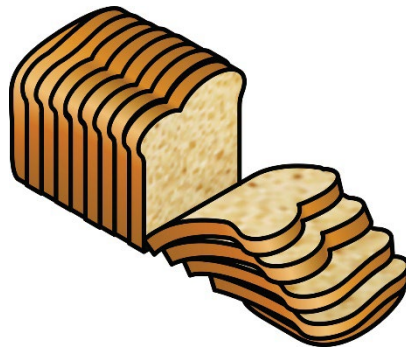


Operational Case Study Examination

May 2025 – August 2025

Pre-seen material

Halfpenny



Context Statement

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

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

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Your role

You are a Finance Officer working within the Finance Department of Halfpenny. You are principally involved in the preparation of management accounting information and providing information to managers to assist with planning and decision making. At times, you are also expected to assist with the preparation of the financial statements and answer queries regarding financial reporting and other financial matters.

Company background

Halfpenny is a company that produces and sells packaged bread. The company is based in Keeland, a small country in Europe where the currency is K\$.

The company was founded in 1891, when Martha and Bert Halfpenny started baking and selling bread and other bakery items from a single small bakery store. By 1905, there were three bakery stores and, by 1912, there were 10, all within a 20 kilometre radius of the first. In 1916, production of all bread and bakery items was moved to a single purpose-built bakery. The company continued to grow steadily in the 1920s and 30s and, by 1940, the bakery had been expanded and the number of stores was 30.

In 1948, Joseph Halfpenny, the grandson of Martha and Bert, became Managing Director and majority shareholder of the company. Joseph drove significant change in the company and, by 1952, the company no longer had its own stores and was entirely focused on the production of bread, which was sold to grocery stores in central Keeland.

Until 1952, all bread loaves sold by Halfpenny were unsliced and unpackaged. In 1952, Joseph invested in what was, at the time, state-of-the art machinery to slice and package loaves in Halfpenny-branded waxed paper. This innovation coincided with advancements in the ingredients used in bread production, which extended the shelf-life of a bread loaf. Throughout the 1950s, 1960s and 1970s, the company continued to grow steadily.

The early 1980s was a period of rapid growth for the company, principally due to the boom in supermarkets. Increasingly, shoppers wanted the convenience of a single store for all of their food needs and moved away from high streets and small independent grocery stores to supermarkets, which were often in out-of-town locations. During this period, Halfpenny, (with Paul Halfpenny, Joseph's son, as Managing Director) secured contracts with the three leading national supermarket chains to supply them with packaged bread loaves.

In 1985, the company relocated its bakery to a new Production Facility. This has been expanded upon over the years but is still the location where all of the company's products are made. This is in central Keeland. The company also has a Distribution Centre, opened in 1999, which is located next to the Production Facility.

Halfpenny currently produces a range of sliced packaged bread loaves and packaged bread rolls (the latter added in 1999). Until recently, senior management has focused on these core products, continually striving to improve taste, texture and shelf-life. Recently though, as a result of a slowing down in growth, consideration has been given to extending the product range. To this end, Harry Chang has recently been appointed Product Development Director.

Halfpenny is still owned by the Halfpenny family and two of Paul's children now run the company: Trey Halfpenny, Managing Director, and Rosa Grimble, Sales & Marketing Director. The latest financial statements for the year ended 31 December 2024 show revenue of K\$332 million, gross profit of K\$90 million, operating profit of K\$30 million and that the company had 2,208 employees.

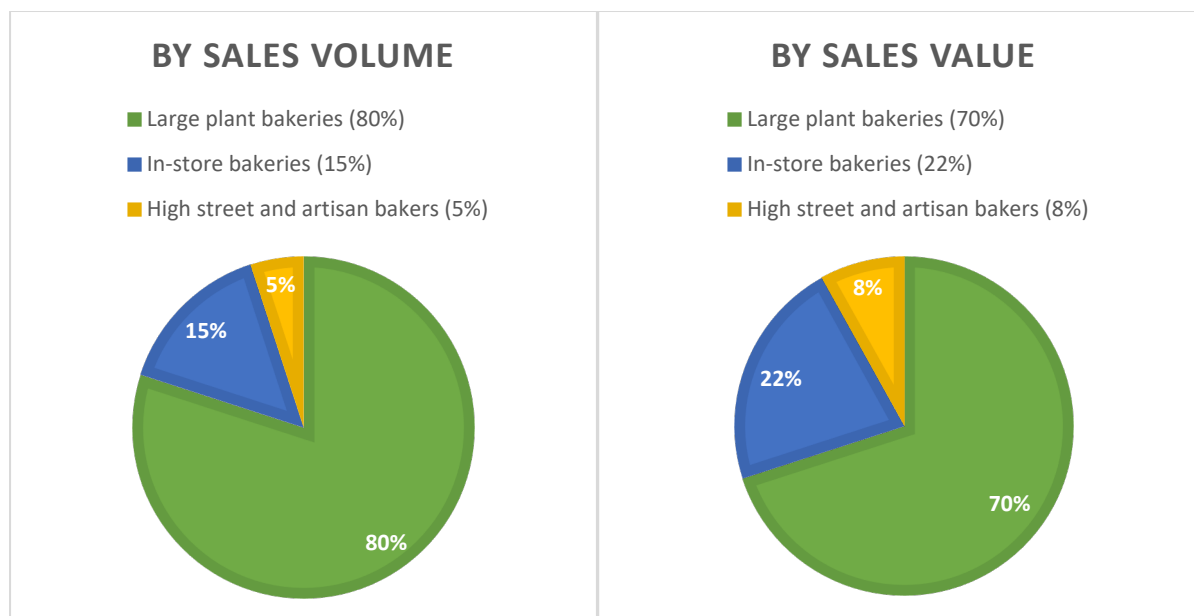
The bread industry in Keeland

Bread is a staple food in Keeland. The market was worth over K\$2.5 billion in 2024 and the products included in this are bread loaves, bread rolls and speciality bread items (such as pita bread, crumpets and English muffins).

There are three categories of bread producers in Keeland:

Large plant bakeries	<ul style="list-style-type: none"> ❖ Mass producers that make pre-packaged bread products with an extended shelf life. ❖ Typically sell products business to business rather than direct to the consumer.
In-store bakeries	<ul style="list-style-type: none"> ❖ Located within supermarkets, baking daily. ❖ Typically sell products unpackaged (and loaves unsliced) and so have a shorter shelf-life compared to pre-packed products. ❖ Sales are business to consumer.
High street and artisan bakers	<ul style="list-style-type: none"> ❖ Small scale producers that make unpackaged bread products with a limited shelf-life. ❖ Sales can be business to business and business to consumer.

The market share of each category of producer in 2024 was as follows:



There are five large plant bakeries in Keeland. Four of these large plant bakeries, one of which is Halfpenny, are well known brands in Keeland and produce bread which is only sold under their respective brand names. The other large plant bakery makes bread for supermarkets to sell under their own branding.

The market for pre-packaged bread has declined over the past 5 years. This is partly due to a switch towards fresher artisan bread and partly because of an overall reduction in demand for bread due to health reasons.

Article - Future Trends Series: Innovations Shaping Bread Production

BREADTECH DIGEST

Future Trends Series: Innovations Shaping Bread Production

As food production continues to evolve, bread — one of humanity's oldest and most fundamental food staples — remains at the forefront of innovation. Our industry is witnessing a transformation driven by technological advancements, changing consumer preferences and sustainability considerations. Here, we explore the future trends that are poised to redefine the landscape of bread production.



Freshly baked Pain de Campagne

Sustainable and Eco-Friendly Practices

Sustainability is a key driver of innovation in the bread industry. Bakeries are adopting eco-friendly practices to minimise their environmental footprint. This includes sourcing ingredients from sustainable farms, reducing energy consumption through energy-efficient ovens and implementing waste management systems to recycle or repurpose by-products. The push towards sustainable packaging, such as biodegradable or recyclable materials, is also gaining momentum.

Health and Wellness Trends

Consumer demand for healthier bread options is shaping production practices. The rise of low-carb, high-protein and gluten-free diets has led to the development of new formulations that cater to these preferences. Bakers are experimenting with alternative flours made from almonds, chickpeas and other grains to create nutritious and diverse products. Fortification of bread with vitamins, minerals and probiotics is also becoming popular, aligning with the trend towards functional foods.

Artisanal and Specialty Breads

Despite the rise of automation, there is a growing consumer appetite for artisanal and specialty breads. These products, often characterised by traditional production techniques, unique flavours and high-quality ingredients, appeal to consumers seeking authenticity and culinary experience. Bakers are balancing automation with craftsmanship to produce breads which offer the best of both worlds: efficient production and the personal touch.

Personalisation and Customisation

The trend towards personalisation is also making its way into bread production. Advanced production techniques and digital ordering systems enable bakeries to offer customised bread options. Customers can select ingredients, specify dietary restrictions and even design their own bread shapes and sizes. This level of customisation enhances consumer satisfaction and loyalty.

Plant-Based Ingredients

The plant-based movement is influencing bread production as well. The use of plant-based ingredients, such as plant proteins and dairy alternatives, is expanding. These innovations cater to the growing number of vegetarians, vegans and flexitarians, while also contributing to the sustainability goals of reducing reliance on animal-based products.



Plant-based proteins in baking are becoming more popular

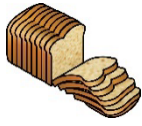
Advanced Baking Techniques

Innovative baking techniques are pushing the boundaries of traditional bread production. High-pressure processing (HPP), for instance, extends shelf life without the need for preservatives. Fermentation processes are being refined to enhance flavour and nutritional value. Cold plasma technology is being explored for its potential to improve the safety and quality of bread products by reducing microbial load.

Conclusion

As automation and smart technologies become more integrated, the industry will see significant improvements in efficiency and product quality. Concurrently, the push for sustainability, health-conscious products and customisation will drive innovation in ingredients and production methods. For bakers and bread producers, staying ahead of these trends will be crucial to thriving in an increasingly competitive and dynamic market.

Extracts from the Halfpenny website



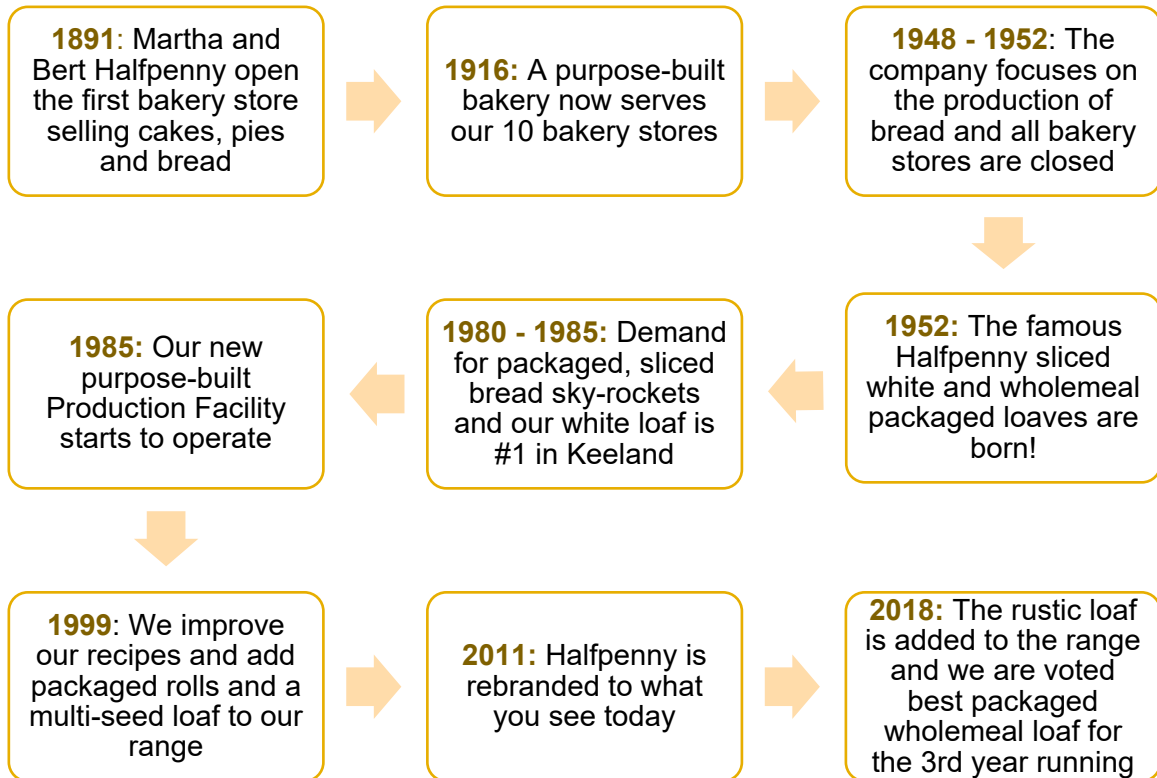
[Our Story](#)

[Our Mission](#)

[Our Products](#)







Our Story



Our Mission

Our mission is to be the #1 choice for packaged, sliced bread and packaged bread rolls in Keeland. To achieve this, we aim to:

- ❖ Give you the best tasting bread in a range of flavours.
- ❖ Use the highest quality flour and ingredients.
- ❖ Source ingredients from sustainable suppliers that we treat fairly.
- ❖ Be carbon neutral by 2040.

<h1>Our Products</h1>	
Bread loaves All of our bread loaves are a standard 800g and are pre-sliced as either regular or thick cut. Packaged in waxed paper to seal in freshness and softness. Perfect for sandwiches or toasting!	
White Our classic white loaf. Using white flour made from wheat grain that has been refined and processed to remove bran and germ.	
	Wholemeal Now our most popular, the classic wholemeal loaf. Using wholemeal flour made from the whole wheat grain. Retains most of the bran, germ and endosperm from the wheat. A loaf packed full of fibre, vitamins, minerals and antioxidants.
Multi-seed Gaining in popularity, our multi-seed loaf. Using wholemeal flour with added seeds and grains for additional texture, flavour, fibre, healthy fats, vitamins and minerals.	
	Rustic Our most recent addition to the range, the rustic seeded bloomer loaf. Using coarse-grain wholewheat flour, with added seeds and grains, baked as a bloomer loaf.
Bread rolls White, wholemeal, multi-seed and rustic available in packs of 6 bread rolls (overall weight per pack 400g).	

The Directors



Managing Director: Trey Halfpenny

Trey, 49, is a direct descendent of Martha and Bert Halfpenny and became Managing Director in 2010. Trey has worked in the production side of the business since he was 18 and, over the past 10 years, has driven modernisation of the Production Facility.



Sales & Marketing Director: Rosa Gimble

Rosa, 47, is the sister of Trey Halfpenny. Rosa has a degree in marketing and worked for a marketing agency before joining the family business in 2006. She has been instrumental in creating the current Halfpenny branding.



Product Development Director: Harry Chang

Harry, 42, recently joined the business, having previously worked in product development at one of Halfpenny's main competitors. Harry is a talented baker and is keen to increase the range of products offered by the company.



Production Director: Jack Hobbs

Jack, 45, has worked in the Production Facility since he was 16 and has experience in all areas of production. He became Production Director in 2018 and has been working closely with Trey Halfpenny to modernise production processes.



Distribution Director: Syed Hussain

Syed, 58, has been in post for 15 years, having previously worked for a global logistics company. In recent years, Syed has worked to make the distribution process more sustainable by replacing diesel vehicles with electric vehicles and improving delivery scheduling.



Finance Director: Lottie Phipps

Lottie, 36, has been Finance Director for 2 years, having worked her way up through the company. Lottie has built good relationships with finance providers and believes that there is scope for the company to grow through expansion into new products.



Human Resources Director: Samira Kuma

Samira, 44, is a recent addition to the Board, having previously worked at a food manufacturing company. Samira is a firm believer that an incentivised workforce is a more productive workforce and has just introduced a new bonus scheme.

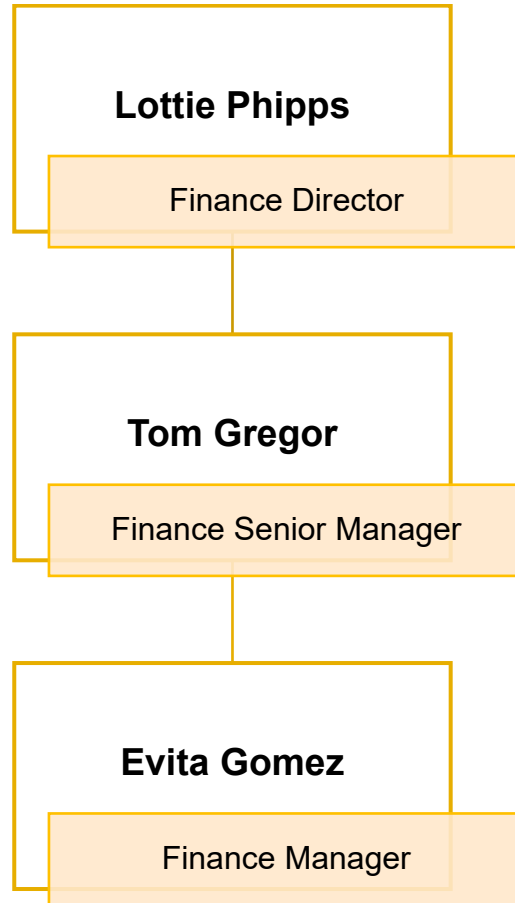


IT Director: Benjamin Juma

Benjamin, 38, is also new to the Board, in a role which has recently been created (previously IT fell under the remit of the Finance Department). Benjamin has experience in manufacturing technology and is keen to implement more of this in the production process.

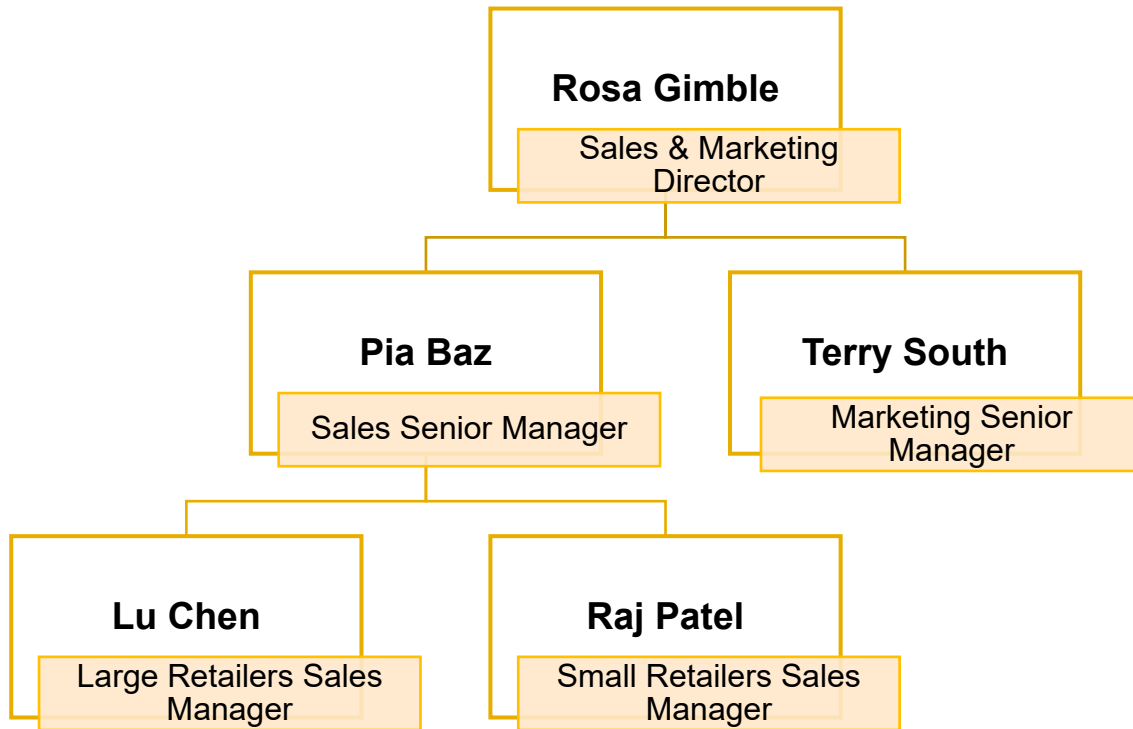
Management teams

Finance

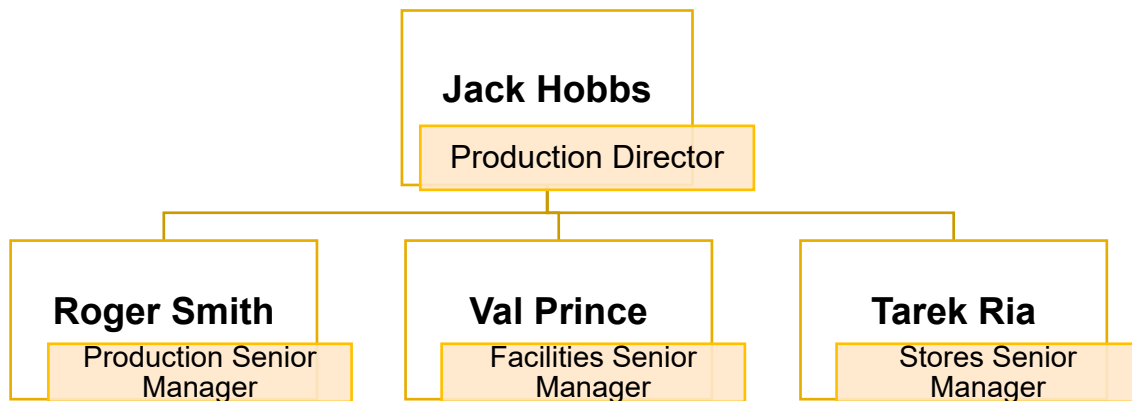


The above finance managers are supported by six finance officers (of which you are one) and eight finance assistants.

Sales & Marketing



Production



The following managers report directly to Roger Smith:

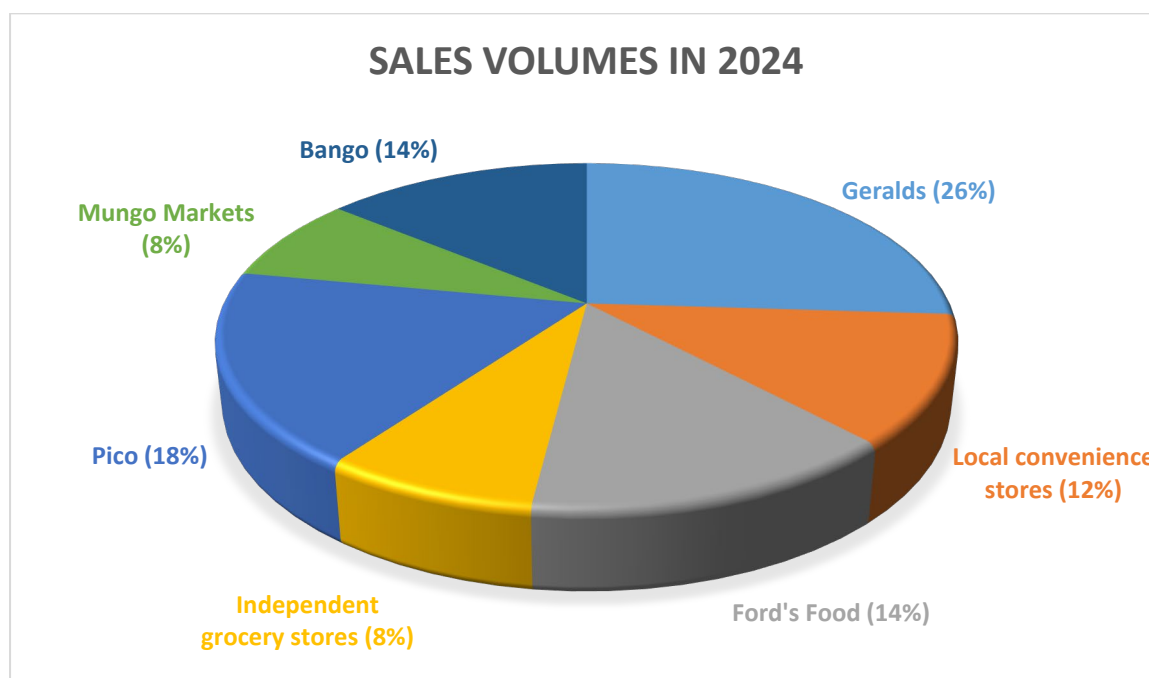
- ❖ Mixing & Kneading Manager – Sam Goss
- ❖ Shaping & Proving Manager – Rita Duma
- ❖ Baking Manager – David Good
- ❖ Cooling Manager – Jonas Ghandi
- ❖ Packaging Manager – Stu Bell

Other information about company operations

Sales channels

Halfpenny sells all of its products business to business (B2B). The company does not currently sell direct to consumers (B2C). Information about all of Halfpenny's products, such as ingredients and nutritional qualities, is available to view on the company website. However, consumers cannot order from the website but can purchase from a range of retailers.

All of the company's sales are to retailers that operate in Keeland. For the year to 31 December 2024, the split of the company's sales volumes was as follows:



Gerald's, Pico, Ford's Food, Bango and Mungo Markets are all large supermarket chains that operate nationally across Keeland. These five retailers are classed as large retailers by Halfpenny. Lu Chen, Large Retailers Sales Manager, and her team are responsible for managing relationships with these five retailers.

There are four local convenience store chains that operate stores throughout Keeland, either nationally or in a particular region. There are 75 independent grocery store retailers that either operate a single store or a small number of stores. Local convenience stores and independent grocery stores are classed as small retailers. Raj Patel, Small Retailers Sales Manager, and his team are responsible for managing relationships with these retailers.

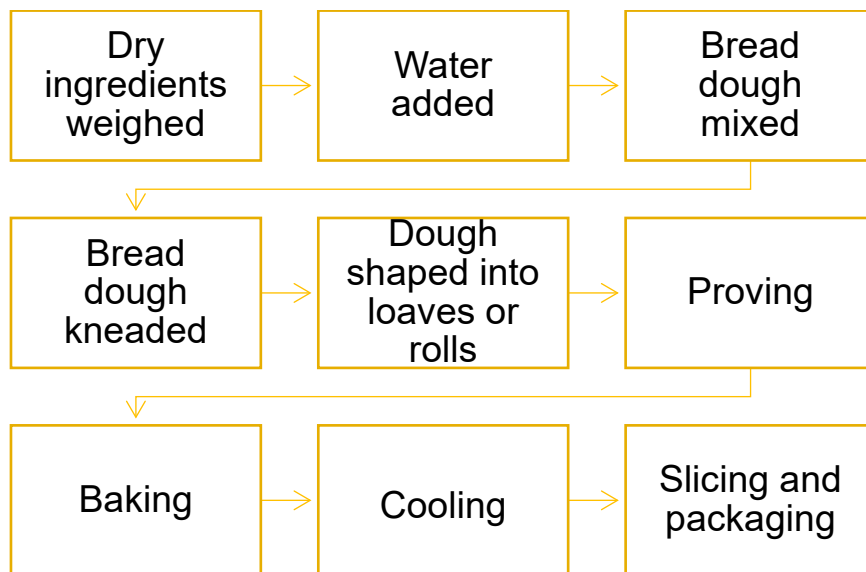
Sales prices and credit terms vary by retailer and are negotiated by the respective sales team. On average, sales prices for large retailers are 20% lower than for small retailers. Credit periods for large retailers range from 40 to 60 days and for small retailers 20 to 40 days.

Production

All products are made at the company's Production Facility which is in operation 360 days a year.

Production occurs in batches. For 800g loaves, the batch size is 2,500 loaves and for 400g packets of rolls, the batch size is 2,500 packets. Therefore, each batch of loaves requires twice as much bread dough as a batch of rolls. The bread dough recipe used for each type of loaf or roll is the same (for example, all White Loaves and White Rolls are made from the same bread dough recipe).

The production process is summarised below:



Within the Production Facility, there are five production departments:

- ❖ Mixing & Kneading
- ❖ Shaping & Proving
- ❖ Baking
- ❖ Cooling
- ❖ Packaging

These production departments are supported by four service departments:

- ❖ Raw Materials Stores
- ❖ Machinery Maintenance
- ❖ Facilities Maintenance
- ❖ Employee Canteen

Details in relation to Raw Materials Stores and the production departments are as follows:

<p>Raw Materials Stores</p>	<ul style="list-style-type: none"> ❖ The main dry ingredients used in Halfpenny's bread dough are flour (white, wholemeal and course-grain wholewheat), fast action dried yeast, salt and seeds & grains (the latter for Multi-seed and Rustic products). ❖ Flour is stored in large silos, other dry ingredients in smaller silos and yeast in large, sealed bags. ❖ Ingredient deliveries occur daily and each delivery is received into an empty silo to ensure that control is maintained over the provenance of the raw materials. ❖ Each silo is cleaned before every delivery. ❖ Raw Materials Stores is located next door to the Mixing & Kneading Department.
<p>Mixing & Kneading</p>	<ul style="list-style-type: none"> ❖ Each ingredient silo is attached via a pipe to the large mixing & kneading machines located in the Mixing & Kneading Department. ❖ Each mixing & kneading machine is capable of mixing & kneading bread dough for a single batch of either loaves or rolls (the machines for rolls are smaller than those used for loaves). ❖ At the start of production, the dry ingredients required for a batch of production are weighed and fed into the bowl of the machine from the silos. This is a computer-controlled process. ❖ These dry ingredients are mixed by machine and then the right amount of water is added to create the bread dough. ❖ Once formed, the dough is kneaded by the machine. This kneading process stretches the dough, which develops the gluten strands. This is important as it allows the dough to trap air and lets the bread rise. ❖ The kneaded dough is rested for 15 minutes before it is moved to the next production process.
<p>Shaping & Proving</p>	<ul style="list-style-type: none"> ❖ The rested dough is tipped out of the mixing & kneading machine by hand onto the production line which moves it to the Shaping & Proving Department. ❖ Here, machinery divides the dough into pieces suitable for a single loaf or bread roll. ❖ These pieces are shaped into balls of dough by machine and then rested again. ❖ The dough balls are then shaped by machine to fit either a loaf pan or a roll pan (note that a single roll pan contains 6 rolls). ❖ The pans then move into a proving machine. Proving is the process of allowing the bread dough to rest in a temperature-controlled environment. In this process, the yeast ferments the dough, which generates gasses which allow the dough to increase in size. This makes the bread softer and lighter once baked.
<p>Baking</p>	<ul style="list-style-type: none"> ❖ After proving, the pans of loaves or rolls move along the production line into an oven, where they are cooked for 15 or 20 minutes (depending on the type of bread). At the end of the baking process, the pans are removed from the oven and then the baked items are removed from the pans by machine.
<p>Cooling</p>	<ul style="list-style-type: none"> ❖ The baked loaves and sets of six rolls then move along the production line into the cooling machine where they are allowed to cool slowly for 2 hours.
<p>Packaging</p>	<ul style="list-style-type: none"> ❖ Once cooled, the loaves and rolls are transported to the packaging line, where loaves are sliced (either as thick or regular cut) and all items are packaged. Date labels are attached and the items sent to the Distribution Centre for onward delivery.

Raw materials and suppliers

The main raw materials used in production are as follows:

Flour	<ul style="list-style-type: none">• There are three types of flour used by Halfpenny: white, wholemeal and coarse-grain wholewheat.• Each type of flour is sourced from suppliers that specialise in milling wheat to produce that type of flour. There are two white and two wholemeal flour suppliers and one coarse-grain wholewheat flour supplier• All flour suppliers are located within 50 km of the Production Facility. Payment terms from flour suppliers range from 20 to 30 days.
Yeast	<ul style="list-style-type: none">• Yeast is a living microorganism that is prevalent in the natural world and is necessary in order for bread to rise.• Halfpenny uses fast action dried yeast, which is a granular powder made from dehydrated yeast microorganisms. Once hydrated during the production process, this dried yeast becomes active.• Yeast is sourced from a single supplier that the company has used for over 20 years. It is purchased in bulk to take advantage of bulk purchase discounts and payment terms are 30 days.
Grains and seeds	<ul style="list-style-type: none">• The grains used by Halfpenny include rye, oats, buckwheat and quinoa. The seeds include pumpkin, sunflower, flax and sesame seeds.• These ingredients are sourced from multiple suppliers and sourcing decisions are usually made on the basis of lowest cost.• Payment terms range from 30 to 60 days.

Distribution

The company has its own Distribution Centre, which is located next door to the Production Facility. Throughout the day, finished loaves and packets of rolls are transferred into the Distribution Centre on pallets. Each type of loaf and packet of rolls has its own dedicated area in the Centre.

From the date of production, Halfpenny loaves and rolls have a use-by-date of up to 2 weeks. Within the Distribution Centre, the aim is that products are despatched within 2 days of production to retailers for sale to the end customer. This requires careful rotation of inventory in date order.

The company has its own fleet of delivery vehicles and employs its own drivers. The vehicles in the fleet vary from small trucks to large heavy goods vehicles. Deliveries are scheduled to try to minimise the number of kilometres travelled.

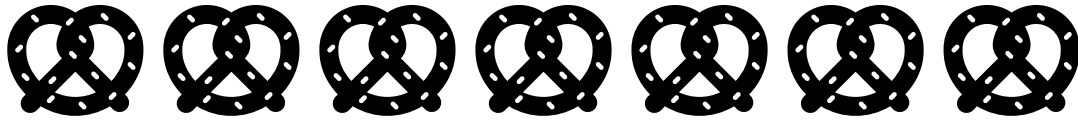
For the five large supermarket chains, some deliveries are made to their distribution depots, although the majority of deliveries are made direct to individual stores. For the local convenience store chains, deliveries are made to central depots. For independent grocery stores, deliveries are made direct to the store.

Employees

Halfpenny had the following number of employees on 31 December 2024:

	Number
Production	827
Distribution	1,156
Head office	225
Total	2,208

Article – What makes a winner? Industrial Bread Making now, and in the future



TRADE BREAD

The trade magazine for the Keeland Bread Industry

What makes a winner? Industrial Bread Making now, and in the future

By: Layla Jones 14 May 2025

I interviewed Trey Halfpenny after Halfpenny’s white loaf was recently voted number 1 sliced loaf by customers. The first question I asked was what makes bread making such a distinct industry compared to others?

Trey Halfpenny:

“Well, whilst the industrial bread making industry has its roots in traditional baking, there have been technological advances over the last 20 years which means that it now holds a distinctive place among global manufacturing sectors. I have always been interested in modernising production and adhering to quality control standards which we can see in other industries but there are several unique characteristics which set bread making apart.

“So, Trey, can you tell me a little about those characteristics?”

Trey Halfpenny:

“Well, the most prominent is that bread is perishable and has a relatively short shelf life. Therefore, we need to make sure our production and distribution are as fast as they can be. This is the same in industries such as dairy and other fresh produce, but not as much in say electronics for instance, which have significantly longer shelf lives. Techniques such as the Chorleywood Bread Process (CBP) and the addition of preservatives are employed to extend shelf life without compromising on quality.”

Of course, there are also food safety standards which govern bread making to ensure consumer safety. There is also nutritional labelling to ensure transparency about ingredients, nutritional content and potential allergens, reflecting the high level of scrutiny over what consumers ingest.”

And of course, there are the production processes which have a particular priority at Halfpenny’s.

Trey Halfpenny:

“Yes, I must say developing our production processes is a particular focus of mine. There are some unique processes like high-speed mixing in CBP which distinguishes bread making from other food production

methods. Industrial bread making integrates specialised technology to optimise mixing, kneading, baking and packaging. Automation plays a significant role in ensuring consistency and efficiency.

And what areas can you see affecting the bread industry in the future?

Trey Halfpenny:

“Well, we rely heavily on agricultural products, making bread production susceptible to issues like crop failures and climate change. Sustainable sourcing of ingredients is becoming increasingly important. Environmental impact is, of course, a universal concern, but the nature of these impacts varies. We have concentrated our efforts on minimising food waste and optimising resource use with initiatives aimed at reducing packaging waste and improving supply chain efficiency.”

And finally, how do you feel the bread industry will innovate and adapt compared to other industries?

Trey Halfpenny:

“We are continuously innovating with new recipes, flavours and formulations to meet changing consumer preferences and dietary needs. For instance, the rise of health-conscious consumers has led to innovations in whole grain, low-carbohydrate and organic breads. This need for innovation is also the case in other industries like electronics and automotive, which often develop cutting-edge products and features. Adapting to market trends is crucial in all sectors.”

Thank you so much Trey, it has been interesting finding out about the links between bread making and other industries.

Trey Halfpenny:

“No thank you, I have really enjoyed talking to you”



Financial statements for the year ended 31 December 2024

Halfpenny

Statement of profit or loss for the year ended 31 December 2024

	2024 K\$000	2023 K\$000
Revenue	331,600	320,730
Cost of sales	(241,474)	(232,840)
Gross profit	90,126	87,890
Selling, distribution and marketing costs	(53,182)	(51,108)
Administrative expenses	(7,100)	(6,950)
Operating profit	29,844	29,832
Finance costs	(1,883)	(2,021)
Profit before tax	27,961	27,811
Income tax expense	(8,230)	(8,120)
Profit for the year	19,731	19,691

Halfpenny
Statement of financial position at 31 December 2024

	2024 K\$000	2024 K\$000	2023 K\$000	2023 K\$000
ASSETS				
Non-current assets				
Property, plant and equipment	101,569		94,276	
Right-of-use assets	11,192		12,620	
		112,761		106,896
Current assets				
Inventory	9,230		8,145	
Trade receivables	47,610		46,925	
Prepayments and other receivables	2,408		2,273	
Cash and cash equivalents	5,073		5,123	
		64,321		62,466
Total assets		177,082		169,362
EQUITY AND LIABILITIES				
Issued K\$1 equity share capital		10,000		10,000
Retained earnings		74,299		66,568
Total equity		84,299		76,568
Non-current liabilities				
Borrowings	15,540		15,540	
Lease liability	9,414		10,890	
		24,954		26,430
Current liabilities				
Trade payables	44,245		43,069	
Accruals and other payables	14,200		13,965	
Tax liability	8,230		8,120	
Lease liability	1,154		1,210	
		67,829		66,364
Total equity and liabilities		177,082		169,362

Halfpenny**Statement of cash flows for the year ended 31 December 2024**

	2024 K\$000	2024 K\$000
Cash flows from operating activities		
Profit before tax		27,961
Adjustments		
Depreciation for property, plant and equipment	11,701	
Depreciation on right-of-use asset	1,428	
Profit on sale of property, plant and equipment	(109)	
Finance costs	1,883	
		14,903
Movements in working capital		
Increase in inventory	(1,085)	
Increase in trade and other receivables	(820)	
Increase in trade and other payables	1,411	
		(494)
Cash generated from operations		42,370
Tax paid		(8,120)
Interest paid		(1,883)
Net cash inflow from operating activities		32,367
Cash flows from investing activities		
Purchase of property, plant and equipment	(19,730)	
Proceeds from disposal of property, plant and equipment	845	
Net cash outflow from investing activities		(18,885)
Cash flows from financing activities		
Repayment of lease principal	(1,532)	
Dividend paid	(12,000)	
Net cash outflow from financing activities		(13,532)
Net decrease in cash and cash equivalents		(50)
Cash and cash equivalents at the start of the year		5,123
Cash and cash equivalents at the end of the year		5,073

Budget information for the year ending 31 December 2025

Total budgeted gross profit

	Bread loaves K\$000	Bread rolls K\$000	Total K\$000
Sales revenue	299,771	50,820	350,591
Cost of sales	(218,144)	(34,494)	(252,638)
Gross profit	81,627	16,326	97,953
Gross profit margin	27.2%	32.1%	27.9%

Bread Loaves

Sales revenue

	White	Wholemeal	Multi-seed	Rustic	Total
Sales volume	000	000	000	000	000
Large retailers	62,800	67,600	48,800	36,240	
Small retailers	15,700	16,900	12,200	9,060	
Total	78,500	84,500	61,000	45,300	269,300
Average sales price*	K\$	K\$	K\$	K\$	
Large retailers	0.88	0.88	1.20	1.52	
Small retailers	1.10	1.10	1.50	1.90	
Sales revenue	K\$000	K\$000	K\$000	K\$000	K\$000
Large retailers	55,264	59,488	58,560	55,085	
Small retailers	17,270	18,590	18,300	17,214	
Total sales revenue	72,534	78,078	76,860	72,299	299,771

*average sales price is given per loaf

Cost of sales

	White	Wholemeal	Multi-seed	Rustic	Total
	000	000	000	000	000
Total sales volume	78,500	84,500	61,000	45,300	269,300
Average production cost*	K\$	K\$	K\$	K\$	
Raw materials	1,256.25	1,398.75	1,473.75	1,651.25	
Direct labour	50.00	53.75	57.50	62.50	
Variable overhead	163.58	167.76	171.94	171.94	
Fixed overhead	373.10	384.13	395.15	395.16	
Total cost per batch	1,842.93	2,004.39	2,098.34	2,280.85	
	K\$000	K\$000	K\$000	K\$000	K\$000
Total cost of sales	57,868	67,748	51,199	41,329	218,144
Gross profit margin	20.2%	13.2%	33.4%	42.8%	27.2%

*average production cost is given per batch of 2,500 loaves

Bread Rolls

Sales revenue

	White	Wholemeal	Multi-seed	Rustic	Total
Sales volume	000	000	000	000	000
Large retailers	21,360	15,440	12,480	4,800	
Small retailers	5,340	3,860	3,120	1,200	
Total	26,700	19,300	15,600	6,000	67,600
Average sales price*	K\$	K\$	K\$	K\$	
Large retailers	0.64	0.64	0.80	1.08	
Small retailers	0.80	0.80	1.00	1.35	
Sales revenue	K\$000	K\$000	K\$000	K\$000	K\$000
Large retailers	13,670	9,882	9,984	5,184	
Small retailers	4,272	3,088	3,120	1,620	
Total sales revenue	17,942	12,970	13,104	6,804	50,820

*average sales price is given per packet of six rolls

Cost of sales

	White	Wholemeal	Multi-seed	Rustic	Total
	000	000	000	000	000
Total sales volume	26,700	19,300	15,600	6,000	67,600
Average production cost*	K\$	K\$	K\$	K\$	
Raw materials	638.13	709.38	746.88	835.63	
Direct labour	48.75	52.75	56.75	60.75	
Variable overhead	154.87	159.05	163.23	167.41	
Fixed overhead	351.51	362.54	373.57	384.60	
Total cost per unit	1,193.26	1,283.72	1,340.43	1,448.39	
Total cost of sales	K\$000	K\$000	K\$000	K\$000	K\$000
	12,744	9,910	8,364	3,476	34,494
Gross profit margin	29.0%	23.6%	36.2%	48.9%	32.1%

*average production cost is given per batch of 2,500 packets of rolls

Example standard cost card

Bread Loaves: Multi-seed				
Per batch of 2,500 loaves	Quantity / hours	Standard price / rate K\$	Standard cost K\$	Standard cost K\$
Raw materials:				
Strong flour	1,375 kg	0.85	1,168.75	
Fast action yeast	10 kg	18.00	180.00	
Other			105.00	
Packaging			20.00	
Total				1,473.75
Direct labour:				
Mixing & Kneading	0.70 hours	25.00	17.50	
Shaping & Proving	0.85 hours	25.00	21.25	
Baking	0.25 hours	25.00	6.25	
Cooling	0.30 hours	25.00	7.50	
Packaging	0.20 hours	25.00	5.00	
Total				57.50
Variable production overheads:				
Mixing & Kneading	0.70 hours	38.33	26.83	
Shaping & Proving	0.90 hours	45.25	40.73	
Baking	0.50 hours	124.67	62.34	
Cooling	2.00 hours	14.30	28.60	
Packaging	0.50 hours	26.88	13.44	
Total				171.94
Fixed production overheads:				
Mixing & Kneading	0.70 hours	114.99	80.49	
Shaping & Proving	0.90 hours	105.58	95.02	
Baking	0.50 hours	187.00	93.50	
Cooling	2.00 hours	42.91	85.82	
Packaging	0.50 hours	80.64	40.32	
Total				395.15
Total production cost				2,098.34

Notes on standards and budget preparation

- Standards are reviewed and updated annually.
- Normal raw material losses are included in the standard cost of each product.
- All direct labour overtime premium is treated as variable production overhead. Idle time is not budgeted for.
- Fixed and variable production overheads are allocated and apportioned to production cost centres and absorbed on a machine hours basis.
- Budgets are prepared annually using an incremental approach. Managers have limited involvement in budget setting.

Tax regime in Keeland

- The corporate income tax rate to be applied to taxable profits is 30%.
- Unless otherwise stated below, accounting rules on recognition and measurement are followed for tax purposes.
- The following expenses are not allowable for tax purposes:
 - accounting depreciation
 - amortisation
 - impairment charges
 - entertaining expenditure
 - donations to political parties
 - taxes paid to other public bodies.
- Tax depreciation allowances are available on all items of plant and equipment at a rate of 25% per year on a reducing balance basis. A full year's allowance is available in the year that the asset is acquired. Tax depreciation allowances are not available for property assets.
- Tax losses can be carried forward indefinitely to offset against future taxable profits from the same business.
- Sales tax is charged on all standard-rated goods and services at a rate of 20%. Tax paid on inputs into a business can be netted off against the tax charged on outputs from that business. All businesses are required to pay over the net amount due on a monthly basis.