



Mini Mock : Answer Plans

Operational Case Study – November 2023 / February 2024

Answer Planning Technique

Please refer to the recorded version of Webinar 03: Answering Technique for an in-depth guide on answer planning. Visit https://www.studyattcs.com/product/ocs_packages and check out the “Free Content” tab to access the video tutorial.

Replicate the same technique when practicing the five mock exams and when attempting the real exam.

Questions: Task 1

- Total mark allocation: 37.5 marks per task
 - Disposal of equipment & impact on tax charge (35% = 13 marks)
 - Suggest & justify 3 KPIs: Suppliers (30% = 11.5 marks)
 - Explain the CGMA cost transformation model (35% = 13 marks)

Answer Plan

- Total time allocation: 45 minutes per task
 - Time allocation for the Answer Plan: 20 minutes per task
 - Time allocation for typing: 25 minutes per task

Disposal of equipment (13 Marks)

Impact on financial statements

- Some assets will not be sold by year end. If so; IFRS 5 Noncurrent Assets Held for Sale & Discontinued Operations
- Classification: Asset held for sale
 - Available for immediate sale
 - In its present condition
 - Sale is highly probable
 - Management committed to sell
 - Active program carried out to find a buyer
 - Marketed at a reasonable price
 - Sale is expected to happen within 12 months
 - Unlikely that the plan to sell the asset will change
 - Valuation
 - Lower of CV & FV; less costs to sell
 - Asset is reclassified under Current Assets
 - Should not depreciate the asset after reclassification
- If all assets are disposed at year end
 - Depreciate until the date of disposal
 - Profit on disposal: \$ 460,000 (\$ 600,000 – \$ 140,000)
 - Asset (CV of \$ 140,000): derecognized from the SOFP
 - Profit on Disposal (\$ 460,000): recognized in SOPL
 - Proceeds from disposal (\$ 600,000): recognized in SCF as proceeds from the sale of PPE

Impact on tax charge

- Sale of equipment: capital gain
 - Taxed @ corporate rate of 25%
 - Capital gain:
 - Sales proceeds (\$ 600,000), less
 - Original cost (\$ 350,000), less
 - Tax depreciation from date of purchase until the date of sale (31.12.2023)
 - Tax depreciation @ 25% RBM, multiplied by \$ 350,000

KPIs: Packaging material Suppliers (11.5 marks)

- No. of late deliveries
 - We should not hold excessive stocks to counter
 - Suppliers must stick to lead times
 - Suppliers are located in different areas in Ceeland
 - Inevitable lead times
 - Suppliers manufacture PB specific packaging material
 - Lateness goes against collaborative relationships

- Percentage of returns due to poor quality
 - Percentage of returns against total deliveries
 - Important measure
 - PB's product quality of depend on quality of packaging material supplied

- Number of supplier queries taking more than two days to resolve
 - Extremely difficult for PB's procurement employees to talk to someone
 - Queries should be handled quickly and efficiently
 - If so, in line with collaborative relationships

The CGMA Cost Transformation Model (13 marks)

Engendering a cost-conscious culture

- Being conscious about all types of costs and their behaviour
- Cost consciousness should be inculcated in the organizational culture
 - Optimal use of economic resources while maintaining quality
 - Procurement planning and managing inventory cycles
 - Headcount planning

Managing the risk inherent in driving cost-competitiveness

- Considering the risk associated with cost reduction
 - Ex: reducing inventory cycles
 - Drives down costs
 - Exposes to risk of stock outs
 - Need to achieve a balance between quality and costs

Understanding cost drivers and cost accounting systems and processes

- Understanding cost behaviour (cost drivers) to achieve cost efficiencies
 - Can use ABC
- Accurate costing leads to better profits

Connecting products and profitability

- Making sure each product contributes positively to profit
- Helps understand unprofitable product categories
 - Discontinue or manage costs of unprofitable portfolios
 - Should track the profitability of all products, individually
 - Can use ABC

Generating maximum value through new products

- When introducing new products;
 - Understanding the exact customer needs
 - Understanding how much they are willing to pay
 - Ensure PB meets its profitability targets
- Application
 - Identify the gap between customer needs & what we offer
 - The gap should be closed to generate maximum value

Incorporating sustainability to optimize profits

- Embracing environmental concerns to achieve sustainability
 - Leads to positive brand recognition
 - Increases profitability by reducing costs
 - Ex: achieving cost efficiencies by reducing waste
- Should publicize environmental costs
 - Satisfy customers
 - Safeguard environment
 - Positive reputation
- Application
 - Using energy efficient machines
 - Improving manufacturing efficiency
 - If so, helps achieve Carbon neutrality in 4 years

Questions: Task 2

- Total mark allocation: 37.5 marks per task
 - Explain variances. How to calculate (45% = 17 marks)
 - Planning vs. Operational variances. Relate to the scenario (25% = 9 marks)
 - Handling redundancies ethically (30% = 11.5 marks)

Answer Plan

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Sales variance report: Protein Bar Range (17 marks)

Sales price variance

- Calculation: $(\text{Act. selling price} - \text{Bud. selling price}) * \text{Act. sales volume}$
- SP variance: adverse for Peanut & Almond
 - 20% discount offered on Peanut bar to address reputational damage
 - 10% discount offered on Almond bar to boost sales
- SP variance: favourable for Cashew bars
 - Additional price of C\$ 2 per bar (inclusion of organic cashews)

Sales mix profit variance

- Calculation: $(\text{Act. sales @ Bud. mix}) - (\text{Act. sales}) * \text{Std. profit per unit}$
- Need to identify products with the highest and lowest profitability
 - If the most profitable products are sold (Peanut bar)
 - SMP variance will be favourable
 - If the least profitable products are sold (Cashew Bars)
 - SMP variance will be adverse
- Exceeded sales budgets for Almond & Cashew Bars
 - Favourable sales mix variance due to;
 - Offering a 10% discount and marketing campaign on Almond bars
 - Excellent magazine review received on Cashew bars
- Did not achieve the sales budget for Peanut bars
 - Adverse sales mix variance
 - Even after offering a 20% discount & a marketing campaign
- Overall sales mix profit variance: Adverse
 - Exceeding sales budgets of least profitable bars (Almond & Cashew)
 - Selling a low amount of most profitable bars (Peanut)

Sales quantity profit variance

- Calculation: (Act. sales @ Bud. mix) - (Bud. sales) * Std. profit per unit
- Total SQPV: Adverse
 - Sold only 709,700 bars in total
 - Short by 450,300 units relative to budgeted sales
- SQPV of each product: Adverse across all ranges
 - Sold less units in total against budget
 - Exceeded sales budgeted in Almond & cashew
 - Significant drop in sales of Peanut bars
 - Due to the quality issue
 - Has an overriding effect on sales quantity

Planning and operational variance (9 marks)

- Impact of discounting: Planning variance
 - Std. selling price should've been based on the avg. discounted price; not the normal price
- Quality issue with Peanut range: purchasing expired ingredients
 - Couldn't have anticipated when budgets were set
 - Should split the price, mix & quantity variances into planning & operational
- Who controls pricing?
 - Discounts were offered on Peanut & Almond
 - Price was increased on Cashew
 - If Sales Heads cannot control prices: Planning variance
 - If Sales Heads can control prices: Operational variance
- Planning variances
 - Provides info about the accuracy of planning
 - May not be controllable
 - Sales volumes & mix used in the budget might have been inaccurate
 - Outside the control of SHs
- Operational variances
 - Provide info about operating efficiency
 - Indicates whether the SHs are efficient in carrying out sales operations
- Failure to separate variances
 - Leads to demotivation
 - SHs being held responsible for variances they cannot control

Handling redundancies in an ethical manner (11.5 marks)

Internal transfers

- Possible if existing skills can be used within another dept
- Cost effective
- Boosts motivation of affected employees
- Only applicable if;
 - Other depts have work to be assigned
 - Employees who are transferred agree

Job placements

- Assistance provided to seek jobs
 - Career counselling
 - CV writing advice
 - Provide services of head-hunters

Voluntary retirement scheme (VRS)

- Explaining the current situation & convincing employees to accept the VRS
- Smooth redundancy process
- Extremely costly
 - Retirement benefits

Paid time off work

- Offering months of paid leave so that employees can seek jobs & attend interviews
- Helps lessen resistance towards the redundancy process

Redundancy

- Should be the last option
- It is legal to lay off workers
- However, it is ethical to offer compensation

Suggested Answers are available at:

www.studyattcs.com