



Free Mock – Questions

CIMA Operational Case Study – May & August 2024

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The examination is structured as follows:

Section number	Time for section (minutes)	Number of tasks	Number of sub task/s	% marks allocated on each sub task
1	45	1	3	(a) 48% (b) 26% (c) 26%
2	45	1	3	(a) 40% (b) 30% (c) 30%
3	45	1	3	(a) 40% (b) 32% (c) 28%
4	45	1	3	(a) 45% (b) 35% (c) 20%

Each section (task) has a number of sub tasks. An indication of mark allocations is shown against each sub task in the text of the question (and summarized in the table above).

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



Section 1 (45 mins)

You receive the following email from the Finance Manager.

From: Lois Gamell (Finance Manager)

To: Finance Officer

Subject: Costing & HR

At the recent SMT meeting, we discussed shifting from our traditional costing method to activity-based costing (ABC), particularly for webbing costs, which are currently allocated uniformly to "production." This approach is outdated, and I believe Kanann's costing method needs a comprehensive overhaul for more accurate cost reflection. Further details on webbing operations are available in the reference material.

- Explain how an ABC approach can be adopted for costing webbing operations.

[Sub Task (a) - 48%]

With the intention of enhancing the quality of operations, we have decided to launch special training and development sessions for our manufacturing employees. In line with the initiative, John Kanann (Managing Director) asked me to do a presentation on the training and development program which we need to follow for our employees involved with manufacturing operations.



- Therefore, could you please draft me a report on the steps which we need to follow in our training and development program? I believe that we will be able to continue the training and development program in the coming years if we could generate a better output this time. **[Sub task (b) - 26%]**

To boost up our performance within the industry, our senior management team has decided to review and set new effective key performance indicators for our employees. Therefore, to evaluate and establish new KPIs, the SMT asked the finance function to provide a report on the characteristics of effective Key Performance Indicators.

- Explain the characteristics of effective KPIs. **[Sub task (c) - 26%]**

Regards,

Lois

-----REFERENCE MATERIAL IS AVAILABLE ON THE NEXT PAGE-----



Reference Material 01

Information about webbing operations

Storage and Inventory Management: Upon receiving the webbing materials from the raw material warehouse, they are stored in an organized manner and recorded in the inventory system to keep track of the available stock and usage.

Cutting and Preparation: The webbing is then measured and cut to the required lengths and specifications for different saddle models. This process involve automated cutting machines as well as manual cutting tools.

Assembly: The cut webbing is attached to the saddle during the assembly process. This involves sewing, & riveting, to securely fasten the webbing to the saddle components.

Quality Control: After the webbing is attached, the saddles undergo quality checks to ensure that the webbing is securely attached and meets the required standards for strength and durability.

Dispatch to Finsihing Department: Saddles with webbings which pass the quality test is dispatched to the finishing department using forklifts.

Notes

- The webbing department is headed by a manager.
- Machines used in cutting, sewing & riveting operations are all electric powered.

Section 2 (45 mins)

You receive the following email from the Finance Manager.

From: Lois Gamell (Finance Manager)

To: Finance Officer

Subject: PPE & KPIs

I require your assistance with a few matters that need urgent attention. Last month, the board decided to purchase eco-friendly industrial sewing machines with the aim of reducing our Caron footprint, thereby replacing the industrial sewing machines which are currently in use. The acquisitions are currently underway. I have prepared a list of expenses that we have incurred in the acquisition of these new machines. However, I am unsure if all these expenses should be capitalized.

- Therefore, could you please give me a brief explanation about the criteria for capitalization of expenditure and the treatment for each of these expenses in the financial statements? Please refer to the information which I have attached with this email (*see table 01*) in preparing your response.

[Sub task (a) - 40%]



Further, we have planned to replace one of the cutting heads used within our cutting machines. Please see table 02, to gather information about this replacement.

- Describe the length of depreciation for the new cutting head. Further, if we decide to depreciate it for 05 years & later realize that we can use it for 10, how can we deal with the change in useful life in our financial statements? **[Sub task (b) – 30%]**

Kanann exclusively distributes its equestrian products through independent wholesalers and retailers, with some specializing in Kanann's offerings and others providing a diverse range of brands. Orders can be made through email, phone, or in-person interactions. Kanann provides a credit period of 30 to 60 days and fosters strong relationships with its B2B partners to ensure prompt payments.

- Please recommend and justify three KPIs to evaluate the performance of these retailers and wholesalers and explain how to calculate each KPI. **[Sub task (c) – 30%]**

Regards,

Lois

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Reference Material 02

Table: 1 Costs related to the purchase of eco-friendly industrial sewing machines

Cost Item	K\$
Purchase costs including VAT	2,500,000
Building work required to modify the operations bay	700,000
Maintenance and service contract cost	80,000
Crew training cost (1)	120,000
Essential modification costs (2)	400,000
Interest costs (3)	74,000

Notes:

1. The employees in the production department need to attend training sessions to be able to operate these new machines.
2. Some of the machines that were purchased required certain modifications that had to be installed additionally.
3. The machines were purchased using debt finance, at an interest of 5% per annum.

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Table 02: Cutting head replacement

One of the cutting heads used within our cutting machines are broken. This malfunction has the potential to disrupt the entire manufacturing process. If the issue is not fixed soon, there will be delays in manufacturing, thus disrupting sales.

The production team within the assembly department pointed out that this malfunction wasn't unforeseen. The cutting head, having served its purpose diligently, has reached its end of life, having been used to its maximum capacity.

A proposal has been put forward to replace the malfunctioned cutting head, with a budget of K\$ 5,000. The supplier has assured a life span of 10 years for the new equipment. However, there seems to be a difference of opinion within the team. While the supplier is confident about the durability and longevity of the equipment, Jack Newman (Production Manager), believes that given the rigours and demands of the manufacturing process, the equipment may only last for about 5 years.

Section 3 (45 mins)

Today is the 1st of July 2024. Due to a successful marketing campaign carried out by Kanann's sales team last month, there has been an increase in sales orders. You receive the following email from the Finance Manager.

From: Lois Gamell (Finance Manager)

To: Finance Officer

Subject: Variance Analysis & Cash Management

I want your help to evaluate the variance report which was created for the month of June (see reference material 03).

- Explain what each variance means and the possible reason for their occurrence.

[Sub task (a) - 40%]

At Kanann, Jack Newman (Production Manager), is held responsible for all production variances.

- Explain whether it is prudent to hold Jack responsible for the fixed production variances of the production department.

[Sub task (b) - 32%]

One final thing. I would like to bring to the attention of the SMT about the company's cash position, which has increased by approximately 149% bringing our cash and cash equivalents balance to K\$ 212,000 as of 31st December 2023. I personally believe that we can put this cash to better use than simply holding it in our accounts.

- Hope you can explain three possible short-term options to utilize the cash surplus.

[Sub task (c) - 28%]

Regards,

Lois

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Reference Material 03

Variations: Production overheads – June 2024

Variance	VOH (K\$)	A/F	FOH (K\$)	A/F
Expenditure	8,627	F	342,892	A
Efficiency	30,114	A	122,678	A
Capacity	N/A		485,645	F

Notes:

- Actual saddle production exceeded budgeted figures, leading to overtime work. The overtime premium was allocated to variable overhead costs.
- During the month, eight production employees resigned following a labor dispute. In response, John Kanann, the Managing Director, decided to hire 15 individuals as replacements to accommodate the significant increase in production volumes. Additionally, he recruited three more production supervisors and leased extra equipment to ensure smooth production operations for the new recruits.
- Production flow was negatively impacted due to faults in some industrial sewing machines, a result of maintenance lapses. External maintenance technicians were brought in to address the issues promptly.
- The newly elected government implemented a reduction in electricity tariffs.
- The overhead absorption rate for the production department is based on direct labor hours.

Section 4 (45 mins)

You receive the following email from the Finance Manager.

From: Lois Gamell (Finance Manager)

To: Finance Officer

Subject: WCM & Budgeting

We have been facing some issues with our existing packaging material suppliers. In this backdrop, Jack Newman (Production Manager) thinks that it is better to pursue a single sourcing agreement with Moody's, one of the largest packaging material suppliers in Keeland. I believe that an evaluation needs to be carried out to determine the financial performance of Moody's before we commence business dealings with the entity. Hence, I have attached the necessary information (see reference material 04) for your kind perusal.

- Explain the working capital position of Moody's based on reference material 04 and highlight the risks, if there are any, associated with selecting Moody's as a supplier. ***[Sub task (a) – 45%]***

Given the uncertainty of sales demand in the future, the SMT has requested that we prepare a revised budget for quarters three and four.

- Provide an explanation on how we can prepare a flexible budget, and highlight the benefits gained by shifting to a flexible budget. ***[Sub task (b) – 35%]***

Jack Newman (Production Manager) has also requested for information pertaining to the principal budgeting factor. I am busy now. Hope you can fulfill the following.

- Describe the concept, 'principal budgeting factor'. Also explain the link between the principal budget factor and functional budgets.

[Sub task (c) – 20%]

Regards,

Lois

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Reference Material 04

Item	2023 Industry Avg. K\$ '000	2023 Moody's K\$ '000	2022 Moody's K\$ '000	2021 Moody's K\$ '000
Sales	18,268	4,250	2,416	1,234
Cash/ (Overdraft)	1,490	-630	56	825
Operating Cycle	Days	Days	Days	Days
Receivable Days	39	62	51	35
Inventory Days	32	18	31	30
Payable Days	-45	-86	-63	-38

- Note: Moody's credit terms for both receivables and payables are 30 days.

Suggested Answers are available at:

www.studyattcs.com

