



Free Mock : Answer Plans

Operational Case Study – May & August 2024

Answer Planning & Time Management Technique

Please refer to the recorded version of Webinar 03: Answering Technique for an in-depth guide on answer planning & time management. Visit <https://www.studyattcs.com/product/ocs> 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.

Requirements

TASK 01

- Total mark allocation: 37.5 marks per task
 - Webbing ops: How to adopt ABC (48% = 18 marks)
 - T&D program: Steps to follow (26% = 10 marks)
 - Characteristics of KPIs (26% = 9.5 marks)

Task 2

- Capitalization of expenses & effect on financial statements (40% = 15 marks)
- Extending UEL from 5 to 10 yrs. & effect on financial statements (30% = 11 marks)
- Recommend & justify 3 KPIs: Retailers & WSs. How to calculate (30% = 11.5 marks)

Task 3

- Explain each variance. (40% = 15 marks)
- Should we hold Jack accountable for fixed production variances? (32% = 12 marks)
- 3 Short term options to use cash surplus (28% = 10.5 marks)

Task 4

- Explain Moody’s working capital position. Risks of selecting Moody’s (45% = 17 marks)
- How to prepare a flexible budget. Benefits (35% = 13 marks)
- Describe the principal budget factor. Explain link to functional budgets (20% = 7.5 marks)

Time Management 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

Activity Based Costing (18 marks)

- Steps
 - Identify OHs across activities
 - Ex: Cutting machines - Power & setup costs
 - Identify cost drivers
 - Identify activities which drive costs
 - Develop cost pools
 - Costs with the same cost driver should be included in the same pool
 - Calculate cost per driver
- Benefits
 - Distribute costs based on activity consumption
 - Better decision making
 - Optimize batch sizes
 - Adjust production schedules
 - Accurate & equitable cost absorption across products
 - Comet model will have higher resource needs & activities
 - A higher cost will thus be allocated

Applying ABC to the webbing department

- Storage & inventory management
 - Activities: Receiving, storing & recording inventories
 - Cost driver: No. of material batches handled – per batch
 - Cost pool: Inventory handling & storage

- Cutting & preparation
 - Activities: Measuring & cutting webbing
 - Cost driver: Length/ No. of pieces cut - per meter/per cut piece
 - Cost pool: Webbing preparation
- Assembly
 - Activities: Sewing & riveting webbing to saddles
 - Cost driver: No. of saddles assembled – per saddle
 - Cost pool: Assembly labour & machinery
- Quality control
 - Activities: Quality inspections & testing
 - Cost driver: No. of inspections/tests - per inspection/ per saddle tested
 - Cost pool: Quality assurance
- Finishing
 - Activities: dispatching finished saddles to the finishing dept.
 - Cost driver: No. of deliveries – per group/ batch of saddles dispatched
 - Cost pool: Dispatch & transportation
- Cost of the manager
 - Facility level cost: Unrelated to a single activity
 - This is a production OH & should be absorbed to products
 - Per saddle

Stages to be followed when conducting a training and development program (10 marks)

- Identify training needs
 - Based on issues faced at present
- Set T&D objectives
 - Based on achieving efficiency in manufacturing
 - Should be SMART
- Planning
 - Training methods
 - Formal
 - Informal
 - Location
 - Budgets
- Delivery & Implementation
 - Delivery
 - Inhouse
 - External
 - Are we achieving T&D objectives?
- Evaluate
 - Seek feedback from trainers & attendees

Characteristics of an effective KPI (9.5 marks)

- Definition: KPIs
 - Measures elements which are vital to achieve business success (CSFs)
- Characteristics
 - Should be set by strategic level & should flow to management & operational levels
 - Can achieve goal congruence
 - Should be challenging yet achievable
 - If so, employees will be motivated
 - If it is too easy, employees will not be motivated to perform over that level
 - Should be under the control of employees
 - Demotivates if performance evaluation is based on uncontrollable elements
 - Employees must understand KPIs
 - Should be SMART
 - Should be linked to rewards
 - Employees must see value in achieving KPIs
 - Nonperformance should trigger training

Capitalization of expenditure on new eco-friendly machines (15 marks)

IAS 16 PPE

- To capitalize the expenditure, an asset must have been created
- Asset is created if;
 - Probable that the expenditure results in future economic benefit
 - Expenditure can be reliably measured
 - Both are met
 - New machines will generate future profits
 - Expenditure is cash related
- Assets should be held for the supply of goods and services
 - Met
- Assets should be held for more than one accounting period
 - Met

Treatment of items in the schedule

- Method of capitalization
 - Purchase price (including import duties)
 - Directly attributable costs incurred to get the asset ready for its intended use
- Application
 - Costs to be capitalized
 - Purchase price inclusive of VAT, since Kanann is not VAT registered
 - Directly attributable costs
 - Building costs of modifying the operation bay
 - Machine modification costs

- Costs to be expensed
 - Training costs
 - Not directly attributable
 - Revenue expenditure
 - Charged to the SOPL
 - Ongoing maintenance
 - Not directly attributable
 - Revenue expenditure
 - Charged to the SOPL
 - Interest costs
 - Cost of financing the asset
 - Charged to the SOPL

Useful life of the new equipment (11 marks)

- IAS 16 PPE
- Useful life of an asset
 - Period over which the business expects the asset to be available for use OR,
 - Number of production units expected to be created from using the asset
- Potential useful life of machine
 - 5 years
 - Is this accurate?
 - Jack is the production manager
 - He possesses the best knowledge about the useful life
 - Should not depreciate over 10 years just to spread the cost over more years
- Change in accounting estimate
 - Can change the useful life after the initial assessment if there is evidence
 - If so,
 - Change the annual depreciation
 - $\text{CV of asset at the date of change} / \text{new remaining life at that date}$

KPIs: Retailers & Wholesalers (11.5 marks)

- **Sales Volume**
 - Calculation: Total Kanann branded products sold during a period
 - Reflects retailer's/ WS's ability to sell Kanann products
- **Order fulfillment rate**
 - Calculation: $(\text{No. of orders fulfilled} / \text{Total orders}) * 100$
 - High rate
 - Operational efficiency & reliability
 - Meeting customer needs
 - Good for customer satisfaction & reputation
- **Payment timeliness**
 - Calculation: $(\text{No. of payments made within credit period} / \text{Total payments}) * 100$
 - Evaluates punctuality of settlements/ adherence to credit terms
 - Timely payments are crucial for Kanann's cashflow
- **Inventory turnover rate**
 - Calculation: $\text{CoS} / \text{Avg. inventory value}$
 - Measures the speed of inventory replenishment, thus sales
 - Higher rate
 - Effective inventory management
 - No overstocking
- **Customer satisfaction score**
 - Calculation: Avg. customer rating (1 to 5)
 - Measures the satisfaction of end customers
 - High score
 - High customer satisfaction
 - Customers like the services offered by retailers/WSs
 - Positive word of mouth, repeat business & brand reputation

Variance Analysis (15 marks)

Variable overhead expenditure (F)

- Actual VOH was lower than budgeted
- Reduced electricity tariff
 - Outweighed the impact of OT

Variable overhead efficiency (A)

- Actual VOH per unit was higher than budgeted
- Inexperienced/ inefficient new employees
- Higher actual production volume strained resources causing inefficiencies

Fixed overhead expenditure (A)

- Actual FOH was higher than budgeted
- Leasing extra equipment
- Wages of new recruits
 - Employees
 - Supervisors who are better paid than production employees
 - Maintenance engineers

Fixed overhead efficiency (A)

- Less efficient in using FOHs relative to budget
- Faults in sewing machines disrupted production
- Time taken to train new recruits

Fixed overhead capacity (F)

- Production dept. used up more capacity than anticipated: Higher actual production
- Better utilization of machinery & facilities
 - Hiring additional employees
 - Increased production volumes

Responsibility Accounting (12 marks)

- Definition: Holding managers accountable only for variances under their control
- Reasons for variance Vs. responsibility
 - Hiring additional employees, supervisors & leasing extra equipment
 - Decided by the MD
 - Beyond Jack's control
 - Sewing machine failure
 - Failed due to regular wear & tear/ preventable issues: Jack is responsible
 - Maintenance lapses due higher-level decisions: Jack is not responsible
 - Increased capacity
 - Managing extra capacity & efficiency of absorption base (DLH): Jack is responsible
 - Slower work rate
 - Due to inefficiencies in integration of new recruits: Jack is responsible
 - Due to worker dissatisfaction/demotivation: Jack is responsible
 - Due to poor pay: Jack is not responsible

Short-term options to utilize cash surplus (10.5 marks)

- Settling payables early
 - We have outstanding payables & the balance has increased by 5%
 - Leads to better relationships with suppliers
 - Can seek early settlement discounts
 - Should evaluate whether an early settlement is financially viable
 - Annualized discounts received Vs. Annual cost of borrowing

- Money market deposits
 - Attractive interest rates
 - Money cannot be withdrawn until maturity
 - Need to budget cashflows considering cash invested & maturity period

- Treasury bills
 - Issued by the government: low risk
 - Higher liquidity: Can convert to cash before maturity
 - Lower interest rate due to relatively low risk

Working Capital Position: Moody's (17 marks)

- Inventory Days
 - Consistent with the industry until 2022 (on avg. 30 days in 2021 & 2022)
 - In 2023, days have almost halved (18 days)
 - Why?
 - Packaging material do not become obsolete fast
 - Might be due to rapid revenue growth and lack of cash
 - Unable to purchase RM stocks due to lack of cash?
- Receivable Days
 - Increased across the years
 - Higher than the industry avg. in 2022 & 2023
 - Inefficient in credit control
 - Moody's standard credit period: 30 days
 - High growth in revenues
 - Extended credit terms offered to attract new business?
 - Beneficial for Kanann
- Payable Days
 - Increased across the years
 - Unable to pay its suppliers on time
 - Overtrading?
 - Slower to pay relative to industry average, even when Moody's had cash
 - Moody's is taking advantage of its suppliers

Moody's working capital position: Risks

- Overtrading
 - Significant growth in revenue
 - Depleting cash
 - Paying suppliers late
 - Increasing receivables
 - Unable to finance and manage the rapid growth
- Inability to continue trading
 - Risky to opt for a sole-sourcing agreement
- Inability to fulfill Kanann's packaging material needs due to low inventories

Constructing a flexible budget (13 Marks)

- Establish the selling price per unit for each product
 - Will this selling price remain constant at different activity levels?
 - Sales revenue at different activity levels
 - Selling price per unit * activity level
- Establish variable and fixed costs
 - VC: Varies with activity level (sales or production volume)
 - DM & DL
 - Flexing VCs
 - Calculating the cost per unit * revised volume of output
 - FC: Will not vary with the different levels of activity
- Establish production OHs
 - Mix of VCs & FCs
 - Need to separate VCs and FCs
 - Flexing OHs
 - VC: Calculating the cost per unit * revised volume of output
 - Add FCs
 - Determine whether any fixed costs are stepped

Benefits of flexible budgeting

- Determines the impact on profit at differing activity levels
 - Can determine material & labour cost budgets at different activity levels
- Better resources planning
 - Contingency planning
- Better budgeting
 - Better decision making
 - However, need to spend additional resources on budget preparation

Principal budget factor (7.5 Marks)

- Define: main item that limits a company's operations
- Usually sales
 - Same within Kanann

Functional budgets and principal budget factor

- Define: Budgets created for individual departments of the organization
- Amalgamation of functional budgets forms the master budget
- Preparation
 - Step 1: Forecasting the principal budget factor
 - Step 2: Determine production requirement
 - Step 3: Determine manufacturing costs
 - Step 4: Prepare budgets for each production process

Suggested Answers are available at:

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