedback, and the recipe should be tweaked in response to concerns about the flavour of the drink or the packaging. At the very least, Piping should consider extending the range to include different fruit flavours or different bottle sizes.

Debt and equity

Lenders are likely to require some security over their loan, which could be complicated in this case because of the rights that are likely to be held by existing lenders. At present, debt amounts to approximately 35% of total long-term finance, which is a fairly high proportion. If the funds for the Piping Go facility are borrowed, then that will increase to 42%, which is a significant increase. Existing lenders may have debt covenants in place or they may have fixed charges over existing assets such as Piping's land and buildings. If so, that would leave the new factory building and the equipment to serve as collateral. The fact that the factory building is effectively made of metal panels would suggest that the panels themselves could have some value as security because the building could be dismantled and relocated. Similarly, the equipment seems to be fairly standard bottling and inventory handling equipment, and so it is to be hoped that it would be capable of being sold for a good price in the event that Piping defaults on a loan.

Equity is a relatively expensive source of finance. The shareholders have all of the risks and rewards associated with ownership of the company, which means that they generally require an adequate return on their investment. The fact that the return on equity is paid out of earnings after tax means that there are no tax benefits associated with issuing further shares. Issuing shares would increase equity by N$253.4m/N$1,307.0m=19%, which is a significant increase. If the new product is a commercial failure, then the existing shareholders' equity will be seriously diluted. There are significant formalities associated with issuing shares, which makes it time-consuming and expensive to do so. This could delay the launch of Piping Go, while the Board deals with the procedures and collects payment. Having said that, the issue is large enough in comparison to the existing equity to make a share issue appear to be cost-effective.

SECTION 3

Accounting for revenue

The first question is to determine whether a contract exists for the sale of this Piping Go. If it does, then the recognition of revenue will have to be considered in terms of the requirements of IFRS 15 *Revenue from Contracts with Customers.* The IFRS sets out the conditions that have to be met in order for a contract to be deemed to exist. In this case, it would appear that Sellrite could withdraw from the agreement and would lose only the 20% discount that Piping has granted in return for submitting such a large order. The key factor in deciding whether an effective contract exists depends on whether this purchase is enforceable rather than on whether there is an effective legal contract. In this case, Piping is already a major supplier of Sellrite's teabags, which gives Piping a means of exerting influence. It could be argued that Piping has a sufficient understanding of Sellrite's business practices and its need to maintain its relationship with Piping to determine that an enforceable agreement exists.

The separate performance obligations associated with the contract must also be identified. In this case, Sellrite will request specific quantities of Piping Go which must be delivered within 48 hours of each request. It seems likely that Piping will have to manufacture large quantities of Piping Go in order to hold those quantities as inventory specifically to meet Sellrite's tight delivery deadlines. It could be argued that Sellrite effectively has control over that inventory, in the sense that it would not be prudent for Piping to sell that inventory to other customers if that would risk letting down Sellrite and defaulting on the terms of its contract. The most appropriate accounting treatment would be to treat the delivery of batches of Piping Go as fulfilling the performance obligation in stages. In the event that a delivery is late, then Piping will have to determine whether that will result in a need to pay compensation or, indeed, in the cancellation of the balance of the order.

Piping must decide on the recognition of the revenue from the order. While it would be desirable to recognise the whole N$180m, less the trade discount, immediately, that would not be acceptable under IFRS 15. The revenue should effectively be recognised in proportion to the deliveries, which would appear to be agreed in the order in any case. The amount due from Sellrite in respect of any deliveries should be recognised as a contract asset unless Piping recognises those as normal trade receivables. The revenue itself will be disclosed separately as revenue recognised from contracts. Details of the contract itself will be disclosed in the notes to the financial statements.

Renegotiating the delivery schedule

As always, Piping should start by identifying the respective interests of the two parties, Piping and Sellrite. The most difficult factor arising from this negotiation is that Sellrite appears to have dictated terms that are entirely in its favour because the worst possible case is that Sellrite will lose a large discount in the event that it does not complete this order. The contract is already a "win-win" as far as Sellrite is concerned because it can take delivery in response to its needs. It will not lose the discount unless it decides to cease the sale of Piping Go, in which case the discount will have no value anyway.

Piping faces the prospect of having to carry significant quantities of inventory in order to be ready to meet sudden large orders from Sellrite, which will be damaging from a cash flow perspective. In theory, this contract could make it uneconomic to manufacture Piping Go because of the impact on cash and profit in terms of servicing this order. It might, therefore, be possible to approach Sellrite with concerns that it may be necessary for Piping to stop the manufacture of Piping Go altogether, rather than risk suffering a loss. This would involve a significant opportunity cost for Sellrite, but would not necessarily do so for Piping.

Piping may be able to identify a benefit that would cost Sellrite little or nothing, such as an agreement on a fixed delivery schedule that would then enable Piping to plan its production. The schedule could be based on Sellrite's estimated sales figures. It could be subject to revision, perhaps every three months so that Sellrite does not have inventory building up or unmet demand. This arrangement would remove much of the risk faced by Piping, but at little cost to Sellrite. Piping could add a further commitment, such as granting Sellrite priority in the event that Piping Go is such a success that consumer demand exceeds supply. Alternatively, Piping could identify a third-party bottling plant that could assist if demand for Piping Go exceeds expectations. This should mean that Sellrite will never find itself with the demand that it cannot meet.

SECTION 4

Transfer pricing

In principle, setting transfer prices at market value should ensure that the management teams at both Marketing and Distribution and Piping Go will regard this system as fair. This should reduce the risk of demotivating either of the management teams. Marketing and Distribution is effectively paying the market price for the unblended black tea that is being purchased at auction by the buying department. Marketing and Distribution is then transferring some of that tea to Piping Go at the market price of blended black tea, which gives Marketing and Distribution some reward for the value that it adds through blending. The Piping Go management team is effectively being charged the same as it would have to pay for blended tea purchased from a third party, which may be regarded as a realistic basis for measuring costs.

Basing the transfer price on market values will give the Board a relatively clear understanding of the profit or loss made by Piping Go for Piping as a whole. Market prices, even of blended tea, will give the Board a realistic estimate of the opportunity cost of using the black tea to make bottles of Piping Go. The resulting profit reported by the profit centre should offer the Board a realistic insight into whether Piping Go is making an overall contribution to profit for the business as a whole. For example, market prices will automatically adjust for any appreciation in the value of black tea between its purchase at auction and its blending and subsequent transfer to Piping Go.

The biggest disadvantage of this approach is that there may be some dispute between the two profit centres' management teams as to the market price of the blended tea. Black tea is sold at auction by individual plantations, and so it is not blended when it is being sold on the open market. The management team at Marketing and Distribution has a clear incentive to overstate the value added by the blenders and the associated costs of blending teas. The management team at Piping Go may feel that they are being overcharged for blended tea because the blenders would be mixing black teas in any case, and so there is no reason for Marketing and Development to benefit at Piping Go's expense. The precise blend of tea for Piping Go is, after all, less critical than for the tea that is sold in teabags and as loose tea. The management team at Piping Go may feel aggrieved if there is a suspicion that the market price is being overstated.

There could be significant issues for Marketing and Distribution regarding the treatment of costs associated with storing and handling tea and the manner in which they should be charged to profit centres. For example, the blended tea will have to be transported from the existing factory to the Piping Go factory, which will involve some handling costs even if the buildings are adjacent. Piping Tea's managers may feel that they are under greater pressure because they must buy and blend black tea in greater quantities and yet they are unable to pass those costs on to Piping Go. There may also be concerns about the effects on profits of changes in market prices between the delivery of black tea and its value when it is subsequently transferred to Piping Go. If the market value of blended tea falls then the loss in value will be borne by Marketing and Distribution.If Piping Go is granted autonomy in setting selling prices, then it may be preferable to base internal transfer prices at marginal cost or to make use of a dual system.

Management team

Existing managers within Piping may be reluctant to transfer to Piping Go because of fears that the new product could fail, to the detriment of their careers. In the worst case, the management team could face redundancy in the event that the manufacture of Piping Go is discontinued. This could lead to relatively few managers who were keen to transfer internally and that could lead to Piping Go being managed by a disproportionate number of external hires.

One response would be to attempt to persuade managers who were close to retirement to move to Piping Go, with promises that their pensions will be augmented in the event that Piping Go is not a success. This would give some continuity between the staff with past experience of Piping and those who are coming in from outside. Piping would have to take care, though, to ensure that replacements to fill the vacancies that would be created at Piping Tea were sufficiently mature and experienced to replace the staff being attracted to Piping Go. Alternatively, Piping might offer managers a financial incentive to move, with a guarantee that they will be offered a transfer to another part of the company if this venture fails.

Care will also have to be taken to ensure that the management team in place at Piping Go has the correct attitude to manage the creation of a product that is very different from the one that they are used to. Piping Tea is a long-established brand that sells on the basis of tradition and quality, while Piping Go is a completely new product that does not require the same quality standards and will have to be marketed aggressively. The newly-appointed managers at Piping Go may be drawn from the cold drink industry and may have different and conflicting attitudes to those of the experienced managers who have been drawn in from Piping Tea.

One solution would be to identify roles within Piping Go that would definitely benefit from a fresh perspective. For example, it may make more sense to recruit account managers from the cold drinks sector to take charge of liaisons with supermarkets because they will hopefully have better contacts than their counterparts from Piping Tea. Roles that require less of a change in mindset could then be kept for internal transfers, thereby reducing the risk of conflict.

MANAGEMENT CASE STUDY

MAY 2022 & AUGUST 2022

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

Value chain

This development raises significant issues relating to Piping's marketing and sales activities. It is a major concern that Piping's largest retail customer is prepared to reduce its order by 10% because ETC can undercut Piping on price. Northlandians drink tea in large quantities, but tea is a relatively inexpensive drink in comparison to most alternatives, and so it should be possible to persuade consumers to pay a little more for their favourite brand of tea. It is known that some consumers are prepared to switch between quality brands, such as Piping and Hottlow, on the basis of price. Piping must aim to maintain and defend its brand value, so that ETC has the least possible opportunity to establish itself as an alternative to existing quality brands. Piping should aim to promote its tea on the basis of quality and flavour, in the hope that the large order of tea from ETC will remain largely unsold on Sellrite's shelves. Piping should also ensure that it works with Sellrite on marketing, informing the supermarket that it plans to promote Piping Tea aggressively, in the hope that Sellrite will at least partially reverse its decision to reduce its order.

Piping should consider whether it can achieve greater efficiency from its operations. It is a major concern that ETC can manufacture teabags in Eastland and still manage to undercut Piping on price. Piping and ETC both buy black tea at auction, and so raw material must cost the same for both companies. Piping ships the black tea to its factory in Northlandia, where it is processed. ETC manufactures teabags in Eastland and has to ship the final product. Boxes of teabags will be bulky and will require greater care in handling than sacks of black tea leaves, and so ETC should be at a disadvantage in terms of cost. Even if labour is cheaper in Eastland, the fact that teabags are created mechanically by the production line suggests that there could be inefficiencies in Piping's operations that are making it uncompetitive in competing with this new competitor.

There may also be concerns about Piping's procurement because ETC is buying black tea from local plantations, while Piping imports black tea from many locations. ETC will have a cost advantage over Piping If Eastland's black tea is cheaper than teas from other countries. Piping's tea blenders should explore the possibility that they can make an acceptable blend of tea using the varieties of black tea that are available to ETC. Consumers will not care which countries the materials for their teabags are sourced from, provided they get the flavour that they enjoy, and the feedback from Sellrite suggests that Eastland tea can be a sufficient basis for a competitive product. It may also be that ETC has local sources for black tea that could be identified and used by Piping, given that it is a major tea buyer in the country.

Negotiate with Sellrite

From a negotiating point of view, Piping has little to offer Sellrite in return for cancelling its order with ETC. Sellrite is Piping's largest customer, and so it has probably agreed to the keenest possible price for Piping Teabags. It seems highly unlikely that Piping could offer to match ETC on price, given that its selling price is 60% less, and so Piping has relatively little to offer. The fact that Sellrite feels that it can reduce its order with the stated intention of testing the market for a competing product suggests that its management team is not intimidated by Piping. Any attempt by Piping to threaten a reprisal against Sellrite is likely to fail because Sellrite is likely to regard it as a bluff.

From Sellrite's perspective, trialling ETC's teabags have a very little downside and a potentially high upside. This will make it significantly more difficult for Piping to persuade the supermarket to abandon its intention to trial ETC. In the worst case, Sellrite has bought a single consignment of ETC teabags. If consumers are reluctant to try them, then Sellrite can sell them at a significant discount. Any loss is likely to be minimal. In the best possible case, Sellrite could have found a new supplier who can dramatically reduce the wholesale cost of teabags that could be sold at a significant margin in comparison to established quality brands such as Piping and Hottlow.

Piping might also struggle to persuade Sellrite to abandon its trading relationship with ETC because Sellrite can promote this purchase as an attempt to support a new business in a developing country. ETC is creating jobs in manufacturing and logistics in Eastland, a country that appears to need such opportunities. Sellrite will have an opportunity to appeal to consumers' desires to create employment in countries where there is a low standard of employment, at very little cost to itself.

SECTION 2

Usefulness of financial statements

ETC's latest financial statements relate to a period before it started to export teabags to Northlandia, which means that it is difficult to tell whether it is able to sell to the Northlandian market at a profit and compete sustainably. The next set of financial statements will not be available for several months, and so they will not be available in time to make a direct analysis of profits from export sales. If ETC is still undercutting us by 60% by the time the next set of financial statements is published, then we will have a clear idea of whether it can sustain those prices, and so the financial statements will have little to add to our knowledge.

The next set of financial statements will reflect ETC's performance in both domestic sales and exports to Northlandia. These are potentially very different markets, where margins are very different. This will make it difficult to tell whether ETC is making profits from exports to Northlandia, or whether it is incurring losses in the short term in order to become established. In an ideal world, ETC will publish an analysis of revenues and profits, broken down between home and export businesses.

Evaluating ETC's approach to business will be complicated by the fact that the financial statements are historical, and the challenge is to look forward in order to determine whether a pricing model is sustainable. The price of tea is volatile, and so it may be possible that ETC will have to increase its prices in the future if the price of black tea increases in Eastland. This comparison is further complicated by the fact that ETC buys all of its tea from Eastland, while competitors such as Piping and Hottlow buy tea from several countries, which may affect ETC's ability to compete at any given selling price.

Sustainability may mean more than simply being able to survive and make a profit at any given selling price. ETC's next set of financial statements will have to be interpreted by the company's Board and its shareholders. The Board may be concerned about criticism arising from the fact that Piping and Hottlow charge higher prices and are still in business. The sustainability of ETC's pricing could be affected by perceptions of performance rather than actual reported results. The fact that ETC could afford to continue with those prices would not be sufficient to suggest that it is desirable for it to do so.

It may be that ETC teabags will sell well in supermarkets at first because they could be priced competitively with Piping's and Hottlow's, but demand may not persist. Tea is a significant part of Northlandian culture, and so consumers may be prepared to spend more on tea that they enjoy, even if there are competing brands that are much cheaper. Good quality teabags are still affordable because tea is cheaper than coffee and many other drinks. Tea is consumed in great quantity, so it is not being priced out of the market.

Piping's pricing

It would be difficult for Piping to make a profit if it reduced its selling prices by 60% to match ETC. Piping's gross profit percentage indicates that gross profit percentage is 45% of sales. Reducing the selling price by 60% would lead to a gross loss of 5% of sales. At present, the cost of sales is 55% of revenue, which equals N$1,695m. Revenue would reduce to N$1,232m, which would create the predicted loss. This calculation ignores the fixed costs included in the cost of sales. If Piping reduces its selling price, then it is hoped that sales volume will increase and will offset the loss and possibly even recover some of the profit.

Piping will, in any case, always be at a disadvantage in an attempt to dislodge ETC because of ETC's significant revenues and profits from its home country. ETC appears to have a strong revenue base in its home market, which generates a high return on capital employed. In the short to medium term, ETC can afford to resist any attempt by Piping to push it out of business because it has that strong base with which to subsidise any move into Northlandia. Piping must be very wary of this new competitor, but it is a threat that has to be dealt with through marketing or some other tactic, not through price reduction. ETC has a high return on capital employed, but a low gross profit %, implying that it generates significant asset turnover.

Piping has a higher return on capital employed than Hottlow. This suggests that Piping's overall profitability is superior to its most immediate competitor. Piping should not make any major changes to its pricing on the basis of the latest available financial statements, although it should be aware of the possibility that its return on capital employed could fall if it loses revenue to ETC and so its asset utilisation falls. For the moment, the fact that Piping's ratios are close to those of its most direct competitor suggests that the company is operating in a manner that is optimal for its operations in Northlandia.

SECTION 3

NPV

The selling price of the existing factory in Northlandia will be an estimate that cannot be determined with any great accuracy. Piping will have to market the property in the hope that a buyer can be found. Buyers may be reluctant to pay Piping's intended selling price if they have to budget for the cost of alterations. Piping's negotiating power will be affected by factors that it cannot control, such as the availability of similar factories on the market at that time.

Relocating production could have a significant impact on future revenues because Piping is regarded as a "Northlandian" brand. Tea drinking is a significant part of Northlandian culture, and consumers buy large quantities of Piping tea because it has strong associations with suiting their tastes. There is a danger that closing the local factory and relocating production to a new site will cause some resentment, which could encourage consumers to switch to a different brand.

Piping will have to make most of its workforce redundant, which will require the company to provide some compensation for making staff redundant. In theory, redundancy payments are likely to be fixed by law or by staff employment contracts, but Piping risks incurring further bad publicity if it pays the minimum possible. If Piping is forced to negotiate redundancy terms in order to avoid adverse publicity, then the final cost could prove significant.

It may be necessary to persuade some of Piping's employees to move to Eastland, which could prove expensive if they are to be supported and compensated for the move. For example, Piping's blenders are experts at tasting samples of black tea and specifying the mix that is required to ensure that customers can buy a consistent product. It may be necessary to pay those workers a significant amount in order to persuade them to relocate. For example, Piping may have to buy flats in Eastland so that the blenders have somewhere to live without selling their family homes in Northlandia.

The cost of operating the factory in Eastland may not be entirely predictable. For example, local wage rates are lower than in Northlandia, but Piping may be at risk of losing customers if the company is accused of underpaying and exploiting locals. There are also significant logistical challenges that could be expensive to overcome, such as the need to import black tea leaves from other countries in order to create the familiar flavour associated with Piping Teabags. Even repairs and maintenance costs could be affected by differences in the climate and different local rules relating to health and safety.

The focus of this analysis should be on incremental revenues and costs.

Debt and equity

The debt normally requires the borrower to pledge security in order to ensure that the lender is protected in the event of default. This will be extremely difficult for Piping to arrange because it plans to sell most of its Northlandian assets, other than offices. Piping will have to find a lender who will be willing to accept a foreign factory as security, which may be difficult to arrange because the collateral will then be difficult to secure in the event of default. The alternative might be to seek a loan from a bank in Eastland, which could reduce the concerns associated with security. Unfortunately, this would mean dealing with a foreign borrower, which might restrict the availability of debt.

One of the big attractions of debt is that the interest is an expense for tax purposes, which effectively reduces the cost of borrowing in comparison to equity. Unfortunately, the relocation of the factory and the associated issues associated with the heavy competition from ETC might mean that Piping has relatively little taxable profit against which to claim the tax relief.

Equity would require Piping to go through the formalities associated with raising equity, which could delay the completion of the purchase and the commencement of operations in Eastland. Those formalities are generally quite expensive, which is a further drawback of equity, although the N$800 million that Piping requires is a significant amount in comparison to the equity that is already an issue, and so it may be cost-effective to resort to equity.

Equity holders bear the final risk associated with investing, and so it may be difficult to persuade the shareholders to participate in a rights issue that will increase their equity from N$500 million to N$1,300 million. This funding is being raised in order to make what appears to be a risky investment in the relocation of production overseas, which may not be attractive to the shareholders. The company appears to be in difficulty because of competition from ETC, and so the shareholders could be concerned that they are being asked to more than double their investment in a company that may be on the brink of failure.

SECTION 4

Managing conflict

The first step would be to establish why the HR staff are acting in this manner. They appear to be identifying with the production staff who face redundancy and so are reluctant to assist in this plan. Piping's HR Director should meet with staff from HR to explore these concerns in order to determine whether there has been a misunderstanding that might be resolved. It may be, for example, that the HR staff object to the massive loss of jobs at the Northlandian factory, and they are keen to prevent the closure from occurring. In that case, the HR Director might resolve this concern by pointing out that foreign competition means that it is no longer cost-effective to retain the existing factory and that the relocation is the only way to save the company. Explaining that the jobs cannot be saved and that resistance by HR will simply cause needless stress for all concerned, including the production staff, could be sufficient to resolve any refusal to cooperate that is based on a misunderstanding.

The HR staff may be reluctant to assist in planning the redundancy because they have colleagues and friends in the factory, and so there will be an emotional cost to assisting with this plan. It may be possible for Piping's Board to employ third-party consultants to draft the plan itself, in terms of deciding who will leave and when and also in deciding on any discretionary matters relating to payments. This would then leave the HR staff to implement that plan, without them having to make decisions that might involve a conflict of interest. Their role would be reduced to handling the paperwork.

The Board could consider aligning the interests of the HR department with the company as a whole. For example, most of the workforce will be based in Eastland after the relocation, and so it may be more efficient to consider relocating HR as well as production. It would be feasible to do that because computerised files and records can be accessed online from anywhere. It is also possible to hold meetings using conference calls and video conferencing. If HR staff identify with their colleagues to such an extent, then it may be inefficient to keep the function in Northlandia. The current HR staff could be made redundant and a new department could be recruited in Eastland. This would effectively give the HR Department an incentive to demonstrate its commitment to Piping by reversing its threat to withdraw from planning the job losses in Northlandia.

As a final resort, Piping could consider confrontation. The HR Department staff could be informed that assisting with the relocation is a legitimate part of their role and that they are expected to conform to any request from a superior. The Board could then demonstrate a zero-tolerance approach to any HR staff who do not complete a task that has been assigned to them. This could involve disciplinary action such as suspension or even termination. This approach will almost certainly damage morale, and staff may not work to the best of their ability under those conditions. It will, however, send a clear message to all staff that the Board must be able to make decisions and have its decisions put into practice, otherwise the company will be in even greater danger.

Stress test

Stress tests are hypothetical tests of the company's ability to deal with difficult conditions. Than's proposal would help Piping's Board to understand their vulnerability to an increase in labour costs at major suppliers. Conducting a stress test will provide a useful understanding of the particular matters reviewed. It will also provide the Board with an indication of whether they have a robust system for identifying and evaluating risks.

Harvesting tea is very labour intensive, and so a significant increase in labour costs will increase the cost of black tea throughout the country. The cost increase will affect all plantations in Eastland, and so it seems likely that the cost of black tea will be passed on to tea manufacturers. Evaluating the impact of that increase will enable Piping's Board to consider whether it risks making itself uncompetitive with competitors such as Hottlow. If competing manufacturers can replace Eastlandian tea with black tea from other countries, then they may be able to undercut Piping on price, which would be a major problem because supermarket buying decisions are driven by margins. This analysis will assist the Board to better understand whether it understands the risks associated with changes to costs incurred in Eastland, given that its customers are retailers based in Northlandia.

Manufacturing teabags is heavily mechanised, but Piping's factory still requires a workforce to maintain and manage the operation of that machinery. Those jobs will generally require some skill and training. It may be possible for Piping to match any wage increase elsewhere in the Eastlandian economy because its factory is not particularly labour intensive. It will, nevertheless, impact on the cost savings associated with the relocation. Piping should understand this risk in the wider context of the possible loss of factory staff and the need to replace them in the Eastlandia labour market. The disruption of production due to staff shortages, for whatever reason, could have an adverse impact on revenues because supermarkets will be unwilling to rely on a supplier for an important product line if that supplier proves unreliable.

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

MANAGEMENT CASE STUDY

MAY 2022 & AUGUST 2022

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

Business model

Piping defines value in terms of meeting the needs and wishes of its customers. It appears that this focusses on the needs and wishes of the consumers who drink Piping Tea. Perhaps there should be a similar focus on the needs of the supermarkets, who are also customers. The recent interaction with Sellrite implies that the supermarkets regard good quality teabags as a commodity that they can buy and sell in a manner that suits their wider needs. Piping must be prepared to be flexible in terms of adapting to that market dynamic. It may be necessary to accept reduced orders from time to time, but it could also be possible to persuade supermarkets that Piping is ready and willing to meet large orders to support promotions.

Piping creates value by making good quality teabags that are convenient to use. It appears that consumers do not necessarily distinguish Piping from other brands, which means that the company should consider whether to continue to innovate in packaging. Presumably, competitors such as Hottlow, who also sell teabags based on quality, take a similar approach to the quality of the tea used in its teabags, and so Piping should not expect to maintain a consistent competitive advantage because of this innovation. This does not mean that the development work should cease. If anything, Piping should aim to continue to reinforce the message that it makes a good quality product. The recent interaction with Sellrite might suggest that Piping must ensure that it remains competitive against other brands in terms of quality and ease of use because it is important for Piping to be considered for future promotions in place of Hottlow.

Piping aims to deliver value through a combination of marketing activities and efficient distribution. The recent interaction with Sellrite suggests that these activities are even more important than what was originally thought. Piping's market research indicates that consumers do not perceive much difference between the flavours of the leading brands of tea, so advertising is an important element of creating a psychological response to the Piping brand. Piping must also be able to manage its distribution activities in a manner that meets the needs of supermarkets to respond to the volatility in demand that can arise from special offers and other promotions. If, for example, a major supermarket chain wishes to promote teabags through a “buy one, get one free” promotion, then it may wish to double its order size from the brand that it selects for this promotion. If Piping cannot adapt to meet such needs, then it may lose out on a large order to a competing brand.

Piping captures residual value through buying quality materials and maintaining operating efficiencies. These recent events suggest that Piping must maintain its reputation for buying responsibly and using good quality materials, otherwise it could lose market share to competing quality brands. The fact that Piping supports growers is potentially beneficial because any adverse publicity associated with accusations of exploitation by Piping could impact on demand. Piping does, however, have to keep prices under control because supermarkets will not necessarily be prepared to pay more for Piping Teabags unless they can be sold at a premium over competing companies’ retail prices. Piping may be unable to pass on the cost of any inefficiencies to customers and so profitability may depend largely on cost control.

Accounting ratios

The inventory figure will increase, but the cost of goods sold will not necessarily change, so the inventory turnover ratio will slow down, which may make Piping appear to be less efficient. At present, the ratio is 32.8/1,704 x 365 = 7 days, which implies that inventory is not being held for an appreciable length of time. Arguably, the amount of inventory that is being held would have to increase substantially in order to have a marked impact on the result. If an inventory is allowed to double, then the company could still argue that 14 days is a relatively short period for which to hold inventory.

Holding more inventory will tie up more cash in raw materials and finished goods. This will result in the cash balance decreasing in line with the increase in inventory but will not affect the current ratio because the change will increase one current asset and reduce another, while current liabilities will remain unchanged. The quick assets ratio will decrease, which may make Piping appear to be less liquid and so at greater risk of bankruptcy.

If this is to be a permanent arrangement, then Piping will have to increase the capital employed. It might be deemed reckless to tie up a significant amount of cash in inventory, and so Piping might have to increase its borrowings in order to fund the ongoing investment in inventory. Piping will also have to consider constructing additional storage facilities to ensure that stocks of black tea and finished teabags do not deteriorate while they are in storage. There will also be additional operating costs associated with storing and holding the increased inventory. These will range from depreciation on any new assets to increased wages for the staff required to manage inventory. Overall, this will result in a slightly smaller return, in the form of operating profit, being divided by a slightly larger capital employed. That will decrease the ROCE ratio and so make Piping appear to be less profitable.

SECTION 2

Associate

The question of whether Yumsave is an associate must be decided in terms of the provisions of IAS 28 *Investments in associated and joint ventures.* In order to be classified as an associate, Piping will have to be able to demonstrate that it can exert significant influence over Yumsave. This requires it to have the power to participate in Yumsave's decision making, while not having control.

Significant influence is usually implied by an equity holding that gives 20% or more of the voting rights available to shareholders. In this case, Piping will hold only 15%. This does not automatically mean that Piping does not have significant influence, but it will require a more detailed review of the relationship between Piping and Yumsave in order to decide whether significant influence might exist.

Piping will have the right to nominate a director to Yumsave's Board, which gives Piping representation and the ability to speak on matters of policy. The director will, however, be only one of five board members, and all decisions will be resolved by a simple majority vote. This could mean that Piping has only a very limited influence in practice.

The fact that Piping will have the sole right to buy Yumsave's Drirap foil suggests that there will be material transactions between the companies, which is further evidence that Piping will have significant influence. It remains to be seen whether the product will actually be completed though and so the transactions may not materialise.

Yumsave is investing heavily in the development of a new product. If the development work on that new product fails to reach completion, then the need to write off any capitalised development costs could lead to significant impairment losses. Those losses will be reflected in Piping's financial statements, which could create the impression of volatility in Piping's performance.

There will have to be an adjustment for unrealised profit on inventory held by Piping but sold by Yumsave. While Piping should have little difficulty in identifying the inventory, it may have difficulty in calculating the unrealised profit. There is little reason for Yumsave to be willing to volunteer detailed costing information about a key product that is sold exclusively to Piping.

Yumsave could issue fresh shares that give another shareholder control of the company. In that case, Piping will effectively lose its significant influence, even if it still has a director on Yumsave's Board, and so it will have to adjust its financial statements to reclassify Yumsave as an investment. This could reduce Piping's reported earnings if Yumsave chooses not to pay dividends because it will no longer be appropriate to use the equity method to account for its share of Yumsave's profit.

Maximising returns

The relationship between Piping and Yumsave complicates the management of the profits over the lifecycle of Drirap. Ideally, the design stage should be managed with a view to designing costs out of the product. The design work could be thought to be

Yumsave's responsibility, but Piping should be involved if that can be negotiated. Piping will wish to ensure that the equipment in its factory can work with Drirap. Piping is committing itself to buy Yumsave's entire output of Drirap. Yumsave has no real incentive to minimise its production costs because it can pass those on to Piping. It will be difficult to draft a workable agreement that will enable Piping to monitor and manage production costs and selling prices for Drirap while the product is still under development. There may also be concerns that Yumsave will be reluctant to give Piping too much of an advantage over other customers who will have to buy Yumsave's existing products.

Returns can also be assisted by bringing the product to market as quickly as possible. This could reduce the risk of other tea manufacturers beating Piping to market with new and improved foil packaging of their own. Again, there is a problem with that approach because Piping will not have direct control over the development process, and so it may not be possible to accelerate development, other than by setting deadlines for the product's launch. There could also be dysfunctional behaviour because Yumsave may declare that Drirap is ready for launch even though further improvements would be possible.

The life cycle should also be extended as far as possible. This usually involves considering ways to adapt and improve the product, but the challenge here is that Yumsave may have little incentive to improve Drirap while Piping is buying all of its output. It may make more sense for Yumsave to invest those resources into creating completely new foils that can be sold freely on the open market. Managing any such challenge is complicated by the fact that Piping will own 15% of Yumsave, and so it may not benefit from restricting Yumsave or forcing it to concentrate unduly on Drirap.

SECTION 3

Business risks

There could be significant operational risks arising from the need to modify the production machinery to cope with Drirap. Handling the new foil could have an impact or operating costs, such as power for the machinery and rejection rates due to defective packaging. If the new foil is more difficult to work with, then there could be machine breakdowns or wasted materials due to packaging not being sealed correctly. These additional operating costs may be difficult to predict because new equipment will have to be acquired and installed before Piping can even try working with Drirap under normal operating conditions. The likelihood of such problems is potentially quite high because the factory equipment requires modification and even replacement to enable Piping to work with Drirap. The impact of this will depend on Piping's ability to rectify any problems. It may be that there is a short-term failure that requires adjustment and possibly the waste of some materials during the installation and test phase.

The new foil could cause product reputation risks. Even if Piping masters the processes required for working with Drirap, there is a risk that the resulting packaging does not work as intended. Unfortunately, some of that risk could be due to unforeseen deterioration in the foil or a reaction between the foil and the wrapped teabags that will not occur until after the packaged teabags has been in storage for some time. If that occurs, then Piping's reputation could be damaged by the sale of teabags that have been tainted by the packaging. The likelihood of this occurring could be difficult to predict because the life expectancy of the foil is difficult to predict under laboratory conditions. Piping does hope to create a product that has a very long shelf life. The impact could be significant if large numbers of consumers experience tainted tea. If piping has to offer a product recall then the costs could be substantial.

The relationship between Piping and Yumsave could lead to contractual inadequacy risks. Yumsave could default on its commitment to Piping by selling a slightly modified foil to tea manufacturers under a different trademark. Yumsave could even be working on a better version of its foil that it plans to launch soon after Drirap, which will be made available to piping's competitors. Piping could find itself with a worthless contract and a significant amount of money tied up in an investment in Yumsave that only has value because it hopes to have the exclusive rights to Drirap. The likelihood of this risk depends partly on Yumsave's ability to improve on Drirap. Yumsave does have an obvious incentive to sell as much packaging material as it can. The impact of this risk will depend in part on Piping's response. If it takes legal action against Yumsave or feels inclined to sell its shareholding in the company, then it may be very expensive.

Team membership

The team should be led by a Senior Engineer from the Operations Department. This is essentially an engineering matter that will require some adjustment and adaptation in the factory. The leader should have experience in managing factory operations, perhaps from a maintenance point of view, so that he or she is familiar with the manufacturing processes and the problems that can arise because of different grades of packaging materials. The team leader should have sufficient support from colleagues in operations to ensure that time and attention can be devoted to the various decisions that have to be made during the factory design and the installation. It is, for example, important for the team to have sufficient technical expertise to be able to liaise with the manufacturers of the new equipment that is to be installed.

A member of the production staff at Yumsave should be seconded to the team to assist Piping's engineers in the redesign of the factory. Yumsave's staff understand the technical constraints and limitations of working with different types of packaging material, and so they should be able to advise on getting the best possible use out of Drirap.

Staff from Product Development should be involved because the modification of the machinery and the introduction of a new packaging material creates an opportunity to adapt the packaging to better meet consumer needs. Product Development handles feedback from customers, and so it would be ideal if someone from that background could consider whether any new features could be added to the foil wrapping. This would be cheaper than adding new features at a later date.

The Marketing and Distribution Department should have an observer whose role would be to develop an understanding of the changes to the packaging so that they can be communicated back to the managers responsible for advertising and distribution. The benefits of Drirap should be communicated to both the consumers, whose tea will be improved, and the supermarkets, who will be able to store piping Teabags for longer.

SECTION 4

Conflict

The starting point is for Piping's Board to intervene and ask for a briefing from the team so that it understands the issues that have caused the conflict. It seems unlikely that the conflict will be resolved by continuing the discussion between the engineers and the designers, and so it makes more sense for senior management to intervene. There appears to be a legitimate sense that there are two competing sides and that a "win" by one will result in a "loss" by the other. It would be more realistic to restructure this discussion into a wider debate about how best to design the Drirap packaging in Piping's overall best interests.

The Board could seek the advice of Yumsave, the manufacturers of Drirap. It may be that Yumsave can provide a clear compromise, based on its detailed knowledge of packaging materials and the ways in which other manufacturers have used them. Ideally, Yumsave will be able to recommend an optimal thickness for Drirap that is thin enough to be pleasant to work with and yet durable enough to survive the production line. It is also to be hoped that Yumsave can advise on whether or not it is possible to print on Drirap without creating problems with the flow through the production line. Any advice received from Yumsave will enable the conflict between Piping's engineers and designers to be resolved without offending either side. It is to be expected that Yumsave will have a wider experience of different packaging issues, and so its guidance ought to be respected by both.

If Yumsave is unable to offer a definitive answer to the issues that are causing the conflict, then the senior management team should aim to express the two preferred outcomes in terms of cash flows and operating profit. If the engineers are concerned that the machinery on the production line will jam, then they should be asked to quantify the likely extent to which such breakdowns will occur and the impact that they will have on productivity. The designers should also be asked to explain the issues associated with the look and feel of the packaging. If they believe that the thickness or the Drirap and the printing on the foil will impact the number of repeat purchases then they should be asked for evidence to support those views and their estimates of the results. Finally, the Board should make its final decision based on the commercial issues, ideally restricted to the cash flow implications of the competing arguments concerning Drirap. This will avoid wasting time on pointless arguments and will also avoid the sense that the Board has chosen one department over the other.

Non-financial indicators

The Board could inform the head of each support department that their performance, and that of their departments as a whole, will be measured in terms of a revised set of performance measures. If at present, departmental performance is tracked in terms of financial measures then the support departments will be at risk of being regarded as costing money to operate with little real consideration of the value that they provide. The process of identifying suitable non-financial performance indicators could start by discussing support department roles with their respective heads of department, which should provide some assurance that the Board understands what each department is expected to contribute. Non-financial indicators can then be developed to ensure that performance is measured and reported regularly For example, the maintenance engineers could be tracked on the basis of a range of measures, including the number of breakdowns and the number of staff hours spent on preventive maintenance.

The measures chosen to track the performance should be reported alongside any financial measures that Piping currently collates for its support departments. The Board should demonstrate its interest in the overall performance by asking for each department to report on its overall performance, as indicated by those results. Care should be taken to prevent dysfunctional behaviour by giving departments “scores” based on non-productive activity. For example, the product designers could be asked to report on the number of changes made to products and their packaging, but care must be taken to ensure that they are not being encouraged to make constant changes just so that they appear to be active. The performance figures could be accompanied by a commentary that explains the impact of the figures, perhaps by explaining why changes are under development or how past changes have improved.

Ideally, each support department’s performance indicators could be integrated with a plan for the department, which is designed to articulate with similar plans for other departments and the business as a whole. The creation of such a plan would demonstrate clearly that the Board is aware of each department’s contribution to the business, and so staff should feel appreciated. The plan would also encourage heads of the department by indicating that their roles were under review and that resources would be made available to ensure that those roles could be achieved. Departments could also be required to report on their progress towards meeting defined objectives. The need to do so will further demonstrate the Board’s interest in the work undertaken by the support departments. The reports will also allow the Board to further demonstrate that interest by seeking further explanation and clarification.

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

MANAGEMENT CASE STUDY

MAY 2022 & AUGUST 2022

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

Black tea

The management team at the Centre should not be held responsible for costs that they cannot control.

Holding the management team at the Middland Sales and Distribution Centre accountable for the volatility in the cost of black tea could prove demotivating because they have no control over the cost of the black tea purchased by Operations. This could lead to dysfunctional behaviour, including the possibility that the Centre will increase inventory when the price is low and run inventory down when prices increase. This could cause problems with holding costs and also with availability to meet consumer demand. The Centre's management team is likely to work on the basis that the Board will take an interest in their performance and that any variations, especially during the initial phase of becoming established, are likely to be noted and commented on. There is already a likelihood that uncontrollable variations in performance could arise because of currency movements, with a weak M$ creating a further increase in the cost to the Centre of its supplies of teabags.

It would be somewhat naïve of Piping's Board to interpret internal reports based on raw data, such as the actual cost to Piping of the black tea used to make the teabags sold in Middland. It would make far more sense to set separate performance indicators for the tea buyers within Operations and the management team of the Middland Sales and Distribution Centre. The former cannot be held responsible for variations in the market prices of black tea, but they should be held responsible for monitoring the market and buying tea in the most efficient way possible. The managers at the Centre should not be evaluated solely on the basis of the profit that they report. Piping's Board should consider other factors, such as consumer feedback and sales volumes. It would be logical to interpret the performance of the Centre's management team by basing reported costs on a budgeted manufacturing cost or by replacing actual costs charged with a rolling average.

One function of establishing the Centre as a profit centre is to enable Piping's Board to determine whether this venture is generating a positive contribution to overall profit. At the very least, Piping's Board needs to know whether the revenues generated from sales to Middland's retailers are sufficient to cover the manufacturing costs, plus shipping and local staffing and other operating costs. Adjusting the manufacturing costs to cancel volatility would risk creating a misleading impression of the contribution from these sales. The wholesale market for teabags in Middland may differ from that of Northlandia, and so the prices charged to retailers could be different. The Board needs to be aware of whether the management team at the Centre is capable of recovering all costs, even if they cannot be held directly responsible for the control of those costs.

Foreign distribution centre

The foreign subsidiary will prepare its financial statements in its home currency, the M$. Changes in the exchange rate between the M$ and N$ will have to be accounted for under the terms of IAS 21 *The effects of changes in foreign exchange rates*.

For consolidation purposes, the subsidiary's statement of profit or loss and other comprehensive income will be translated from M$ to N$ at the average rate for the year. This will mean that a strong N$ will lead to a smaller profit for the year when it is translated from M$, which will reduce the Piping Group's profit for the year. It could also mean that an element of volatility is introduced into the Group's earnings. Hopefully, the volatility in the exchange rate will mean that the highs and lows in the exchange rate cancel out over a year, and so the average rate will not change dramatically.

The subsidiary's assets and liabilities will have to be translated at the closing rate for consolidation purposes. Exchange movements will mean that opening net assets will have to be restated at the closing rate, which could introduce exchange differences. There will also be exchange differences due to the translation of profit at the average rate for the year and on goodwill on acquisition. The exchange differences will be taken to the foreign currency exchange reserve. This will not affect reported earnings, but it will have an impact of Group equity, with the possibility of a debit or credit balance.

The foreign currency exchange differences could be significant because they are based on closing rates, and so they will be subject to the volatility of the currencies. The balance on the reserve could fluctuate significantly from year to year, depending on the direction of the exchange movements that prevail as at the year-end. The shareholders may be concerned about the movements in their total equity and also about the impact on ratios based on equity (e.g. ROCE and gearing).

SECTION 2

Dysfunctional behaviour

There are effectively two separate issues that have to be considered with respect to transfer prices between Marketing and Distribution and the Centre: the sharing of profits on the transfer of finished products and the optimal use of output when there are shortages. Piping's latest financial statements were prepared before the Centre was acquired. The figures indicate a typical gross profit % of 1,376.5/3,080.5 = 45%. When production is constrained by shortages of black tea, which occurred recently, then it will be in the best interest of Marketing and Distribution to sell as many finished products as possible to retailers in Northlandia because it would be preferable to obtain a 45% markup rather than 5%. This behaviour may not necessarily be in the overall best interests of the Piping Group because it could undermine the confidence of the supermarket buyers in Middland, and so it could have an adverse impact on the prospects of this new business activity. The decision as to how best to use the available inventory when Piping faces a shortage should not be based on optimising the results of the Marketing and Distribution Department. It should be a matter for the Board to determine.

The sharing of profits between Marketing and Distribution and the Centre appears to be causing some resentment on the part of the former because Marketing and Distribution are being left exposed to fluctuations in the cost of materials, including black tea. Understandably, the management team at Marketing and Distribution was reluctant to supply the Centre, although it was unacceptable for them to take that attitude because the teabags would have been resold at their wholesale price, and so Piping should still have made a profit. The incident could suggest a lack of trust in the relationship between the managers in Marketing and Distribution and the Centre, which could lead to concerns about dysfunctional behaviour.

The situation facing Marketing and Distribution appears to suggest that two circumstances need to be considered. In the most common scenario, Marketing and Distribution can obtain all the teabags that it requires to meet demand, including demand from the Centre. Ocassionally, there is a shortage of one or more of the varieties of black tea used in Piping's blends, and this imposes a production constraint. Ideally, a transfer pricing arrangement could be applied across both circumstances without causing dysfunctional behaviour.

In circumstances when the selling division has the surplus capacity, the optimum transfer price is marginal cost. Switching from budgeted unit cost to actual cost would mean that Marketing and Distribution would never have to incur a loss on transfers to the Centre. This arrangement sometimes raises concerns that the selling division has no incentive to manage costs, but in this case, Marketing and Distribution is bearing the cost charged by Operations, which itself is buying black tea at auction in a market that is open and transparent, and so there would be little scope for overpricing tea that is required to supply the Centre.

On the rare occasions when Marketing and Distribution cannot obtain sufficient black tea to meet all demand, including demand from the Centre, the optimum transfer price is generally agreed to be marginal cost plus the opportunity cost of transferring. There will only be an opportunity cost if Marketing and Distribution are short of inventory and so the same model that optimises transfer pricing when there is a shortage would also optimise internal transfers when tea is plentiful.

The only possible adjustment would be to give Marketing and Distribution a small percentage markup in addition to marginal cost + opportunity cost so that the factory staff are given some credit for the profit being recorded by the Centre.

Pricing

Ideally, pricing should be based on the marginal cost to ensure goal congruence for the Piping Group as a whole. The price charged by the Centre may not fully recover all production costs at times when the market price of black tea is high. This arrangement may, however, be beneficial in the short term if supermarkets in Middland are protected from volatility in manufacturing costs because they might be reluctant to stock Piping Teabags if the cost price is likely to be variable. This, in turn, could threaten the Centre's viability.

The approach to pricing should consider the manner in which this particular market emerged. Middland is home to a fairly large population of Northlandian expatriates, who are keen to buy Piping Teabags as a reminder from home. It should be possible for supermarkets in Middland to sell Piping Teabags at a premium price because they will be regarded as a luxury purchase by local consumers. Rather than charge cost plus a markup, the Centre could set a premium selling price that reflects market demand and allows for the convenience for supermarkets of dealing with a local distributor rather than having to import teabags directly from Northlandia. Hopefully, this price will exceed the average wholesale price that would emerge on a cost-plus basis.

The Centre should be careful not to be too greedy in setting wholesale prices that could prove attractive to competitors such as Hottlow. If the market in Middland for Northlandian teabags could grow significantly because of demand from local consumers, then perhaps the Centre should set prices that are both attractive and avoid the risk of shortages if supermarkets are unwilling to pay premium prices when costs are high. This might be a time for the Centre to set prices that are intended to allow for strong market penetration, so that expatriates can enjoy their favourite tea, while encouraging their friends and neighbours to buy Piping Teabags.

SECTION 3

Project objectives

The project objectives are effectively the deliverables that the project is expected to achieve. The project team should regard the project objectives as goals to be achieved in the course of the project. In this case, the project objectives will have to be decided and communicated to the project team in detail because they are not clear. It should, for example, be made clear whether Piping's Board has already decided to acquire this plantation or whether the project team should compare it with any other plantations that are on the market. If there are multiple objectives, then the project team should be given clear guidance as to their relative importance so that they can decide which should take precedence. For example, if the project objectives include negotiating the purchase, the project team needs to know whether to acquire the plantation at the N$250m asking price or whether there should be an upper limit to the purchase price.

The project objectives should be sufficiently clear to enable the project team to be able to decide whether each has been accomplished. If not, the project remains incomplete. The Board should set specific goals that must be accomplished, with clarity as to which matters should be left to other managers or the Board. For example, the Board should make it clear whether the project goals include raising finance and entering into negotiation with potential lenders. The importance of individual goals and the extent to which their accomplishment is mandatory or simply desirable should also be communicated. The question of whether certain goals have been accomplished may be open to interpretation, and so the Board should clarify which criteria should be used to determine whether a goal has been completed. The project team should be set clear guidance on when and how to inform the Board of progress and possible failures to complete specific goals. It may be preferable to report partial success at an interim date and to seek feedback on whether to pursue an elusive goal than to delay submission until the final deadline with only slightly more progress towards completion.

The Board must ensure that the project goals are manageable. The project team should not be set any tasks that are beyond their control. For example, the ability of the project team to investigate the acquisition of this plantation will be affected by the extent to which Piping has reached an agreement in principle with the present owner and whether that owner is willing to cooperate. If the investigation is to be conducted without the assistance of the present owner and the plantation's management team, then the goals should be set accordingly. For example, the review of the plantation's finances might have to be restricted to the study of published financial statements. The project team may also have to be granted sufficient authority to negotiate and enter into agreements with parties involved in the negotiation. For example, it may be necessary to offer financial information to potential lenders in order to be taken seriously. The Board should meet with the head of the project team at the outset to seek feedback on what will be needed to achieve the project goals and the goals should be modified if those needs cannot be met in full.

Debt

The most immediate complication arising from the decision to borrow in N$ or E$ is that of security. Any lender who is asked to finance a N$250m investment will require security over assets to protect in the event of default. A Northlandian Bank might be reluctant to accept a fixed charge over the plantation itself because any legal action to take possession of the plantation might require the support of both the Northlandian and Eastlandian courts. Piping might not have alternative security that it can pledge because the company already has N$700m outstanding in existing loans, and many of the more valuable assets belonging to the company could already be pledged. There is a further concern that a Northlandian bank might have significant doubts about its ability to sell a foreign tea plantation. The assets itself is specialised and their sale will require an understanding of the local commercial real estate market.

An Eastlandian bank might be far more willing to accept a tea plantation as security because it should have far greater expertise when it comes to foreclosing against this asset and converting it into cash. It may, for example, have contacts in the tea growing industry. If the risks perceived by an Eastland bank are lower, then it may be possible to borrow more cheaply in E$ because lenders require compensation for the risks that they take.

Piping is an Northlandian company, and so its business is likely to be affected by the N$. For example, it prepares its financial statements in terms of N$, and so it will not have any translation gains or losses on an N$ loan. If Piping takes on a loan in E$, then its financial statements may show gains and losses arising from movements in the exchange rate between the N$ and E$.

One of the attractions of borrowing to raise finance is that the costs of doing so can be treated as an expense for tax purposes, which makes a loan inherently cheaper. It may be more difficult to obtain tax relief on the cost of borrowing in E$, especially if taking costs due to currency movements into account. If tax relief is not fully available, then the cost of debt will be higher.

SECTION 4

Business model

Piping defines value by considering the needs and wishes of consumers. In this context, the key issue is whether this process will deliver the flavour of black tea that is required to make Piping Teabags. In theory, the fact that the black tea that will be imported from Southland does not require blending should mean that Piping is better equipped to meet the needs of consumers.in terms of a consistent flavour that does not require the adaptation of the blend in every batch to achieve that. This may be complicated in the event that consumers discover that the tea is being manufactured using black tea from different sources and without the use of blenders to ensure consistency of flavour. If consumers believe that the tea no longer tastes the same, then they may be reluctant to continue buying it, even if expert blenders cannot detect a difference. There are psychological factors at work.

Piping creates value by using good quality materials for products and their packaging. There should be no difference in the packaging, and so the only question is whether the new variety of tea has an impact on consumers' perceptions of quality. The quality of tea may be difficult for Piping to evaluate. It may involve factors that are difficult to evaluate in any objective fashion. Consumers may have concerns about the strength of the tea or the length of time that a teabag must be brewed to achieve the required depth of flavour. Those factors will be difficult to evaluate at this stage because there are not yet any specific "Piping" bushes with which to experiment.

Piping delivers value through efficient distribution processes that ensure the availability of Piping Teabags. This process will alter the nature of inbound logistics, and so Piping's ability to ensure that production can keep up with demand. At present, Piping is forced to source black tea from several different countries in order to achieve the required blends, which could threaten the continuity of supply. The fact that the blend can be adjusted means that Piping need not depend on specific plantations because the blenders can make the necessary adjustments for slight differences in flavour. This new process will make Piping dependent on being able to obtain black tea from the one plantation at which these specific bushes will be grown. A major problem, such as plant disease or insect infestation, could leave Piping without crops until new bushes can be grown to maturity elsewhere.

Piping aims to capture residual value through supporting growers and controlling costs. There could be a risk of adverse publicity associated with Piping buying all of its black tea from a single plantation. It may be characterised as abandoning existing suppliers. The fact that all tea will be sourced from a single plantation will mean that Piping is no longer able to benefit from low prices when black tea is plentiful. It is unlikely that the plantation in Southland will feel it necessary to discount its prices. The reduction in production costs might enable Piping to pass on some of its savings in the form of lower prices, although that could be interpreted as an admission that there has been a decline in quality if it is passed on to consumers. There could, however, be scope for selling to supermarkets at a lower cost and hoping that volume increases because the supermarkets have a greater incentive to include Piping Teabags in special offers and price promotions.

Accounting for payments

The costs should be accounted for in terms of the requirements set out in IAS 38: *Intangible assets.* The most immediate question is whether the payments fall within the definition of an intangible asset, as set out in the IAS. In this case, the initial payment of N$150m may fall within that definition. In order to be an asset, the outlay has to result in a resource that is controlled as a result of past events and from which future expected benefits are expected to flow to Piping. It is, however, necessary for Piping to be able to demonstrate that it is probable that the expected future economic benefits will flow to the entity. The fact that Piping is paying N$150m for the creation of specific tea bushes to match its requirements implies that the company anticipates a future benefit from the outlay. If the likelihood of that benefit is more likely than not then it should be possible to recognise the cost as an asset.

The two payments of N$15m are essentially further expenditure on the asset and can be capitalised provided the recognition criteria continue to be met.

Piping must then consider the expected useful life of the intangible in order to determine the period over which the cost should be amortised. In theory, the process could be used into the indefinite future, and it could be argued that the cost should be carried forward without adjustment. This would be permissible under IAS 38, although it does sound like a rather optimistic treatment. Alternatively, the cost should be amortised over the foreseeable useful life. In either case, the asset should be reviewed for impairment on an annual basis.

The 2% royalty is a revenue expense which will be written off as it is incurred each year.

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

Management level case study – Examiner’s report

May 2022 – August 2022 exam session

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

General comments

The Management case study (MCS) examinations for May and August 2022 were based on a pre-seen scenario relating to Piping, a quoted company that manufactures packaged tea for sale to retailers. This is a long-established industry. Piping imports tea leaves from different countries and blends them in order to achieve a consistent flavour of the tea. Most of Piping’s sales are to retailers in its home country, who resell the tea to consumers. Some of Piping’s tea is exported.

Six variants were set on Piping:

- Variant 1: Piping’s new decaffeinated tea is causing some controversy.
- Variant 2: Piping is considering the acquisition of a tea plantation to grow its own tea.
- Variant 3: Piping is considering selling bottled tea as a cold soft drink.
- Variant 4: Piping faces competition from a foreign manufacturer that is exporting tea to its home country.
- Variant 5: Piping is considering the acquisition of a packaging manufacturer.
- Variant 6: Piping is considering opening an overseas distribution centre in order to increase export sales.

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

From the candidate’s perspective, the key to scoring well is to read and then answer the questions. The expectation is that candidates will be familiar with the context of the company and its industry from their prior study of the pre-seen. This is a manufacturing company that sells a consumer product that is regarded as an important line by supermarkets and other retailers. It is important to address the specific requirements set in each task. Higher marks are awarded to answers that are relevant and correct. Relevance and correctness are frequently judged in the context of the scenario, taking account of the nature of the business and the specific issues raised by the new information provided in the variant itself and the tasks set by the requirements.

Candidates frequently did not produce answers that were developed enough, especially in the August diet. An expanded bullet point list is unlikely to answer the tasks in enough depth to achieve a passing score. It is very important that candidates answer what is asked, where a discussion is asked for that should be a reasonably lengthy response that discusses the main issues in some depth.

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.
- short bullet point answers.

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

Variant 1 Comments on performance

Task 1

Piping sells decaffeinated tea as an alternative to its regular products. The company has been informed that a television documentary is to be broadcast that will criticise its decaffeinated tea on a number of factual grounds: decaffeinated tea contains fewer healthy antioxidants, the decaffeination process leaves tiny traces of caffeine and decaffeinated tea tastes different. Those criticisms are not particularly serious when placed in context. Piping only launched decaffeinated tea because of customer demand, and the shortcomings alleged in the documentary cannot be avoided.

The first subtask asked whether the decision to create decaffeinated tea implies a change in the manner in which Piping defines value in its business model, which is rooted in meeting customers' needs and wishes. Consumers had expressed a desire to buy decaffeinated tea, and Piping created a product in response to this, despite being aware of the limitations that will be broadcast in the documentary. This raises questions about the difficulties associated with meeting customer needs and wishes when those could prove contradictory or when customers express wishes that would cause unintended consequences if they were fulfilled. Level 1 answers tended to disregard the requirement and often discussed the importance of business models. Level 3 answers generally identified the possibility that there are often conflicts and trade-offs between customer needs and discussed the approach that could be taken to reconcile the impact of different needs so that damage could be minimised.

The second subtask asked about the major business risks that could arise from the sale of decaffeinated tea after the broadcast of the television documentary. Candidates offered a range of potential risks and most were relevant. Level 1 answers tended to describe the risks and often exaggerated the potential impact without offering adequate explanation or justification. Level 3 answers generally offered much greater clarity in their discussion of the risks, with a realistic justification for the potential impact.

Task 2

Piping spent N$87 million on the development of its decaffeinated tea. The development team was working to a very specific brief to create a decaffeinated tea and has done so. It did not, however, warn Piping's Board that it would not be possible to create a product that retained the flavour and antioxidants of the regular tea and was completely free of caffeine. Some Board members believe that they have been misled by the development team.

The first subtask asked whether the development team had acted appropriately. Candidates were expected to tease out the potentially conflicting arguments arising from the facts. The development team might argue that it has delivered a product that meets the design brief since the traces of caffeine fall within legal limits that permit the result to be sold as "decaffeinated". The Board is not entirely satisfied as there was no warning that Piping would remain open to criticism because of apparent shortcomings in the product. It could be argued that the Board should have been briefed on the concerns that have been raised by the producers of the television documentary. Level 1 answers tended to simply repeat the facts provided in the exhibit, with little attempt to develop the arguments relating to the development team's actions. Level 3 answers tended to offer arguments both for and against the possibility that the development team should have made a point of ensuring that the Board was fully briefed on the new product and the possibility that it would be open to criticism.

The second subtask dealt with the accounting implications of the criticisms voiced in relation to the N$87 million spent on developing the new product. The cost has already been capitalised and is being amortised over an expected useful life of 20 years, based on the information that was available to the Board before the forthcoming documentary alerted it to the possibility that the product may be less successful than had been hoped. Level 1 answers ignored the fact that the development costs had already been capitalised and discussed whether the N$87 million met the criteria for capitalisation. Level 3 answers responded on the basis that the capitalised costs may have to be the subject of an impairment adjustment or that the estimated life of the product could be shorter than the 20 years that were assumed. As required by the subtask, those candidates also explained the impact that a write-off or other adjustment would have on the interpretation of Piping's financial statements. Most candidates identified the figures that would change, but stronger answers went on to identify the ratios that would be adjusted and to discuss the implications for users of the financial statements.

Task 3

The documentary has not yet been broadcast. Piping's Board is considering creating an advertising campaign that will address the criticisms that will be directed at its decaffeinated tea. Hopefully, that will ensure that consumers have a better understanding of the advantages and disadvantages of drinking this tea, so they will be less likely to be discouraged by the documentary.

The first subtask asked candidates to identify the difficulties associated with the creation of this campaign and to recommend possible responses. This was generally answered well, with most candidates offering a logical discussion. Level 3 answers generally identified the major issues, such as the short timescale in which the work will have to be completed and offered a realistic response. Level 1 answers provided less detail.

The second subtask asked about the challenges associated with quantifying cash flows associated with the advertising campaign. Level 1 answers tended to focus almost entirely on the cost of the campaign, ignoring the fact that Piping's Board is taking this action in order to safeguard revenues, and so there is likely to be a cash inflow. Level 3 answers considered potential costs and benefits and provided sensible discussions of the challenges associated with predicting both.

Task 4

Piping has identified a plantation that grows a unique shrub which has leaves that make tea that is naturally low in caffeine. Therefore, this makes it possible to sell a decaffeinated tea that has fewer of the shortcomings of the current product.

The first subtask asked about the challenges associated with setting an increased selling price for this tea. Level 1 answers described the respective advantages and disadvantages of the main pricing strategies. Level 3 answers discussed the problems associated with predicting consumer response to tea from this shrub. Candidates at this level generally highlighted specific concerns about the potential popularity of the new tea.

The second subtask dealt with the reporting of the arrangement with the plantation in Piping's integrated report. The quality of answers varied depending on the extent to which candidates discussed the implications of integrated reporting. Level 1 answers were generally very descriptive and defined the headings under which this arrangement might be reported. Level 3 answers offered a reasoned discussion of the manner in which Piping might discuss this relationship. Those candidates often identified a number of wider issues, such as the fact that Piping does not generally have a close relationship with plantations. This arrangement would create an opportunity to support the welfare of plantation workers.

.

Variant 2 Comments on performance

Task 1

Task 1 presents candidates with an extract from Board minutes describing an opportunity to acquire a tea plantation complete with all artifacts and, most importantly, a new variety of tea plant capable of producing a new high-end luxury and medicinally beneficial tea. Candidates were invited to discuss the challenges associated with predicting cash flows from this venture in order to determine NPV for the proposed investment.

Level 3 responses were able to discuss a number of factors impacting Piping on this acquisition, in particular, the lack of familiarity that Piping has with running a plantation. Firstly, if prevailing weather conditions across the production areas are good and harvest is high, the expected market price will fall, and Piping will have to absorb any relative losses comparing their production cost to market price. Secondly, Piping now has to bear all the costs and responsibilities relating to running the plantation itself, a completely new venture for them, and they are forced to rely on local management doing an adequate to good job. Better candidates picked out the fact that the current owner inherited the plantation and has never taken an active role Level 3 responses were generally more aware of the competitive factors and difficulties of successfully launching new varieties, flavours and brands of tea into a well-established traditional market. Level 2 responses tended to show awareness of many of the above factors but simply failed to develop and discuss them. Level 1 responses tended to be focussed purely on single elements of the above.

In the latter part of task 1, candidates were asked to consider the characteristics of debt financing for the proposed acquisition.

Level 3 responses were generally more aware of the competitive factors and difficulties of successfully launching new varieties, flavours and brands of tea into a well-established traditional market. Level 2 responses tended to show awareness of many of the above factors but simply failed to develop and discuss them. Level 1 responses tended to be focussed purely on single elements of the above.

In the latter part of task 1, candidates were asked to consider the characteristics of debt financing for the proposed acquisition.

Level 3 candidates showed awareness of potential difficulties associated with dealing with assets which are not easily realised by a bank as security. The ownership of a plantation or assets within that environment may have little to attract a non-specialist finance to consider it as collateral. Piping may therefore have to rely on an existing asset base which may already have constraints due to existing borrowing.

Most candidates were able to give general answers on the profile and benefits of debt financing but were separated on the degree to which they applied that knowledge to the factors presented by the case in hand. Level 2 responses tended to show some awareness of the potential difficulties presented by the scenario but failed to develop any discussion, whereas level 1 responses tended to talk in very general terms about debt financing without any application to the task.

Task 2

Task 2 asks candidates to discuss the challenges associated with creating an effective team from the acquired plantation managers which will assist in Piping's development and manufacture process.

Level 3 responses differentiated themselves by showing an awareness of the entirely different spheres of operation of the two elements of Piping's and Sloping's management teams, neither having any real interaction or overlap with the other. The operation of growing tea and managing a plantation is quite different to the operations involved in the production and marketing of tea bags. Better candidates also highlighted potential cultural differences between the two groups of management and that Sloping's management in particular may feel extremely vulnerable in having been taken over in the first instance and not having any real knowledge of Piping's ethos and challenges in the open marketplace.

Level 2 and level 3 responses were generally aware of the difficulties in releasing teams of individuals across international boundaries in a productive way to enable to transfer and share knowledge. Level 1 responses merely mentioned theory around team formation and membership; Belbin identities and forming storming etc.

Task 2 asks candidates to consider how foreign exchange movements will affect the Group financial statements. This was answered well by most candidates, as they recognised that a weakening $E would decrease costs for Piping overall and that group profitability would be seen to improve. Better candidates highlighted that this was not due to any operational changes or improvements and that a return swing on exchange rates would just as easily have an entirely adverse effect.

Level 3 responses were able to detail the treatment of net assets on closing year-end rates and were aware that translation losses would be posted to other comprehensive income. Level 2 and level 1 responses were either very vague or failed to mention these points.

Task 3

Task 3 presents candidates with a dilemma that high labour costs, particularly in the Botany Laboratory, are threatening the profitability of the acquisition. Candidates are asked to consider profit optimisation through new products and promoting sustainability issues in order to facilitate the management of the issues of high staffing in the lab and increased harvesting costs on the plantation.

Level 3 responses once again applied their answers to the scenario and discussed the appropriate issues. Good candidates considered market research and product testing against different consumer populations in order to develop different aspects of the mature markets and any potential new markets which might be targeted with different messaging. Level 3 candidates recognised that pickers from replanted areas could be redeployed into the new variety without significant disruption on staffing levels, thus meeting the increased demands described in the scenario.

Level 2 responses recognised some of these points but generally did not develop and discuss them in much depth, while level 1 responses were rather brief, dealing mostly with redundancies and cost cutting.

Task 3 concludes with a request to consider appropriate styles of leadership to be applied to Sloping Tea.

Level 3 responses considered that a participative management style and good communication were of paramount importance to engage and encourage local management to share and grow ideas and knowledge. Level 2 answers were also advocates of participative management styles but did not develop this idea as effectively, while level 1 responses tended to give brief and sometimes bullet point list of issues relating to management without application to the scenario.

Task 4

Task 4 presents candidates with the possibility that medicinal health benefit claims can be made from drinking the new variety tea and to consider whether this represents disruptive possibilities for the tea industry.

Level 3 responses largely discounted the disruptive possibilities of the new variety of tea on the basis of it being a single product in a very large market. They acknowledged that Piping may have a lead on the rest of the industry on forging a new element to be considered in the choice of tea selection by the consumer but were able to highlight that this did not provide a game changing difference. Health giving quality claims are likely at best to redirect a small portion of tea drinkers to adjust their drinking habits and are unlikely to attract a significant proportion of new customers.

Level 3 candidates pointed out that, with a saturated traditional market, a large proportion of consumers are likely to have established preferences which will be difficult to dislodge and that, while the new variety may create a niche following among some health-conscious consumers, the majority of the market was more likely to be unperturbed and that the product by definition was therefore not disruptive.

Level 2 answers were largely in line with these same arguments but less able to provide evaluation of the background factors in reaching their conclusions. Level 1 answers tended to be very brief and were the most likely to claim the new variety as disruptive, but without substantial reasoning.

The paper concludes with considerations of transfer pricing between Sloping and Piping for all the ordinary tea produced on the plantation. Level 2 and level 3 responses were able to differentiate the issues in the second part of the question, which was to highlight difficulties in determining market price and recommending how they might be overcome.

Good level 3 responses highlighted the volatility of auction pricing and the variation there would naturally be between different grades or qualities of tea sold. Good answers also considered other external factors largely outside Sloping's control such as prevailing weather and overall market capacity whether in excess of market demand or in times of shortfall.

.

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

Variant 3 Comments on performance

Task 1

Task 1 began with a proposal that Piping should create a range of ready-to-drink teas. These would be sold in bottles by retailers and would be consumed cold, using the brand name, Piping Go. Hottlow manufactured a similar product five years ago but withdrew this after a year following disappointing sales.

The first subtask asked the candidate to identify and evaluate how manufacturing and selling ready-to-drink-tea fits with Piping's business model.

Level 3 responses were often well focussed, with many using defining/creating/delivering and capturing residual value to structure their answer. Answers recognised both negative and positive factors, for example, that there has been no feedback from consumers indicating a wish for ready-to-drink tea. Recognising a range of factors helped to support well justified evaluation. Good use was made of the information on Piping's business model provided in the pre-seen material. Level 2 responses were often more narrowly focussed and often only identified the positive aspects of the proposal and provided limited evaluation with little explanation. Level 1 answers were often brief and limited in scope, with some focussing on explaining Piping's business model rather than the impact of the ready-to-drink proposal.

The second subtask asked for identification and explanation of the product and product reputation risks that could arise by selling Piping Go ready-to-drink tea.

Level 3 responses discussed a range of risks, including concern that retailers might not wish to stock Piping Go, that consumers may not be interested in the product and that there could be an adverse impact on Piping's brand image. Answers were clearly structured and well explained. Level 2 responses often identified fewer risks and provided less detailed discussion, with many lacking clarity around the categorisation of product and product reputation risks. Level 1 responses presented little evaluation and a limited discussion of risks.

Task 2

Task 2 explained that the Board has decided to proceed with the new Piping Go product and an initial plan has been prepared.

The first subtask asked the candidate to recommend with reasons how the return from Piping Go over its life cycle should be maximised.

Level 3 responses often considered costs, time to market and length of life cycle, making recommendations which were clearly specific to Piping Go and the scenario presented. Recommendations were well explained. Some level 2 answers explained product life cycles in some detail but did not focus specifically on Piping Go or provide sufficient explanation of how the return could be maximised. Others covered length of cycle well but either ignored or gave little attention to costs and time to market. Level 1 answers often lacked explanation and identified issues without recommending how they should be managed in order to maximise return.

The second subtask asked candidates to discuss the characteristics of debt and equity that are relevant to the decision as to how Piping should fund the investment required for Piping Go.

Level 3 answers demonstrated good knowledge of the characteristics of debt and equity and related these well to the scenario with clear explanations, for example, exploring the availability of security for debt and potential delays to the project which could be caused by the time required to raise equity. Level 2 responses often showed knowledge of the characteristics of debt and equity but provided very limited discussion relating these to the scenario. Level 1 answers identified some characteristics but did not discuss them in the context of the funding of this project.

Task 3

In task 3, candidates were informed that production of Piping Go will commence in less than a month and a large order has been received from Sellrite, an existing major customer. The price reflects a discount due to the size of the order, but if the full amount is not taken over a 2-year period, then the discount will no longer apply. The terms of the order require Piping to deliver the product in batches, with the size and timing of those deliveries to be delivered by Sellrite.

The first subtask asked candidates to identify the challenges associated with determining the correct accounting treatment for the order and to recommend responses.

Level 3 responses showed knowledge of the IFRS 15 and the conditions that have to be met in order for a contract to be deemed to exist and identified the performance obligations associated with the contract and the difficulties these posed in this scenario. They provided well justified recommendations for the correct treatment, in that revenue should be recognised proportional to the deliveries. Level 2 responses often correctly identified that the revenue cannot all be recognised immediately, but justification for this treatment often lacked detail. Level 1 responses often identified IFRS 15 but did not interpret this with accuracy and discussion of the accounting treatment was often very confused.

The second subtask asked candidates to recommend with reasons the approach that Piping could take to renegotiating the delivery schedule for this order of Piping Go.

Level 3 solutions discussed an appropriate approach, recognising that the current contract terms are largely in favour of Sellrite, which will have little incentive to agree to changes and making sensible recommendations to overcome this. Level 2 answers often discussed the stages of a negotiation but did not fully reflect the specific difficulties faced by Piping. Level 1 answers briefly described an approach to negotiating, but with little discussion or justification.

Task 4

In task 4, a senior management meeting has agreed that Piping Go must buy all its blended tea from Piping's Marketing and Distribution Department, with the transfer price set at market value. Piping Go will require its own management team, with some managers transferred from the existing Piping factory and others recruited externally.

The first subtask asked candidates to discuss the advantages and disadvantages of using market price as the transfer price of the blended tea that will be supplied to Piping Go by Piping's Marketing and Distribution Department.

Level 3 responses showed knowledge of transfer pricing and discussed both the advantages and disadvantages of using market price, for example, giving the Board a clear understanding of the profit or loss made by Piping Go but potentially leading to disputes about what the market price should be and how costs associated with storing and handling the tea should be treated. Level 2 answers often showed knowledge of transfer pricing but did not focus sufficiently on the use of market pricing, instead explaining all the theoretically possible methods. Advantages of market pricing were often identified but not disadvantages. Level 1 answers often listed transfer pricing strategies and mentioned goal congruence and conflict but provided scant discussion.

The second subtask asked candidates to discuss the problems that will be faced in ensuring that there is a competent management team at Piping Go and to recommend responses to those problems.

Level 3 answers recognised the practical problems this presents, such as existing managers being unwilling to transfer and lacking expertise with the new product. They made appropriate recommendations to overcome these. Level 2 answers identified some issues, but recommendations were often poorly justified. Level 1 responses briefly identified issues and responses but did not explore these in sufficient detail.

.

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

Variant 4 Comments on performance

Task 1

Piping's largest retailer plans to place a large order with a cheaper rival tea manufacturer that plans to enter the Northland market. In the short term, the retailer intends to reduce its regular purchase from Piping in order to create space to store and display the cheaper rival's inventory.

The first subtask asked candidates to recommend three areas of Piping's value chain that should be reviewed in response to the threat posed by the entrant. A significant minority of candidates responded to this requirement by discussing Piping's business model rather than the value chain as asked. Marks were awarded as appropriate to such responses. Level 1 answers tended to describe the value chain and make limited reference to the manner in which Piping is delivering value or how the company might offer improvements. Level 3 answers tended to focus on practical ways in which the value chain might be adapted to Piping's benefit. It was noticeable that level 3 answers offered recommendations that were both practical and realistic, identifying ways in which Piping might improve its competitive position while retaining the ways in which it creates wealth.

The second subtask asked about the relative bargaining power of Piping in comparison to the major retailer that is planning to try a new brand of tea. Level 1 answers often ignored the fact that the question acknowledges Piping's relatively weak position and attempted to suggest ways in which Piping might prevent the trial from occurring. Level 3 answers were generally more realistic, pointing out that retailers often favour a tea supplier in order to offer a cut-price offer and that such events are an inevitable part of doing business in this industry. Those answers were often developed to explain the logic of the candidate's position.

Task 2

The overseas competitor had previously sold tea in its home market, but it appears to enter Piping's home market, setting its prices aggressively to undercut Piping by 60%. That is clearly a matter that the Board will have to consider carefully and decide whether to respond to this competitor.

The first subtask asked if the competitor's financial statements would be useful in deciding whether it would be capable of sustaining the low selling price of its product. The exhibit provided some background information about the company and stated that the company prepared its financial statements in accordance with IFRS. The exhibit provided some figures from the financial statements and some ratios. Level 1 answers often provided an analysis that focussed exclusively on the figures provided in the exhibit. Level 3 answers generally referred to the wider benefits that could be obtained from reading and analysing the financial statements. Many level 3 answers also identified the need to consider information that was not included in the financial statements.

The second subtask asked whether Piping should respond to the competitor's aggressive pricing by reducing its own selling prices. Most candidates offered reasoned arguments that were generally against that suggestion (although logical arguments in its favour were awarded marks on their merits). Level 1 answers were generally superficial, with little support for the candidate's recommendation. Level 3 answers offered stronger recommendations.

Task 3

Piping's Board is considering relocating the company's factory to the competitor's home country. Wages are lower, and good quality tea can be purchased locally rather than having to import it. The Board seeks advice about some implementation issues arising from this possibility.

The first subtask asked about difficulties associated with predicting cash flows to incorporate into a net present value (NVP) calculation relating to the proposed relocation. A significant minority of candidates went beyond the requirement and wrote at length about NPV in general, discussing problems such as determining the required rate of return for the investment in relocating. Level 1 answers generally offered little discussion of the estimation of cash flows. Level 3 answers focussed on cash flows and identified a wide range of issues that drew directly on the scenario. For example, highlighting concerns about currency movements.

The second subtask asked about the funding decision, inviting candidates to discuss the characteristics of debt and equity and the relevance to choosing whether to use debt or equity to finance the relocation. Answers were generally relevant, although some candidates went into detail about peripheral matters such as different types of preference shares. Level 1 answers tended to offer relatively superficial descriptions of debt and equity. Level 3 answers went into greater detail and frequently offered a convincing recommendation as to either debt or equity.

Task 4

Piping is close to completing the purchase of a factory in the competitor's home country.

The first subtask raises concerns about the reluctance of HR staff at Piping's Head Office to participate in making factory staff in the existing factory redundant. Candidates were asked to recommend a response to the conflict between the Board and the HR Department. Level 1 answers were often summaries of study texts, including responses that would do little or nothing to help. For example, holding social events for the HR staff would be unlikely to help them overcome their reservations. Level 3 answers were generally much more realistic, identifying reasons for the reluctance and suggesting responses.

The second subtask asked about stress tests that might be applied to the operations at the new factory. Most candidates were aware of stress testing and offered relevant arguments about its potential relevance to the scenario. Level 1 answers were often quite brief and simply made insufficient points. Level 3 answers offer much more detail and advised the Board on the usefulness of stress testing in the situations described in the question.

.

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

Variant 5 Comments on performance

Task 1

Task 1 began with the news that Sellrite Supermarkets has reduced this month's order of Piping teabags in order to sell half price Hottlow teabags. Consumer feedback indicates that tea drinkers perceive little difference between leading tea brands.

The first subtask asked the candidate to evaluate the implications for Piping's business model of the consumer feedback on buying habits.

Level 3 responses were often well focussed, with many using defining/creating/delivering and capturing residual value to structure their answer. They did not only describe Piping's business model but also explored the potential impact of the feedback. For example, the need to reinforce the fact that Piping makes a good quality product and the importance of meeting the needs of supermarkets.

Level 2 responses often described the business model well but were less focussed on the feedback, recognising that it would have some impact but making fewer specific links.

Level 1 answers were often brief and limited in scope, with some focussing on explaining Piping's business model rather than the impact of feedback.

The second subtask asked candidates to discuss the impact that holding inventory as a result of the decision to manufacture at a constant rate will have for Piping's accounting ratios.

Level 3 responses identified that the decision to manufacture at a constant rate would impact both profitability and liquidity ratios. For example, increased costs associated with storing the larger inventory would reduce profits and holding more inventory would not affect the current ratio but would tie up cash in raw materials and finished goods.

Level 2 responses often omitted the impact on profits or were not quite accurate in their assessment of the impact on ratios.

Level 1 responses recognised that there would be an impact on ratios but were often unclear or incorrect as to the results of this. Discussion of profitability impact was often absent or incorrect.

Task 2

Task 2 explained that Piping is to invest in Yumsave, a packaging company which is developing Drirap, a new type of foil that can be used to package Piping's teabags. This may help Piping gain market share because Drirap will be more environmentally friendly than the current packaging.

The first subtask asked the candidate to discuss the arguments for and against treating Yumsave as an associate of Piping and identify the key accounting problems that will be created for Piping if Yumsave is an associate.

Level 3 responses demonstrated knowledge of the IAS28 rules on determining whether or not Yumsave is an associate, particularly needing the power to participate in decision making but not control. Candidates discussed the fact Piping only holds 15% of Yumsave shares, not 20%, but can nominate a director to the Board. Candidates also discussed the potential for Yumsave to issue more shares and thus reduce Piping's percentage of ownership. They also explained potential accounting problems such as the need to adjust for unrealised profit on inventory held by Piping but sold by Yumsave.

Level 2 answers were generally less accurate on the IAS28 rules but recognised the issues of control and participation in decision making.

Level 1 answers often misinterpreted the question and discussed whether the decision to invest in Yumsave was a good idea, exploring the business issues and sometimes using the suitability feasibility acceptability model. They often did not mention accounting problems.

The second subtask asked candidates to discuss the challenges that will be faced by Piping in maximising the return from its use of Drirap over its life cycle.

Level 3 answers demonstrated good knowledge of the product lifecycle and explored how the return could be maximised, for example, by designing costs down, bringing the product to market as speedily as possible and extending the life cycle. They often recognised that some of this is controlled by Yumsave, not Piping.

Level 2 responses often made relevant points but sometimes without specific reference to the life cycle of the product.

Level 1 answers identified some issues but did not develop their discussion or relate their points to the product's lifecycle.

Task 3

In task 3, candidates were informed that the purchase of Yumsave shares has gone ahead, and Piping is planning the launch of the new Drirap packaging. This will mean cancelling orders of the foil currently used to package Piping teabags.

The first subtask asked candidates to identify and evaluate three major business risks associated with the agreement with Yumsave and the switch to Drirap.

Level 3 responses made a good choice of three different major business risks, for example, operational risks arising from the need to modify machinery to cope with Drirap, reputation risks if the packaging does not work as intended and risks arising from the relationship between Piping and Yumsave. The likelihood and impact of the risks was effectively explored.

Level 2 responses were less well developed, and some discussed more than three risks in less depth, or fewer than three.

Level 1 answers identified risks but did not provide the evaluation required.

The second subtask asked candidates to recommend with reasons a suitable membership of a team to manage the transition from the current packaging to Drirap.

Level 3 solutions discussed an appropriate membership of the team, either recommending named members or exploring the roles which needed to be filled. They identified an appropriate range of members and justified their choices.

Level 2 responses often recommended appropriate members of the team but did not justify their choices.

Level 1 responses often discussed teams in very general terms, talking about the stages of team formation and the roles that need to be filled in any team, rather than addressing the specific team to be created in this scenario.

Task 4

In task 4, the preparation for the switch to Drirap has revealed conflicts between the Maintenance Department and the Design Department. Maintenance wish to use a thick Drirap foil which will be less likely to jam the machinery, but Design wishes to use a thinner foil which will be more pleasant for customers to use.

The first subtask asked candidates to recommend with reasons how the conflict between the two departments could be managed.

Level 3 responses offered detailed suggestions as to how the conflict could be managed and justified these well. They made specific references to the issues presented by the scenario, for example, suggesting consulting with Yumsave to see if a compromise on the thickness of the foil is feasible.

Level 2 responses were often much more generic, providing valid advice on conflict management in general but not referring to the specific issues faced by these two departments.

Level 1 responses were often restricted to theoretical points about conflict management and were generally very brief, identifying issues without explaining them or justifying their recommendations.

The second subtask asked candidates to explain the issues that should be considered when designing non-financial performance indicators that will be used to demonstrate the Board's interest in and appreciation of the work done by support departments such as Design and Maintenance.

Level 3 answers explored the potential impact of performance indicators on motivation and also the need for the Board to demonstrate an interest in the work of the departments. Discussions were detailed and showed a clear understanding of the issues.

Level 2 discussed the issues but in less detail, sometimes focussing on providing a list of potential performance indicators rather than explaining what should be considering when designing them.

Level 1 responses briefly identified issues and responses but did not explore these in sufficient detail.

.

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

Variant 6 Comments on performance

Task 1

Task 1 begins with a proposal to open a new Sales and Distribution centre in neighbouring Middland. Candidates were asked to discuss whether that centre should not be evaluated on factors affected by the volatile nature of black tea prices.

Level 3 responses were able to develop both sides of the argument using the factors provided in the scenario. Good responses included the evaluation of possible dysfunctional behaviours creating additional hidden costs and possible quality problems in the longer run and that behaviour patterns initiated during the set-up period of a new centre should be carefully managed so as not to establish long-term issues which would need significant management time later to resolve. Level 3 answers were also more inclined to view the wider picture from the needs of Piping's Board in that detailed analysis needs to be possible to establish exact profitability when all costs are taken into account. Level 2 answers generally had some of these points but were either less developed in presenting both sides of the discussion or less complete in the width of subject areas covered. Level 1 answers tended to say very little.

Task 1 closed with a requirement to discuss the impact of acquiring the centre as a 100% owned foreign subsidiary on the interpretation of Piping's published financial statements.

Overall, this was well answered with fairly basic theory applied in a relatively simple scenario. Level 3 answers were easily differentiated by their ability to portray the process facts and provide the "Interpretation" factors requested in the question, while level 2 answers tended to provide the process with less insight and level 1 tended to be brief and sometimes lacked insight.

Task 2

Task 2 moves the scenario forward 4 months, and the centre has been fully operational and seemingly performing well, however, problems have started to arise due to volatility of supplies and conflict with internal transfer pricing. Candidates were requested to evaluate the risk of dysfunctional behaviour associated with transfer pricing based on budgeted costs and to recommend alternatives.

Level 3 responses were able to apply theory to the complex scenario presented and were able to explain both the sources of conflict and present good arguments to resolve them. Level 3 candidates were able to explore the wider situation, giving good reasons to back up their evaluations. Level 2 responses tended to have good grasp of the basic facts but explored the situation presented in less depth. Level 1 responses had basic ideas on transfer price conflict but overall were unable to present solutions other than deferring to senior management to step in.

Task 2 goes on to request a discussion on pricing policies, based on transfer plus markup. Level 3 responses were able to look at the wider market and product positioning within the market and to suggest that pricing based on market demand and customer profiles can be maintained at a higher luxury level with the correct marketing and promotions. Level 2 responses tended to give a reasonable assessment of pricing alternatives but with less integration and connection with the scenario presented, while level 1 responses tended to approve the cost plus scenario without giving much discussion about other pricing policies.

Task 3

Task 3 highlights a possibility to acquire a plantation in order to secure supplies of black tea that has volatile pricing due to local weather conditions. Candidates were asked to discuss the manner in which the Board should set up and communicate the project objectives for a team which would be appointed to investigate the commercial logic of acquiring and taking control of the plantation.

Level 3 responses quickly summarised the principles of project deliverables and proceeded to clarify these deliverables into an objective setting within the scenario, which had been deliberately left ambiguous. Level 3 responses were able to highlight the need for clarification and agreement on width of scope, existing decision points, possibilities for alternatives, definition of success criteria, communication process including ongoing progress reporting, snagging and difficulty management. Level 2 answers tended to be prescriptive and discussed goal setting in a much more simplistic way, tending to be generic to projects with only basic application to the scenario. Level 1 responses were rather brief and covered basic project process and goals often without reference to the scenario.

Task 3 concluded with a request to discuss the characteristics of debt that would help decide whether to borrow the cost of the plantation from a lender in Piping's homeland or the target acquisition territory.

Level 3 responses were able to differentiate clearly between advantages and disadvantages presented by either scenario; borrowing locally where Piping are based where the lender has better knowledge of Piping or the target acquisition territory. Level 3 answers also dealt fairly comprehensively with risk management, problems of providing security, existing debt structure, tax advantages and currency fluctuation. Level 2 responses essentially had some of these issues but often in less depth or without proper application to the scenario, while level 1 responses tended to focus on the characteristics of debt and failed to differentiate between the lender locations.

Task 4

Task 4 presents an opportunity for acquiring and controlling a new patented botanical process to manipulate the flavours presented by the tea crop. Candidates were asked to discuss the implications that this would have on Piping's business model.

Level 3 responses were able to give good discussion of the adjustments which would take place in Piping's define, create, deliver, capture value business model, according to the application of the new tea source. This generally discussed risk and opportunity in the different aspects of the model and highlighted the wider market opportunities presented by the new patented process. Level 3 responses also generally considered the effect of the process coming under the control of a competitor, which level 2 and 1 broadly failed to do. Level 2 answers were also generally well structured but tended to have less depth of discussion or application of the specific scenario presented. Level 1 answers were often unstructured and failed to cover all areas in any depth.

Task 4 concluded with a request to discuss the difficulties associated with accounting for the payments to the University and to recommend appropriate treatment.

Most candidates answered this question well. Level 3 responses were more detailed and accurate, giving a precise interpretation of IAS38 for the definition of Intangible assets against the scenario presented and showing that the initial and immediate lump-sum payments qualified for capitalisation, while the royalty was an expense. Level 2 responses were less precise or omitted some issues sometimes, mistakenly taking the two lump-sum payments as expense without good argument. Level 1 answers tended to be unsure of some of the details or the rules for application were ill defined.

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

Management Level Case Study May 2022–August 202

Marking Guidance

Variant 1

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Management/Gateway Case Study [May - August 2022].

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, and markers are subject to extensive training, standardisation activities and ongoing monitoring to ensure that judgements are being made correctly and consistently.

Care must be taken to not 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.

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

- 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.

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

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

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

SECTION 1			
Task (a) Recommend with reasons whether we should change the focus when defining value in our business model away from "the needs and wishes of consumers". Consider this in the context of the criticism that we now face because of our response to the demand of decaffeinated tea.			
Trait			
Recommendation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes focus	**1**
	Level 2	Discusses change of focus	**2-3**
	Level 3	Offers full discussion of focus	**4-5**
Reasons	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Offers some explanation	**1**
	Level 2	Justifies recommendation	**2-3**
	Level 3	Offers full justification of recommendation	**4-5**
Task (b) Identify and discuss the impact of three major business risks that will arise from Piping's continuing sale of decaffeinated tea after the broadcast of the documentary.			
Trait			
1st risk	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies risk	**1**
	Level 2	Discusses likelihood and impact	**2-3**
	Level 3	Discusses likelihood and impact with good justification	**4-5**
2nd risk	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies risk	**1**
	Level 2	Discusses likelihood and impact	**2-3**
	Level 3	Discusses likelihood and impact with good justification	**4-5**

3rd risk	Level	Descriptor	Marks
		No rewardable material	**0**
	Level 1	Identifies risk	**1**
	Level 2	Discusses likelihood and impact	**2-3**
	Level 3	Discusses likelihood and impact with good justification	**4-5**

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

SECTION 2			
Task (a) Evaluate Moulay's argument that the development team from Piping's Product Development Department had acted appropriately.			
Trait			
Appropriately	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Argues in support of team	**1-2**
	Level 2	Offers full argument in support of team	**3-5**
	Level 3	Offers full argument in support of team with justification	**6-7**
Inappropriately	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Argues against team	**1**
	Level 2	Develops argument against team	**2**
	Level 3	Develops argument against team with justification	**3**
Task (b) Discuss the appropriateness of the continuing treatment of the N$87 million capitalised development costs in the financial statements and explain the implications for the financial statements of any changes to this treatment that you consider necessary.			
Trait			
Issues	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies some issues	**1-2**
	Level 2	Describes accounting issues in detail	**3-5**
	Level 3	Describes accounting issues in detail with good justification	**6-8**
Implications	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Refers to IAS 38	**1-2**
	Level 2	Recommends appropriate treatment	**3-5**
	Level 3	Recommends appropriate treatment with good justification	**6-7**

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

SECTION 3			
Task (a) Identify the difficulties associated with planning the Board's proposed project and recommend how they might be overcome.			
Trait			
Difficulties	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes planning	**1**
	Level 2	Identifies difficulties	**2-3**
	Level 3	Identifies difficulties with justification	**4-5**
Response	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Offers some solution	**1**
	Level 2	Offers relevant solution	**2-3**
	Level 3	Offers relevant solution with justification	**4-5**
Task (b) Evaluate the challenges associated with identifying and quantifying the cash flows associated with the advertising campaign in order to determine its net present value (NPV) and suggest solutions. Consider both the initial investment and the subsequent cash flows.			
Trait			
Challenges	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes general challenges	**1-2**
	Level 2	Identifies challenges from scenario	**3-5**
	Level 3	Identifies challenges from scenario with justification	**6-8**
Addressing	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Suggests responses	**1-2**
	Level 2	Suggests effective responses	**3-5**
	Level 3	Suggests effective responses with justification	**6-7**

SECTION 4			
Task (a) Discuss the challenges associated with deciding whether Piping could achieve a higher price for the sale of decaffeinated tea made from the leaves described in Debi Sarkar, Chief Operating Officer's, email.			
Trait			
Suitable	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes the nature of premium pricing	**1**
	Level 2	Offers arguments in favour	**2-3**
	Level 3	Offers arguments in favour with justification	**4-5**
Unsuitable	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes shortcomings	**1**
	Level 2	Offers arguments against	**2-3**
	Level 3	Offers arguments against with justification	**4-5**
Task (b) Recommend with reasons the manner in which Piping should disclose its arrangement with the plantation under intellectual capital, social and relationship capital and natural capital in the Group Integrated Reporting (<IR>) report.			
Trait			
Intellectual	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines capital	**1**
	Level 2	Makes relevant recommendation	**2-3**
	Level 3	Makes relevant recommendations with justification	**4-5**
Social & relationship	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines capital	**1**
	Level 2	Makes relevant recommendation	**2-3**
	Level 3	Makes relevant recommendations with justification	**4-5**

	Level	Descriptor	Marks
Natural		No rewardable material	**0**
	Level 1	Defines capital	**1**
	Level 2	Makes relevant recommendation	**2-3**
	Level 3	Makes relevant recommendations with justification	**4-5**

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

Management Level Case Study May 2022 - August 2022

Marking Guidance

Variant 2

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Management/Gateway Case Study [May - August 2022].

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, and markers are subject to extensive training, standardisation activities and ongoing monitoring to ensure that judgements are being made correctly and consistently.

Care must be taken to not 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.

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

Summary of the core activities tested within each sub-task

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

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

SECTION 1			
Task (a) Discuss the challenges associated with predicting the cash flows from operating Sloping Tea as a 100% subsidiary in order to determine the net present value (NPV) of this investment.			
Trait			
1st challenge	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes challenge	**1**
	Level 2	Discusses challenge	**2-3**
	Level 3	Discusses challenge with good evaluation	**4**
2nd challenge	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes challenge	**1**
	Level 2	Discusses challenge	**2-3**
	Level 3	Discusses challenge with good evaluation	**4**
3rd challenge	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes challenge	**1**
	Level 2	Discusses challenge	**2-3**
	Level 3	Discusses challenge with good evaluation	**4**
4th challenge	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes challenge	**1**
	Level 2	Discusses challenge	**2**
	Level 3	Discusses challenge with good evaluation	**3**

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

Task (b) **Discuss** the characteristics of debt that would affect its suitability as a means of financing the acquisition of Sloping Tea.			
Trait			
Debt	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes debt	**1**
	Level 2	Discusses debt characteristics	**2-3**
	Level 3	Offers full discussion of debt characteristics	**4-5**
Suitability	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies Piping's funding needs	**1**
	Level 2	Links debt to Piping's funding needs	**2-3**
	Level 3	Links debt to Piping's funding needs with good justification	**4-5**

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

SECTION 2			
Task (a) Discuss the challenges associated with creating an effective team from Sloping Tea's managers that will assist in Piping's product development and manufacture.			
Trait			
Piping's needs	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes Piping's needs	**1**
	Level 2	Discusses Piping's needs	**2-3**
	Level 3	Discusses Piping's needs with some justification	**4**
Sloping's needs	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies concerns relating to Sloping	**1-2**
	Level 2	Discusses concerns relating to Sloping	**3-4**
	Level 3	Discusses concerns relating to Sloping with justification	**5-6**
Task (b) Discuss the implications for the Piping Group's financial statements of a significant fall in the value of Eastland's E$.			
Trait			
Preparation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies accounting issues	**1-2**
	Level 2	Discusses accounting issues	**3-5**
	Level 3	Discusses accounting issues with good justification	**6-8**
Interpretation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies interpretation issues	**1-2**
	Level 2	Discusses interpretation issues	**3-5**
	Level 3	Discusses interpretation issues with good justification	**6-7**

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

SECTION 3			
Task (a) Evaluate the possibility that generating maximum value through new products and incorporating sustainability to optimise profits might assist in the management of the issues raised in the report.			
Trait			
New products	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies arguments relating to new products	**1-2**
	Level 2	Evaluates arguments relating to new products	**3-5**
	Level 3	Evaluates arguments relating to new products with justification	**6-8**
Sustainability	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies arguments relating to sustainability	**1-2**
	Level 2	Evaluates arguments relating to sustainability	**3-5**
	Level 3	Evaluates arguments relating to sustainability with justification	**6-7**
Task (b) Recommend with reasons the style of leadership that Piping should apply to Sloping Tea.			
Trait			
Recommendation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes leadership	**1**
	Level 2	Recommends leadership style	**2-3**
	Level 3	Recommends leadership style with detail	**4-5**
Reasons	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes advantages	**1**
	Level 2	Justifies recommendation	**2-3**
	Level 3	Justifies recommendation in detail	**4-5**

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

SECTION 4			
Task (a) Assuming that our application to the Northland Medicine Authority (NMA) is successful, evaluate the likelihood that the ability to claim health benefits from drinking high antioxidant tea will be disruptive and will fundamentally change the tea industry.			
Trait			
Disruptive	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes disruptive technology	**1**
	Level 2	Offers arguments in favour	**2-3**
	Level 3	Offers arguments in favour with justification	**4-5**
Not disruptive	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes non-disruptive technology	**1**
	Level 2	Offers arguments against	**2-3**
	Level 3	Offers arguments against with justification	**4-5**
Task (b) Explain the potential advantages for the Piping Group of Samudra's suggestion that Sloping should transfer all of its ordinary tea to Piping, using the market price as the transfer price. Also, highlight any difficulties we might face when determining the market price and recommend how they might be overcome.			
Trait			
Advantages	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes transfer pricing methods	**1-2**
	Level 2	Discusses problems facing Piping Group	**3-5**
	Level 3	Discusses problems facing Piping Group with justification	**6-8**
	Level	**Descriptor**	**Marks**
		No rewardable material	**0**
Difficulties	**Level 1**	Identifies some difficulties	**1-2**
	Level 2	Discusses difficulties and solutions	**3-5**
	Level 3	Offers full discussion of difficulties and solutions	**6-7**

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

Management Level Case Study May 2022 - August 2022

Marking Guidance

Variant 3

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Management/Gateway Case Study [May - August 2022].

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, and markers are subject to extensive training, standardisation activities and ongoing monitoring to ensure that judgements are being made correctly and consistently.

Care must be taken to not 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.

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

- 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.

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

Summary of the core activities tested within each sub-task

Sub-Task	Core Activity		Sub-task weighting (% section time)
Section 1			
(a)	**A**	Business model	60 %
(b)	**D**	Product and product reputation risks	40 %
Section 2			
(a)	**C**	Life cycle	60 %
(b)	**B**	Debt and equity	40 %
Section 3			
(a)	**D**	Accounting for revenue	60 %
(b)	**E**	Renegotiating delivery schedule	40 %
Section 4			
(a)	**E**	Transfer pricing	60 %
(b)	**B**	Management team	40 %

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

SECTION 1			
Task (a) **Identify** and evaluate how manufacturing and selling ready-to-drink tea fits with Piping's business model.			
Trait			
Define 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**
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) **Identify** and explain product and product reputation risks that could arise by selling Piping Go ready-to-drink tea.			
Trait			
Product 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**

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**

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

SECTION 2			
Task (a) Recommend with reasons how we should maximise the return from Piping Go over its life cycle.			
Trait			
Costs	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies cost as an issue	**1**
	Level 2	Recommends approach to management	**2-3**
	Level 3	Recommends approach to management with justification	**4-5**
Time to market	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies time to market as an issue	**1**
	Level 2	Recommends approach to management	**2-3**
	Level 3	Recommends approach to management with justification	**4-5**
Length	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies length of lifecycle as an issue	**1**
	Level 2	Recommends approach to management	**2-3**
	Level 3	Recommends approach to management 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 Piping Go.			
Trait			
Debt	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies characteristics	**1**
	Level 2	Relates characteristics to scenario	**2-3**
	Level 3	Relates characteristics to scenario with justification	**4-5**
Equity	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies characteristics	**1**
	Level 2	Relates characteristics to scenario	**2-3**
	Level 3	Relates characteristics to scenario with justification	**4-5**

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

SECTION 3			
Task (a) Identify the challenges associated with determining the correct accounting treatment for this order and recommend responses.			
Trait			
Challenges	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes accounting issues	**1-2**
	Level 2	Discusses challenges	**3-5**
	Level 3	Discusses challenges with justification	**6-8**
Responses	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies IFRS 15	**1-2**
	Level 2	Discusses application of IFRS 15	**3-5**
	Level 3	Discusses application of IFRS 15 with justification	**6-7**
Task (b) Recommend with reasons the approach that Piping should take to renegotiating the delivery schedule for this order of Piping Go.			
Trait			
Recommendation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes approach	**1**
	Level 2	Discusses approach	**2-3**
	Level 3	Discusses approach in detail	**4-5**
Reasons	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes reasons	**1**
	Level 2	Discusses reasons	**2-3**
	Level 3	Discusses reasons in detail	**4-5**

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

SECTION 4			
Task (a) Discuss the advantages and disadvantages of using market price as the transfer price of the blended tea that will be supplied to Piping Go by Piping's Marketing and Distribution Department.			
Trait			
Advantages	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies goal congruence	**1-2**
	Level 2	Discusses advantages	**3-5**
	Level 3	Discusses advantages with justification	**6-8**
Disadvantages	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies conflict and/or dysfunctional behaviour	**1-2**
	Level 2	Discusses problems	**3-5**
	Level 3	Discusses problems with justification	**6-7**
Task (b) Discuss the problems that we will we face in ensuring that there is a competent management team at Piping Go and recommend responses to those problems.			
Trait			
Discuss problems	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes problems	**1**
	Level 2	Discusses problems	**2-3**
	Level 3	Discusses problems with justification	**4-5**
Recommend responses	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes responses	**1**
	Level 2	Makes relevant recommendation	**2-3**
	Level 3	Makes relevant recommendation with justification	**4-5**

Management/Gateway Level Case Study May 2022 – August 2022

Marking Guidance

Variant 4

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Management/Gateway Case Study [May - August 2022].

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, and markers are subject to extensive training, standardisation activities and ongoing monitoring to ensure that judgements are being made correctly and consistently.

Care must be taken to not 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)	**E**	Manage internal and external stakeholders	40 %
Section 2			
(a)	**D**	Measure performance	60 %
(b)	**A**	Evaluate opportunities to add value	40 %
Section 3			
(a)	**A**	Evaluate opportunities to add value	60 %
(b)	**B**	Implement senior management decisions	40 %
Section 4			
(a)	**E**	Manage internal and external stakeholders	60 %
(b)	**B**	Implement senior management decisions	40 %

SECTION 1			
Task (a) Recommend with reasons 3 areas of Piping's value chain that should be reviewed in response to the potential competition from ETC and recommend actions that should arise from the review.			
Trait			
1st area	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies activity	**1**
	Level 2	Discusses need for review	**2-3**
	Level 3	Discusses need for review and recommends actions	**4-5**
2nd area	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies activity	**1**
	Level 2	Discusses need for review	**2-3**
	Level 3	Discusses need for review and recommends actions	**4-5**
3rd area	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies activity	**1**
	Level 2	Discusses need for review	**2-3**
	Level 3	Discusses need for review and recommends actions	**4-5**
Task (b) Explain why Piping could have little bargaining power if it tried to negotiate with Sellrite in an attempt to persuade them not to sell ETC's teabags.			
Trait			
Piping's perspective	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Recognises Piping's position	**1**
	Level 2	Discusses Piping's negotiating position	**2-3**
	Level 3	Discusses Piping's negotiating position with good justification	**4-5**
Sellrite's perspective	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Recognises Sellrite's position	**1**
	Level 2	Discusses Sellrite's negotiating position	**2-3**
	Level 3	Discusses Sellrite's negotiating position with good justification	**4-5**

CIMA

SECTION 2			
Task (a) Evaluate the usefulness of ETC's financial statements in deciding whether it can sustain the low wholesale prices that it is charging retailers. I am not looking for detailed comments on the table of figures in my document.			
Trait			
Timing	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies timing as an issue	**1-2**
	Level 2	Discusses problems associated with timing of reports	**3-5**
	Level 3	Discusses problems associated with timing of reports with justification	**6-8**
Content	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies content as an issue	**1-2**
	Level 2	Discusses problems associated with content of reports	**3-5**
	Level 3	Discusses problems associated with content of reports with justification	**6-7**
Task (b) Drawing on the information from this document, **recommend** with reasons whether Piping should reduce its selling prices to compete directly with ETC.			
Trait			
Recommendation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes pricing models	**1**
	Level 2	Discusses recommended approach	**2-3**
	Level 3	Discusses recommended approach in detail	**4-5**
Reasons	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issues in scenario	**1**
	Level 2	Offers some justification for recommendation	**2-3**
	Level 3	Offers full justification for recommendation	**4-5**

SECTION 3			
Task (a) Identify and explain difficulties we will face when trying to quantify cash flows to use when calculating the net present value (NPV) of relocating and producing in Eastland.			
Trait			
Difficulties	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies generic issues with NPV	**1-2**
	Level 2	Identifies issues relating to scenario	**3-5**
	Level 3	Identifies issues in detail relating to NPV	**6-8**
Explanation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Offers some explanation	**1-2**
	Level 2	Evaluates issues	**3-5**
	Level 3	Offers detailed evaluation of issues	**6-7**
Task (b) Discuss the characteristics of debt and equity that are relevant to the decision as to how Piping will finance this investment.			
Trait			
Debt	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes general characteristics of debt	**1**
	Level 2	Discusses characteristics in context	**2-3**
	Level 3	Discusses characteristics in context with justification	**4-5**
Equity	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes general characteristics of equity	**1**
	Level 2	Discusses characteristics in context	**2-3**
	Level 3	Discusses characteristics in context with justification	**4-5**

SECTION 4			
Task (a) Recommend with reasons the approach that should be taken to managing the conflict in Piping's HR Department.			
Trait			
Approach	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes conflict	**1-2**
	Level 2	Offers recommendation	**3-5**
	Level 3	Offers detailed explanation of recommendation	**6-8**
Reasoning	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Offers some support for recommendation	**1-2**
	Level 2	Discusses reasons for recommendation	**3-5**
	Level 3	Discusses reasons for recommendation with justification	**6-7**
Task (b) Explain why it is important to analyse the impact of the stress test on each of the two specific matters suggested by Than Pale, Marketing and Distribution Director.			
Trait			
Identification	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes needs of customers	**1**
	Level 2	Discusses difficulties associated with identifying and prioritising needs of customers	**2-3**
	Level 3	Offers detailed discussion of difficulties	**4-5**
	Level	**Descriptor**	**Marks**
		No rewardable material	**0**
Explanation	**Level 1**	Explains difficulties	**1**
	Level 2	Offers detailed explanation of issues	**2-3**
	Level 3	Offers detailed explanation with justification	**4-5**

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

Management/Gateway Level Case Study May 2022 – August 2022

Marking Guidance

Variant 5

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Management/Gateway Case Study [May - August 2022].

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, and markers are subject to extensive training, standardisation activities and ongoing monitoring to ensure that judgements are being made correctly and consistently.

Care must be taken to not 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.

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

- 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.

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

Summary of the core activities tested within each sub task

Sub Task	Core Activity		Sub task weighting (% section time)
Section 1			
(a)	**A**	Business model	60 %
(b)	**D**	Accounting ratios	40 %
Section 2			
(a)	**E**	Associate	60 %
(b)	**C**	Maximising returns	40 %
Section 3			
(a)	**D**	Business risks	60 %
(b)	**B**	Team membership	40 %
Section 4			
(a)	**B**	Conflict	40 %
(b)	**C**	Non-financial indicators	60 %

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

SECTION 1			
Task (a) Evaluate the implications for Piping's business model of the consumer feedback on buying habits.			
Trait			
Defines value	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines element of model	**1**
	Level 2	Discusses implications	**2**
	Level 3	Discusses implications with justification	**3**
Creates value	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines element of model	**1**
	Level 2	Discusses implications	**2-3**
	Level 3	Discusses implications with justification	**4**
Delivers value	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines element of model	**1**
	Level 2	Discusses implications	**2-3**
	Level 3	Discusses implications with justification	**4**
Captures residual	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Defines element of model	**1**
	Level 2	Discusses implications	**2-3**
	Level 3	Discusses implications with justification	**4**
Task (b) Discuss the impact that holding inventory as a result of the decision to manufacture at a constant rate will have for Piping's accounting ratios.			
Trait			
Liquidity	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies liquidity and activity as an issue	**1-2**
	Level 2	Discusses impact on ratios	**3-4**
	Level 3	Discusses impact on ratios with justification	**5-6**

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

Profitability	Level	Descriptor	Marks
		No rewardable material	**0**
	Level 1	Identifies profit as an issue	**1**
	Level 2	Discusses impact on ratios	**2-3**
	Level 3	Discusses impact on ratios with justification	**4**

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

SECTION 2			
Task (a) Discuss the arguments for and against treating Yumsave as an associate of Piping and identify the key accounting problems that will be created for Piping if Yumsave is an associate.			
Trait			
Arguments for	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Refers to IAS 28	**1-2**
	Level 2	Discusses compliance with definitions	**3-5**
	Level 3	Discusses compliance with definitions with justification	**6-8**
Arguments against	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies arguments against	**1-2**
	Level 2	Discusses issues suggesting lack of influence	**3-5**
	Level 3	Discusses issues suggesting lack of influence with justification	**6-7**
Task (b) Discuss the challenges that will be faced by Piping in maximising the return from its use of Drirap over its life cycle.			
Trait			
Costs	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies designing costs out of product	**1**
	Level 2	Describes challenges	**2-3**
	Level 3	Discusses challenges	**4**
Speed to market	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies speed to market	**1**
	Level 2	Describes challenges	**2**
	Level 3	Discusses challenges	**3**
Extending cycle	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies extending cycle	**1**
	Level 2	Describes challenges	**2**
	Level 3	Discusses challenges	**3**

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

SECTION 3			
Task (a) Identify and evaluate 3 major business risks associated with our agreement with Yumsave and our switch to Drirap in the manner described in Murat's email.			
Trait			
1st risk	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies risk	**1**
	Level 2	Discusses likelihood and impact	**2-3**
	Level 3	Discusses likelihood and impact with justification	**4-5**
2nd risk	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies risk	**1**
	Level 2	Discusses likelihood and impact	**2-3**
	Level 3	Discusses likelihood and impact with justification	**4-5**
3rd risk	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies risk	**1**
	Level 2	Discusses likelihood and impact	**2-3**
	Level 3	Discusses likelihood and impact with justification	**4-5**
Task (b) Recommend with reasons a suitable membership of a team to manage the transition from our current packaging material to Drirap.			
Trait			
Membership	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies a suitable member	**1**
	Level 2	Identifies some credible members	**2-3**
	Level 3	Identifies a range of credible members	**4-5**
Reasons	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issues	**1**
	Level 2	Offers some justification for members	**2-3**

	Level 3	Offers full justification for members	**4-5**

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

SECTION 4			
Task (a) Recommend with reasons how we could manage the conflict within the team of maintenance engineers and designers that is responsible for introducing Drirap.			
Trait			
Recommendation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes conflict management	**1**
	Level 2	Offers suggestions	**2-3**
	Level 3	Offers detailed suggestions	**4-5**
Justification	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issues	**1**
	Level 2	Offers some justification	**2-3**
	Level 3	Offers detailed justification	**4-5**
Task (b) Explain the issues that should be considered when designing non-financial performance indicators that will be used to demonstrate the Board's interest in and appreciation of the work done by support departments such as Design and Maintenance Engineering.			
Trait			
Motivation	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes role of performance measures	**1-2**
	Level 2	Discusses potential impact on motivation	**3-5**
	Level 3	Offers detailed discussion of potential impact on motivation	**6-8**
Demonstration	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes need for Board to demonstrate an interest	**1-2**
	Level 2	Discusses need for Board to demonstrate an interest	**3-5**
	Level 3	Offers detailed discussion of need for Board to demonstrate an interest	**6-7**

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

Management/Gateway Level Case Study May 2022 – August 2022

Marking Guidance

Variant 6

About this marking scheme

This marking scheme has been prepared for the CIMA 2019 professional qualification Management/Gateway Case Study [May - August 2022].

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, and markers are subject to extensive training, standardisation activities and ongoing monitoring to ensure that judgements are being made correctly and consistently.

Care must be taken to not 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.

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

- 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.

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

Summary of the core activities tested within each sub task

Sub Task	Core Activity		Sub task weighting (% section time)
Section 1			
(a)	**C**	Cost of black tea	60 %
(b)	**D**	Foreign distribution centre	40 %
Section 2			
(a)	**E**	Dysfunctional behaviour	60 %
(b)	**A**	Pricing	40 %
Section 3			
(a)	**B**	Project objectives	60 %
(b)	**B**	Debt	40 %
Section 4			
(a)	**A**	Business model	60 %
(b)	**D**	Accounting for payments	40 %

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

SECTION 1			
Task (a) Discuss the validity of the argument that the Middland Sales and Distribution Centre ("the Centre") should not be evaluated on the basis of any measure that includes the actual manufacturing cost of tea bags because of the volatile nature of black tea prices.			
Trait			
1st argument	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issue	**1**
	Level 2	Discusses issue	**2-3**
	Level 3	Discusses issue with justification	**4-5**
2nd argument	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issue	**1**
	Level 2	Discusses issue	**2-3**
	Level 3	Discusses issue with justification	**4-5**
3rd argument	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issue	**1**
	Level 2	Discusses issue	**2-3**
	Level 3	Discusses issue with justification	**4-5**
Task (b) Discuss the impact that acquiring the Centre as a 100% foreign subsidiary will have on the interpretation of Piping's published financial statements.			
Trait			
SoPoL	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies costs	**1**
	Level 2	Discusses impact on profit	**2-3**
	Level 3	Discusses impact on profit with justification	**4-5**
SoFP	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies financial position	**1**
	Level 2	Discusses impact on financial position	**2-3**

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

	Level 3	Discusses impact on financial position with justification	**4-5**
SECTION 2			
Task (a) Evaluate the risk of dysfunctional behaviour associated with Piping's Marketing and Distribution Department transferring finished goods to the Middland Sales and Distribution Centre ("the Centre") at budgeted cost plus 5% and recommend an alternative basis with reasons.			
Trait			
1st matter	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issue	**1**
	Level 2	Evaluates issue	**2-3**
	Level 3	Evaluates issue with justification	**4-5**
2nd matter	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issue	**1**
	Level 2	Evaluates issue	**2-3**
	Level 3	Evaluates issue with justification	**4-5**
3rd matter	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issue	**1**
	Level 2	Evaluates issue	**2-3**
	Level 3	Evaluates issue with justification	**4-5**
Task (b) Discuss the merits of the Centre basing its selling prices to retailers on the transfer price it is charged plus a markup.			
Trait			
Arguments for	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issue in favour	**1**
	Level 2	Discusses arguments for	**2-3**
	Level 3	Discusses arguments for with justification	**4-5**
Arguments against	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies issue against	**1**

	Level 2	Discusses arguments against	**2-3**
	Level 3	Discusses arguments against with justification	**4-5**

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

SECTION 3			
Task (a) Discuss the manner in which Board should set and communicate the project objectives for the team that will be appointed.			
Trait			
Setting	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies setting issues	**1-2**
	Level 2	Discusses setting issues	**3-5**
	Level 3	Discusses setting issues with justification	**6-8**
Communicating	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies communication issues	**1-2**
	Level 2	Discusses communication issues	**3-5**
	Level 3	Discusses communication issues with justification	**6-7**
Task (b) Discuss the characteristics of debt that would help us to decide whether to borrow the N$250 million cost of the plantation, or its equivalent in Eastland's E$, from a lender in Eastland or Northlandia.			
Trait			
Eastland	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes issues associated with foreign loan	**1**
	Level 2	Discusses issues associated with foreign loan	**2-3**
	Level 3	Discusses issues associated with foreign loan with justification	**4-5**
Northland	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes issues associated with domestic loan	**1**
	Level 2	Discusses issues associated with domestic loan	**2-3**
	Level 3	Discusses issues associated with domestic loan with justification	**4-5**

AICPA & CIMA

Together as the Association of International Certified Professional Accountants

SECTION 4			
Task (a) Discuss the implications that our control and use of the University's new botanical process will have on Piping's business model.			
Trait			
Defines value	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes aspect	**1**
	Level 2	Discusses aspect	**2-3**
	Level 3	Discusses aspect with justification	**4**
Creates value	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes aspect	**1**
	Level 2	Discusses aspect	**2**
	Level 3	Discusses aspect with justification	**3**
Delivers value	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes aspect	**1**
	Level 2	Discusses aspect	**2-3**
	Level 3	Discusses aspect with justification	**4**
Capture residual	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Describes aspect	**1**
	Level 2	Discusses aspect	**2-3**
	Level 3	Discusses aspect with justification	**4**

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

Task (b) Discuss the difficulties associated with accounting for the payments to Central City University and recommend an appropriate treatment.			
Trait			
At acquisition	**Level**	**Descriptor**	**Marks**
		No rewardable material	**0**
	Level 1	Identifies IAS 38	**1**
	Level 2	Discusses initial recognition	**2-3**
	Level 3	Discusses initial recognition with justification	**4-5**
	Level	**Descriptor**	**Marks**
		No rewardable material	**0**
Subsequent	**Level 1**	Identifies issue of subsequent expenditure	**1**
	Level 2	Discusses subsequent expenditure	**2-3**
	Level 3	Discusses subsequent expenditure with justification	**4-5**