May and August 2026
Operational Case Study
CGMA Professional Qualification
Full post exam support materials

Below are the full post-exam supporting materials for the Operational Case Study Exam. Use the links on this page to jump to the documents required.

Pre-seen material

May and August 2026 Operational Case Study pre-seen.

Examiner's report

The May and August 2026 examiner's report.

Exam variants

- Variant 1
- Variant 2
- Variant 3
- Variant 4
- Variant 5
- Variant 6

Suggested solutions

- Suggested solutions for variant 1
- Suggested solutions for variant 2
- Suggested solutions for variant 3
- Suggested solutions for variant 4
- Suggested solutions for variant 5
- Suggested solutions for variant 6

Marking Guidance

- Marking guidance for variant 1
- Marking guidance for variant 2
- Marking guidance for variant 3
- Marking guidance for variant 4
- Marking guidance for variant 5
- Marking guidance for variant 6

If you need any further information please contact us.

Operational Case Study Examination

May-August 2026

Pre-seen material

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 ongoing 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 SoPa. You are principally involved in the preparation of management accounting information and providing information to managers to assist with 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

SoPa operates a chain of restaurants in the country of Zeeland, which is in Europe. The company was founded 10 years ago, in 2016, by husband and wife Paolo and Sofia Perez. The restaurants serve food which is inspired by Latin American street food, elevated to restaurant standard. The currency of Zeeland is Z$.

Both Paolo and Sofia were born and raised in Latin America but came to work in the capital city of Zeeland, Tombor, in the early 2000s. They met in Zeeland in 2006 and married in 2012.

Paolo is a chef. He started his training in Latin America but came to Zeeland when he was 23 to further develop his skills by working in some of the country's best-known restaurants. Sofia came to Zeeland at the age of 21. She initially worked as a server but soon worked her way up to manage front-of-house in two popular restaurants.

Throughout the early 2010s, Paolo and Sofia continued to work full time in different restaurants but were starting to develop a vision for their own restaurant. They are both passionate about the cuisine of their native Latin America and wanted to bring the flavours and culinary experience of their home countries to Zeeland. They named the restaurant SoPa, a combination of Sofia and Paolo.

In 2016, the company was founded and the first restaurant opened in Tombor. The restaurant was a huge success. This can be attributed to the hard work of both Paolo and Sofia in creating a dining experience that embodied high quality food and beverages, in a modern and relaxed setting, at an affordable price.

The second restaurant was opened in 2018 and, by 2023, there were another four restaurants in Tombor. In 2023, Paolo and Sofia decided to expand beyond the capital city and have since opened three restaurants in other major Zeeland cities. There are currently nine restaurants operating.

In the last financial year to 31 December 2025, the company had revenue of Z$41.7 million, a gross profit margin of 32.6% and an operating profit margin of 9.4%. It employed just over 300 people across its restaurants and head office. The company is still 100% owned by Paolo and Sofia.

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The restaurant industry

The restaurant industry in Zeeland is highly competitive, especially in the capital city where there is a large and diverse restaurant scene. For the year to 31 December 2025, restaurant revenue in Zeeland was Z$45 billion.

Many companies in the industry own and operate multiple restaurants, although some companies do operate a single restaurant. Corporate failure is common in the Zeeland restaurant industry and specific reasons for this include:

- Poor customer reviews on food and service leading to a poor reputation.
- Expanding too fast; new restaurants opened with inadequate management teams and insufficient working capital.
- Too much diversity in terms of the food and dining experience leading to confused branding.

Growth in the restaurant industry over the past 3 years has been relatively stagnant at an average of only 3% per year, largely as a result of the following key challenges affecting the industry:

Economic factors	•Low consumer confidence brought about by high interest rates and cost of living concerns arising from inflationary pressures.
Cost pressures	•Cost pressures from food inflation, increases in both property costs and the national minimum wage.
High staff turnover	•Difficulty in recruitment attributed to low wages, long hours and poor working conditions. The labour force is mainly young and transient (many workers consider working in a restaurant as short term).

These industry challenges also contribute towards corporate failure in the industry.

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For 2026 and beyond, growth in the industry is expected to increase to around 4.5% per year. Whilst the key challenges noted above still exist, the following are the key opportunities for survival and growth in the industry:

Embrace technology	•Harnessing the power of AI for everything from menu development to inventory management. Utilising robotics in kitchens and front-of-house.
Focus on guest experience	•Creating an unforgettable dining experience, whether that be catering to dietary requirements or creating an immersive experience.
Dynamic pricing	•Providing time sensitive discounts or off-peak meal deals to increase the number of covers and increase occupancy rates.
Invest in people	•Investing in the workforce by providing fair wages and good working conditions as well as engendering team spirit and job loyalty.
Diversification	•Diversifying into takeaway and home delivery services, where growth continues to outpace dining out.

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Extract from the SoPa website: About us

SoPa RESTAURANT

Home **About us** Menu Reviews Blog Contact

Our Story

We are a husband and wife team from Latin America, united by a passion for sharing the rich culinary heritage of our homeland. Over the years, we have had the privilege of working in kitchens in Latin America and Zeeland. Each experience shaped our vision of what dining can be.





Our Home

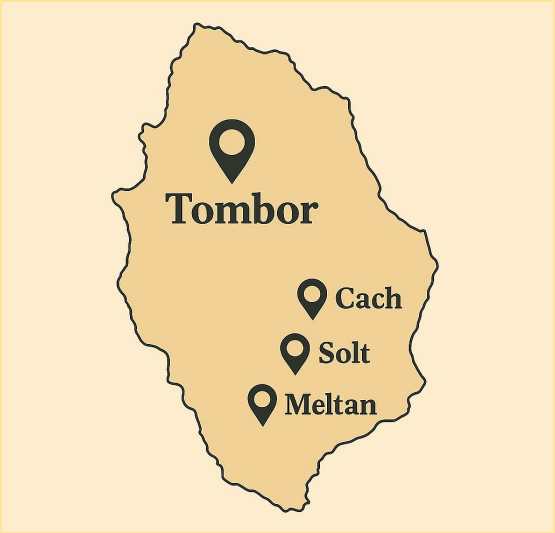
After a journey filled with flavours, friendships and faraway places, we found ourselves in Zeeland – a place we now gratefully call home. It is here surrounded by nature and community that we've planted the roots of our restaurants and built a space that celebrates tradition whilst embracing change.

Our Food

Our food is grounded in the recipes we grew up with, but elevated with contemporary techniques, fresh local ingredients and a deep respect for sustainability. We believe in moving our beloved cuisine into the future – refining it, reimagining it and presenting it with the elegance it deserves.



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Our Locations

1. SoPa Tombor, Meridian Ave, Tombor
2. SoPa Mar, Orcan Road, Tombor
3. SoPa Luc, Tan Street, Tombor
4. SoPa Ventuk, Harn Square, Tombor
5. SoPa Eco, Scarlett Square, Tombor
6. SoPa Vern, Gorge Way, Tombor
7. SoPa Cach, Newgol Way, Cach
8. SoPa Solt, The Square, Solt
9. SoPa Mel, Garden Road, Meltan

Our Team

Behind every dish is a team we cherish. Our restaurants are built not just on a passion for food, but on a love for people. We invest in our employees' wellbeing and growth because we know an inspired team creates memorable experiences.





Our Future

Our restaurant reflects who we are: rooted in heritage, shaped by experience, powered by innovation. We can't wait to welcome you …

love Paolo & Sofia XX

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Restaurant menu



Main Street
Tombol
www.SoPa.dab.ac.ol

DRINKS

DRINKS FROM Z$3 – Z$15
Alcoholic and alcohol-free drinks and cocktails

HOT DRINKS FROM Z$4
A variety of national and international hot drinks

STARTERS

CEVICHE CLASSICO Z$13
Fresh sea bass cured in lime juice with red onion, sweet potato and cancha corn

CHICKEN TACOS Z$10
Pulled chicken marinated in annatto and orange served on soft organic corn tortillas with pickled slaw

BLACK BEAN TOSTADA Z$9
Crisp corn based topped with smashed beans, smoky chipotle, pickled red onion and cotija cheese

SALADS & SPECIALS Z$11/Z$12
Seasonal dishes which change weekly. Please ask your server for details

DESSERTS

MOLTEN CARAMEL CAKE Z$8
Soft centred cake with coconut sorbet

VANILLA QUINOA PUDDING Z$8
Creamy and topped with roasted pineapple and lime (vegan)

CINAMMON CHURROS WITH SPICED CHOCOLATE Z$8
Served hot with chilli chocolate dip

ASSORTED ICE CREAM Z$6

MAINS

CHICKEN WITH CHILLI SAUCE Z$16
Pan seared chicken bread in creamy yellow chilli sauce, with quinoa pilaf and sauteed greens

COCONUT FISH STEW Z$19
Central American style fish stew with coconut milk, tomatoes and peppers served with farofa and rice

STEAK CHIMICHURRI Z$25
Chargrilled steak with chimichurri butter, crispy yucca fries and grilled organic corn

SWEET CORN AND MUSHROOM BAKE Z$15
Sweetcorn and mushroom baked casserole with paprika, onions and olives (vegetarian)

SPECIAL Z$21
Seasonal dishes which change weekly. Please ask your server for details

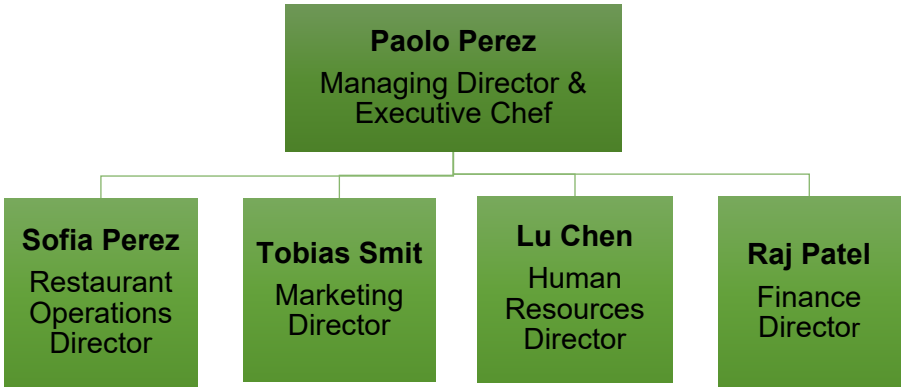
SIDES

TORTILLAS Z$2
ASSORTED DIPS Z$3

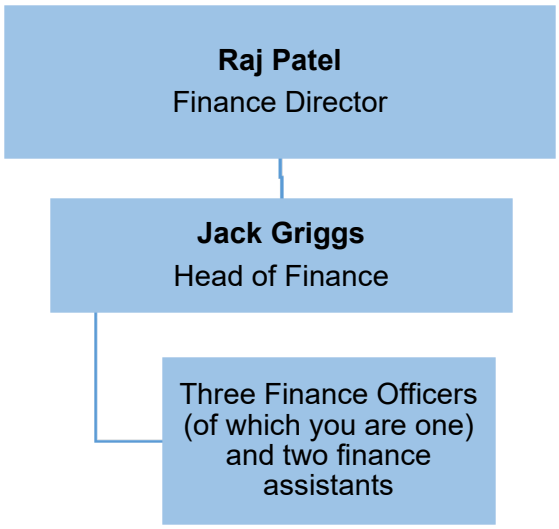
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Key management teams

The Directors

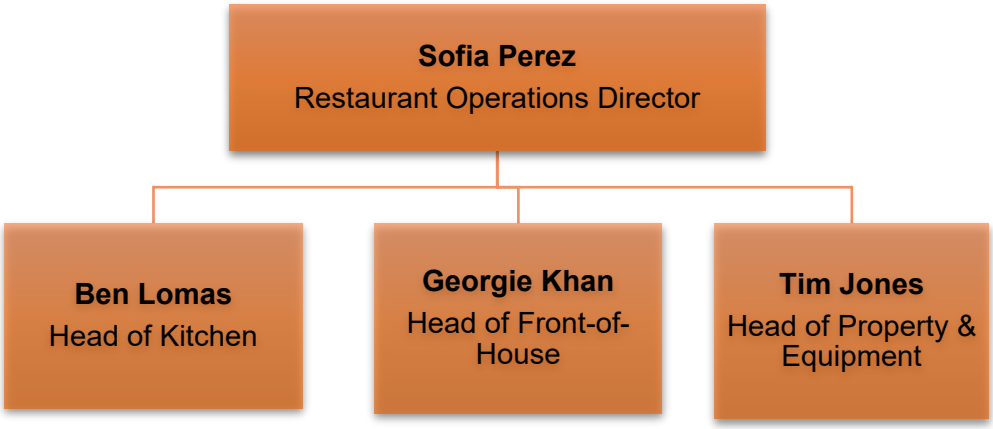


Finance Team



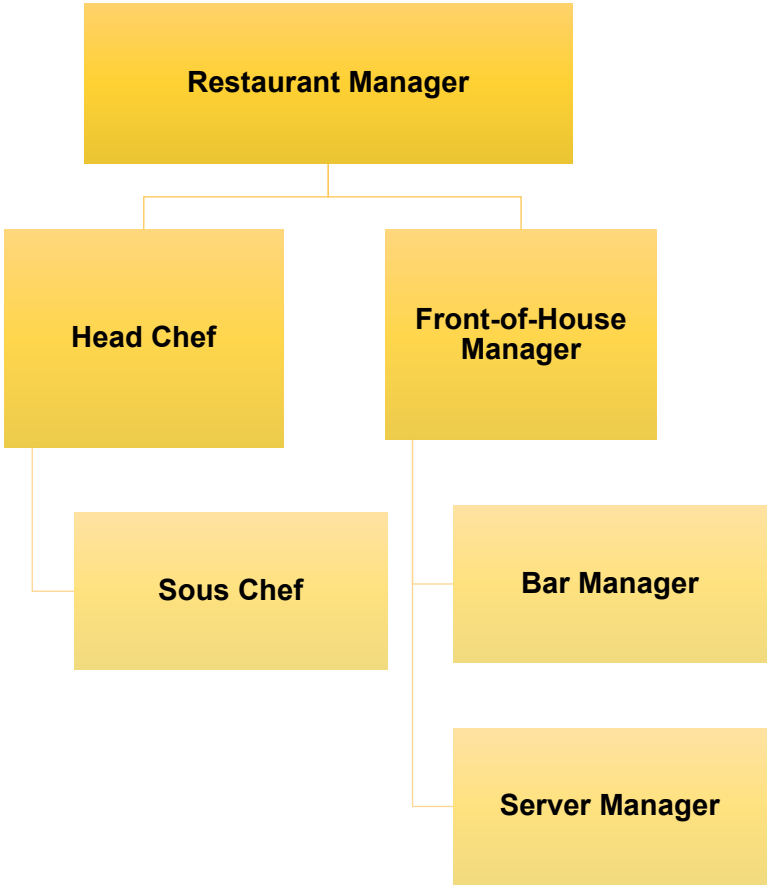
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Restaurant Operations Team



The Restaurant Operations Team has ultimate responsibility for operation of all of the company's restaurants and is based at SoPa Head Office.

Each individual restaurant has the following management structure:



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Extract from the SoPa website: Meet the directors



Managing Director & Executive Chef / Paolo Perez

With my many years of experience as a chef and my passion for the authentic cuisine of my homeland, I love nothing more than being in the kitchen developing new dishes to tickle your taste buds.



Restaurant Operations Director / Sofia Perez

With over two decades of experience in the industry, I use my position to oversee restaurant design and training of all front-of-house employees, to give our customers a memorable and consistent dining experience every single time they come to one of our restaurants.



Finance Director / Raj Patel

As my first move from accounting practice to industry, it has been very gratifying to use my existing knowledge and experience of supporting clients in the restaurant industry to support SoPa at this exciting time of growth and development.



Marketing Director / Tobias Smit

I am delighted to be using my 30 years of experience which has been spent driving marketing for some of the largest restaurant chains to support our amazing brand to develop both nationally and internationally.



Human Resources Director / Lu Chen

Having worked in many countries and organisations in the hotel and restaurant industry, I pride myself on developing a positive workplace culture leading talent acquisition and supporting professional growth. I am commited to diversity and innovation to ensure our team thrives.

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Other information about SoPa operations

Menu and product development

In his role as Managing Director & Executive Chef, Paolo Perez is responsible for the menu, which is the same for each restaurant. He is based at the Head Office but uses a section of the kitchen in the first SoPa restaurant when he is developing new dishes. He liaises closely with ingredient suppliers to ensure that new dishes deliver the flavours of Latin America, but utilise ingredients and produce that are, as far as possible, sustainably sourced.

The menu always includes SoPa signature dishes, which stay on the menu for a number of months. It also includes specials which change on a weekly basis depending on the ingredients and produce available at that time.

For all new dishes, Paolo creates a detailed recipe with clear instructions for the preparation and cooking of the dish. He also videos himself preparing and cooking the dish, giving verbal instructions. Recipes and videos are sent to the Head Chef of each restaurant to ensure consistency of the dish at each restaurant.

As well as menu development, Paolo is also working on a project to develop a range of SoPa-branded dips to be sold direct to consumers. A small supermarket chain has already expressed an interest in stocking such products. Paolo has just started to consider whether the new products would be made in-house in a small production facility or production would be outsourced.

Restaurant operations

As at 30 April 2026, SoPa has nine restaurants operating. Six of these are located in Tombor, the capital city of Zeeland, and the other three in different major Zeeland cities. A tenth restaurant is due to open on 1 July 2026 in a region of Zeeland where SoPa does not currently operate. There are currently no restaurants in countries other than Zeeland, although Paolo has been investigating the possibility of opening a restaurant in Neeland, a neighbouring country to Zeeland. This would be the first venture outside of Zeeland.

Each restaurant has the same menu and the same feel in terms of décor and ambience. There is a common brand across all restaurants.



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Each restaurant has a Restaurant Manager who is responsible for the two distinct areas of operation: kitchen and front-of-house.

Kitchen	Front-of-house
Includes: ➢ Temperature-controlled ingredient storage ➢ Dedicated food preparation areas ➢ Dedicated cooking areas ➢ A front pass (where the Head Chef checks the food leaving the kitchen)	Includes: ➢ Customer dining tables ➢ Bar area ➢ Front reservation stand
Employees include: ➢ Head Chef (responsible for all food leaving the kitchen) ➢ Sous Chef (deputy to the Head Chef) ➢ Chefs (for preparation and cooking of food) ➢ Kitchen Porters (for dish washing and kitchen cleaning duties)	Employees include: ➢ Front-of-House Manager (ultimately in charge of all aspects of customer service including reservations) ➢ Bar Manager (in charge of the operation of the bar area) ➢ Bartenders (for making beverages) ➢ Server Manager (in charge of servers) ➢ Servers (for taking of orders, delivery of food and beverages to customers, clearing between courses and taking payment from customers)

Each restaurant is open to customers from 12.30pm until 11pm each day, with orders for food taken from 12.30pm until 9.30pm. Kitchen employees work either an early shift (starting at 8am to prepare for the day ahead) or a late shift (starting at 4pm and finishing when the last customer has left, and the kitchen cleaned down). Front-of house employees also work either an early or a late shift, although start time for an early shift is 11am.

Revenue at each restaurant is driven by the number of covers, where a cover is defined as a single customer. Each restaurant has 100 seats and through the day, each seat is expected to be occupied on average 3 times, which means that the maximum number of covers (customers) per restaurant per day is expected to be 300. It is also expected that across the year, on average, the actual level of occupancy will be 85%.

The mix of customers is roughly 60% people who live within the city of the restaurant and 40% people who are visiting the city. There is significant brand loyalty, and currently around 70% of customers are returning customers.

Customer feedback is encouraged and a QR code is available on the bill to allow customers to do this. In the early days, customer reviews were typically very positive about the food and service with many 4 and 5 star reviews. These early reviews helped to build the reputation of SoPa, which in turn allowed the company to expand into new restaurants. Over the last year, customer reviews have become more varied.

Currently, SoPa does not do any form of home delivery or take out service from any of its restaurants. At a recent Senior Management Team (SMT) meeting, it was suggested that the

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company considering setting up a home delivery service in the capital city, Tombor. This would necessitate the setting up of 'ghost kitchen', that is a kitchen entirely for the preparation and cooking of home delivery food. The SMT is in the process of considering this further.

Ingredients and suppliers

The main ingredient groups are fresh meat, fresh fish, eggs, dairy (including cheese, milk and cream), fresh fruit and vegetables and dry ingredients (such as flour, rice and spices). No frozen ingredients are purchased. In addition, the company has to regularly buy in restaurant supplies such as napkins, glasses, crockery and cutlery.

The number of suppliers and average supplier credit terms are:

	Number of suppliers	Average supplier credit terms
Fresh meat	3	30 days
Fresh fish	1	15 days
Eggs	2	20 days
Dairy	1	30 days
Fresh fruit and vegetables	4	30 days
Dry ingredients	5	45 days
Restaurant supplies	2	60 days

All restaurants receive supplies direct from suppliers, there is no central storage facility. Currently, many of the suppliers supply all restaurants. In a bid to reduce food miles, the SMT is now looking into widening the supplier base, so that local suppliers are used for specific restaurants. The SMT is also considering ways to connect more directly with farmers and growers in order to improve the provenance of ingredients. It is even considering whether it would be feasible to set up its own growing operation for salad ingredients, using a vertical farm.

Sustainability

Paolo and Sofia have a personal interest in protecting the environment. However, they recognise that operating a restaurant does have negative impacts on the environment, especially with respect to energy consumption and food waste.

Where possible, they seek to mitigate these impacts by:

- Ensuring that tables and chairs in the restaurant are made from wood that has been sustainably sourced.
- Using napkins and menus that are made from recycled paper and card.
- Ordering fresh ingredients in small amounts to limit wastage as far as possible. This is possible because of the close links that Paolo has developed with suppliers.
- Using, where possible, energy efficient equipment in the kitchens.
- Sourcing electricity from a supplier of green energy.

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Employees

Paolo and Sofia have built a strong Senior Management Team that is based at the company's Head Office located in Tombor, the capital city of Zeeland. This team is supported by junior managers and assistants. The whole team of 30 employees based at Head Office is passionate about food and about creating a fabulous dining experience for customers.

Each restaurant is headed up by a Restaurant Manager, and each has a further 30 employees split as follows:

	Number of employees
Kitchen	16
Bar	3
Other front-of-house	12

From the early days of the company, Paolo and Sofia recognised the importance of a happy workforce. They have always sought to ensure that employees are paid a fair wage, given adequate training and not overworked. As a result, employee morale has been high. However, given the increasing number of restaurants to manage, Paolo and Sofia, alongside the Human Resource Director, are finding it increasingly more difficult to maintain a high level of employee morale across all restaurants.

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Recent customer reviews for SoPa restaurants

★ “I was eager to try SoPa in Solt after all the buzz but left sorely disappointed.”

★ ★ ★ ★ ★ “Highly recommended for celebrations or a special night out in Meltan.”

★★★★ “The seafood stew was packed with flavour, and the local drink selection impressive. There was a minor mix-up with our bill, but it was resolved quickly. Will definitely visit again!”

★ ★ ★ ★ ★ “SoPa’s seasonal menu keeps things fresh, and the lamb special was outstanding.”

★ “The staff seemed overwhelmed, our food arrived cold, and the atmosphere felt more like a cafeteria than the inviting spot I’d hoped for. When we voiced our concerns, we received little more than a shrug. Sadly, I won’t be returning.”

★ ★ ★ ★ ★ “Would give 6 stars if I could, SoPa Cach is a wonderful balance between sophistication and comfort. I’ve dined here several times and love it.”

★★ “My visit to SoPa in Meltan left much to be desired. The restaurant looked promising from the outside, but once inside, it was noisy and cramped. My soup was lukewarm and the main course arrived much later than expected.”

★ ★ ★ ★ ★ “Great night. The chef even visited our table to recommend pairings. Every course was a delight, and the house-made desserts are a must-try. Truly a five-star experience!”

★★★ “The staff were friendly but seemed stretched too thin during peak hours. Overall, an average experience—worth trying if you’re in the area, but not a destination.”

★★ “The staff were polite, but seemed distracted, and my requests for water went unnoticed. The dessert was decent, but not enough to make up for the rest of the meal.”

★★ “As the capital’s branch, I expected more from SoPa in Tombor.”

★ ★ ★ ★ ★ “The décor was stylish and modern; my meal was amazing and the service excellent. Great night which lived up to the chain’s reputation.”

★★ “On the bright side, the dessert menu was creative, even if the execution fell flat.”

★★★ “SoPa in Cach is a mixed bag. The starters were excellent, especially the roasted vegetable salad, but my main course was underwhelming.”

★★★★ “I had a lovely dinner at SoPa in Solt. The atmosphere was cozy, and our server was attentive and knowledgeable about the menu.”

★ ★ ★ ★ ★ “Absolutely fantastic! SoPa’s Orcan Road branch exceeded all expectations — from the warm, welcoming staff to the beautifully presented dishes bursting with local Zeeland flavours.”

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Financial statements for the year ended 31 December 2025

SoPa
Statement of profit or loss for the year ended 31 December 2025

	2025 Z$000	2024 Z$000
Revenue*	41,680	36,240
Cost of sales	(28,100)	(24,690)
Gross profit	**13,580**	**11,550**
Marketing costs	(1,420)	(1,240)
Administrative expenses	(8,240)	(7,560)
Operating profit	**3,920**	**2,750**
Finance costs	(350)	(365)
Profit before tax	**3,570**	**2,385**
Income tax expense	(902)	(605)
Profit for the year	**2,668**	**1,780**

*The average number of restaurants in 2025 was 8.5 and the average number of restaurants in 2024 was 7.5. The company opened a new restaurant on 1 July in each year.

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SoPa
Statement of financial position at 31 December 2025

	2025 Z$000	2025 Z$000	2024 Z$000	2024 Z$000
ASSETS				
Non-current assets				
Property, plant and equipment		11,450		10,340
Current assets				
Inventory	230		214	
Other receivables*	150		165	
Cash and cash equivalents	1,426		1,166	
		1,806		1,545
Total assets		**13,256**		**11,885**
EQUITY AND LIABILITIES				
Issued Z$1 equity share capital		400		400
Share premium		1,200		1,200
Retained earnings		6,028		4,760
Total equity		**7,628**		**6,360**
Non-current liabilities				
Bank loan	1,812		1,986	
		1,812		1,986
Current liabilities				
Bank loan	174		174	
Trade payables	1,450		1,310	
Other payables	1,290		1,450	
Tax liability	902		605	
		3,816		3,539
Total equity and liabilities		**13,256**		**11,885**

*Credit card payments from customers are typically received into the company bank account the day after the transaction. The amounts outstanding for credit card payments are included as other receivables.

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SoPa
Statement of cash flows for the year ended 31 December 2025

	2025 Z$000	2025 Z$000
Cash flows from operating activities		
Profit before tax		3,570
Adjustments		
Depreciation of property, plant and equipment	2,320	
Finance costs	350	
Profit on disposal of property, plant and equipment	(25)	
		2,645
Movements in working capital		
Increase in inventory	(16)	
Decrease in other receivables	15	
Decrease in trade and other payables	(20)	
		(21)
Cash generated from operations		**6,194**
Tax paid		(605)
Interest paid		(350)
Net cash inflow from operating activities		**5,239**
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,555)	
Proceeds on disposal of property, plant and equipment	150	
Net cash outflow from investing activities		(3,405)
Cash flows from financing activities		
Dividend paid	(1,400)	
Repayment of borrowings	(174)	
Net cash outflow from financing activities		(1,574)
Net increase in cash and cash equivalents		**260**
Cash and cash equivalents at the start of the year		1,166
Cash and cash equivalents at the end of the year		**1,426**

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Budget information for the year ending 31 December 2026

Total budgeted gross profit

	Food Z$000	Beverages Z$000	Total Z$000
Revenue	31,711	17,442	49,153
Direct costs	(8,850)	(2,856)	(11,706)
Profit after direct costs	**22,861**	**14,586**	**37,447**
Indirect restaurant running costs			(20,285)
Gross profit			**17,162**
Profit after direct cost margin	**72.1%**	**83.6%**	**76.2%**
Gross profit margin			**34.9%**

Total budgeted revenue and direct cost for food

	Starter Z$000	Main Z$000	Side Z$000	Dessert Z$000	Total Z$000
Revenue	7,570	17,268	4,361	2,512	31,711
Direct costs	(1,502)	(4,943)	(1,718)	(687)	(8,850)
Profit after direct costs	**6,068**	**12,325**	**2,643**	**1,825**	**22,861**
Profit after direct cost margin	80.2%	71.4%	60.6%	72.7%	**72.1%**

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Principal budget factor: covers

The principal budget factor for revenue and direct costs is the number of covers. A cover is defined as a single customer. The budgeted number of covers per year is calculated as follows:

Number of seats available per restaurant	100
Number of times seats filled in a day	3 times
Therefore, maximum number of covers per day per restaurant	300
Number of days restaurant operational	360 days
Budgeted occupancy	85%
Therefore, budgeted number of covers per restaurant per year	91,800
Number of restaurants*	9.5
Therefore, total budgeted number of covers per year	872,100

*This represents nine restaurants operating for a full 12 months and one restaurant operating for 6 months (opening on 1 July 2026).

Each cover (which is a single customer) is expected to order multiple menu items. The percentage of covers having a starter, main and dessert is assumed to be:

	%
Starter	80
Main	100
Dessert	40

In addition, the assumption is that:

- 100% of covers will order both sides (tortillas and dips).
- 100% of covers will have two cold beverages and 50% of covers will also have a hot beverage.

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Starters

Standards per starter

	Ceviche Z$	Tostada Z$	Taco Z$	Special Z$	Salad Z$
Selling price	13.00	9.00	10.00	12.00	11.00
Ingredient cost	(2.30)	(0.80)	(1.40)	(2.40)	(0.60)
Direct labour cost*	(0.75)	(0.58)	(0.58)	(0.67)	(0.82)
Profit after direct cost	**9.95**	**7.62**	**8.02**	**8.93**	**9.58**
Margin	**77%**	**85%**	**80%**	**74%**	**87%**

*Direct labour is the cost of the time taken preparing and cooking a starter in the kitchen.

Budgeted revenue

Per restaurant:	Ceviche	Tostada	Taco	Special	Salad	Total
Percentage of covers						80%
Starters per year						73,440
Budgeted mix	20%	20%	30%	15%	15%	**100%**
Budgeted starters sold	14,688	14,688	22,032	11,016	11,016	**73,440**
Budgeted revenue (Z$)	190,944	132,192	220,320	132,192	121,176	**796,824**
In total:						
Number of restaurants						9.5
Budgeted revenue (Z$000)						**7,570**

Budgeted direct costs

Per restaurant:	Ceviche	Tostada	Taco	Special	Salad	Total
Budgeted starters sold	14,688	14,688	22,032	11,016	11,016	**73,440**
Ingredient cost (Z$)	33,782	11,750	30,845	26,438	6,610	
Direct labour cost (Z$)	11,016	8,519	12,779	7,381	9,033	
Total direct costs (Z$)	**44,798**	**20,269**	**43,624**	**33,819**	**15,643**	**158,153**
In total:						
Number of restaurants						9.5
Budgeted direct costs (Z$000)						**1,502**

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Mains

Standards per main

	Chicken Z$	Fish Z$	Steak Z$	Veg Z$	Special Z$
Selling price	16.00	19.00	25.00	15.00	21.00
Ingredient cost	(3.40)	(3.10)	(5.80)	(1.70)	(5.40)
Direct labour cost*	(1.40)	(1.40)	(1.50)	(1.08)	(1.50)
Profit after direct cost	**11.20**	**14.50**	**17.70**	**12.22**	**14.10**
Margin	**70%**	**76%**	**71%**	**81%**	**67%**

*Direct labour is the cost of the time taken preparing and cooking a main in the kitchen.

Budgeted revenue

Per restaurant:	Chicken	Fish	Steak	Veg	Special	Total
Percentage of covers						100%
Mains per year						91,800
Budgeted mix	20%	20%	20%	10%	30%	**100%**
Budgeted mains sold	18,360	18,360	18,360	9,180	27,540	**91,800**
Budgeted revenue (Z$)	293,760	348,840	459,000	137,700	578,340	**1,817,640**
In total:						
Number of restaurants						9.5
Budgeted revenue (Z$000)						**17,268**

Budgeted direct costs

Per restaurant:	Chicken	Fish	Steak	Veg	Special	Total
Budgeted mains sold	18,360	18,360	18,360	9,180	27,540	**91,800**
Ingredient cost (Z$)	62,424	56,916	106,488	15,606	148,716	**390,150**
Direct labour cost (Z$)	25,704	25,704	27,540	9,914	41,310	**130,172**
Total direct costs (Z$)	**88,128**	**82,620**	**134,028**	**25,520**	**190,026**	**520,322**
In total:						
Number of restaurants						9.5
Budgeted direct costs (Z$000)						**4,943**

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Sides and desserts

Standards per side or dessert

	Sides		Desserts	
	Tortillas Z$	Dips Z$	Dessert Z$	Ice-cream Z$
Selling price	2.00	3.00	8.00	6.00
Ingredient cost	(0.30)	(0.90)	(1.90)	(1.20)
Direct labour cost*	(0.50)	(0.27)	(0.47)	(0.17)
Profit after direct cost	**1.20**	**1.83**	**5.63**	**4.63**
Margin	**60%**	**61%**	**70%**	**77%**

*Direct labour is the cost of the time taken preparing and cooking a side or dessert in the kitchen.

Budgeted revenue

Per restaurant:	Sides			Desserts		
	Tortillas	Dips	Total	Dessert	Ice-cream	Total
Percentage of covers			200%			40%
Sides/desserts per year			183,600			36,720
Budgeted mix	50%	50%	**100%**	60%	40%	**100%**
Budgeted sides/desserts sold	91,800	91,800	**183,600**	22,032	14,688	**36,720**
Budgeted revenue (Z$)	183,600	275,400	**459,000**	176,256	88,128	**264,384**
In total:						
Number of restaurants			9.5			9.5
Budgeted revenue (Z$000)			**4,361**			**2,512**

Budgeted direct costs

Per restaurant:	Sides			Desserts		
	Tortillas	Dips	Total	Dessert	Ice-cream	Total
Budgeted sides/desserts sold	91,800	91,800	**183,600**	22,032	14,688	**36,720**
Ingredient cost (Z$)	27,540	82,620	**110,160**	41,861	17,626	**59,487**
Direct labour cost (Z$)	45,900	24,786	**70,686**	10,355	2,497	**12,852**
Total direct costs (Z$)	**73,440**	**107,406**	**180,846**	**52,216**	**20,123**	**72,339**
In total:						
Number of restaurants			9.5			9.5
Budgeted direct costs (Z$000)			**1,718**			**687**

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Beverages

Standards per beverage

	Cold Z$	Hot Z$
Average selling price	9.00	4.00
Average ingredient cost	(1.10)	(0.35)
Average direct labour cost*	(0.30)	(0.60)
Profit after direct cost	**7.60**	**3.05**
Margin	**84%**	**76%**

*Direct labour is the cost of the time taken preparing a beverage.

Budgeted revenue

Per restaurant:	**Cold**	**Hot**	**Total**
Percentage of covers	200%	50%	
Beverages per year	183,600	45,900	
Budgeted revenue (Z$)	1,652,400	183,600	**1,836,000**
In total:			
Number of restaurants			9.5
Budgeted revenue (Z$000)			**17,442**

Budgeted direct costs

Per restaurant:	**Cold**	**Hot**	**Total**
Budgeted beverages sold	183,600	45,900	
Ingredient cost (Z$)	201,960	16,065	**218,025**
Direct labour cost (Z$)	55,080	27,540	**82,620**
Total direct costs (Z$)	**257,040**	**43,605**	**300,645**
In total:			
Number of restaurants			9.5
Budgeted direct costs (Z$000)			**2,856**

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Restaurant running costs

This includes the cost of all restaurant managers and front-of house employees. It also includes all premises and equipment costs such as rent, depreciation, energy and insurance.

It is estimated that 40% of total budgeted restaurant running costs are variable and vary in proportion to the number of covers and that the rest of the costs are fixed in nature.

For the year ending 31 December 2026, this can be analysed as:

Restaurant running costs	Z$000
Variable	8,114
Fixed	12,171
Total	**20,285**

The standard variable cost per cover is therefore Z$9.30.

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Zeeland Culinary Chronicles

"Exploring Zeeland's gastronomic world one meal at a time"

Our restaurant industry: what is the future?

An examination of challenges and prospects

Written by Audry Dolman

Introduction

The restaurant industry in Zeeland is poised on the brink of transformative change. The sector must navigate myriad challenges while capitalising on emerging opportunities, particularly in the realms of technology and sustainability. This article looks to focus on potential developments that could shape its trajectory.

Current challenges

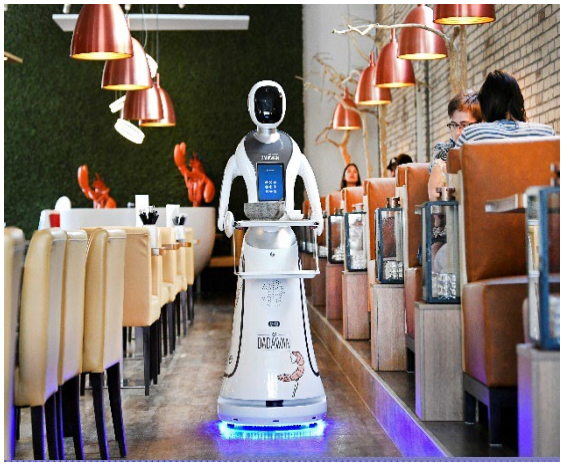
Staff shortages

One of the most pressing issues facing our restaurant industry is the acute shortage of staff. This shortage has been exacerbated by a combination of factors including demographic shifts, evolving workforce preferences and the impact of the recent global pandemic. The scarcity of trained staff has increased operational pressures, led to higher labour costs, and, in some cases, a decline in service quality.

Potential technological developments

Automation and robotics

To address the staffing crisis, the integration of automation and robotics stands out as one of the most promising solutions. Automated systems for order taking, food preparation and even service can significantly alleviate the burden on human staff. Robotic chefs, capable of preparing complex dishes with precision, and automated servers, designed to deliver food efficiently, are technologies that are already being explored and implemented in various parts of the world. Zeeland's restaurants could benefit immensely from adopting these innovations, enhancing both efficiency and consistency.



An automated server

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Artificial intelligence and machine learning

Artificial intelligence (AI) and machine learning (ML) are also set to revolutionise the restaurant industry by optimising various aspects of operations. For example, AI-driven analytics can forecast demand, allowing restaurants to manage inventory more effectively and reduce waste. AI-powered personalised marketing can attract and retain customers by offering tailored promotions and recommendations based on their preferences and dining history.

Digital ordering systems

The adoption of digital ordering platforms is also expected to accelerate. These systems not only streamline the ordering process but also minimise human error and reduce waiting times.

Advancements in sustainability

Eco-friendly practices

The future of Zeeland's restaurant industry will also be shaped by the technological advances which are supporting a growing emphasis on sustainability. Eco-friendly practices, such as sourcing locally produced, organic ingredients from vertical farms and minimising food waste, are becoming increasingly important. Restaurants that prioritise sustainability are likely to resonate more with environmentally conscious consumers, attracting a loyal customer base.



A vertical farm

Conclusion

The restaurant industry in Zeeland is at a pivotal juncture. By embracing technological advancements and committing to sustainable practices, the sector can overcome the current staffing challenges and pave the way for a prosperous and resilient future. The integration of automation, AI and digital solutions will enhance operational efficiency, while eco-friendly initiatives will foster a sustainable and appealing dining environment.

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ZEELAND TIMES

Tim talks to … Paolo and Sofia Perez, founders of SoPa

Interviewer: Tim Franklin (TF)

TF: Paolo, can you tell us about your culinary journey and how you ended up in Zeeland?

Paolo Perez (PP): Of course! I started my culinary training in Latin America, where I was born and raised. When I was 23, I moved to Zeeland to further develop my skills by working in some of the best-known restaurants in the country. It was an incredible opportunity to learn from some of the best chefs and gain valuable experience.

TF: Sofia, what brought you to Zeeland and how did you get started in the restaurant industry?

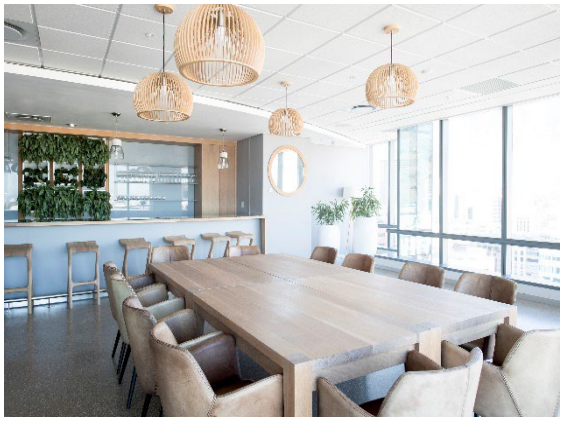
Sofia Perez (SP): I came to Zeeland when I was 21. I initially worked as a server, but I was dedicated and passionate about the industry, so I quickly worked my way up to manage front-of-house in a couple of popular restaurants. It was a great learning experience and helped me understand the dynamics of running a successful restaurant.

TF: How did the idea for SoPa come about?

PP: Throughout the early 2010s, Sofia and I continued to work full time in different restaurants. However, we were always developing a vision for what our own restaurant would be. We are both passionate about the cuisine of our native Latin America and wanted to bring the flavours and culinary experience of our home cities to Zeeland.

TF: What was it like opening the first SoPa restaurant in 2016?

SP: It was an exciting and challenging time. We opened the first restaurant in Tombor and it was a huge success. Our hard work in creating a dining experience that embodied high-quality food and beverages, in a modern but relaxed setting, at an affordable price, really paid off. The positive response from our customers was incredibly rewarding.



The interior of SoPa's latest restaurant

TF: How has SoPa grown since then?

PP: We opened our second restaurant in 2018, and by 2023, we had another four restaurants in Tombor. In 2024, we decided to expand beyond the capital and opened two restaurants in other major Zeeland cities. Currently, we have nine restaurants operating, all with a common brand and menu.

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TF: What are some of the key factors that have contributed to SoPa's success?

SP: One of the key factors is our commitment to quality and consistency. Paolo oversees menu developments and we make changes every month, although we have certain signature dishes that remain consistent. We also have a passionate team of employees at each restaurant location, including head chefs and restaurant managers who ensure the smooth operation of the kitchen and front-of-house.

TF: What are your plans for the future of SoPa?

SP: We have ambitious plans to continue growing the company by opening new restaurants in other Zeeland cities and considering expansion internationally. We also plan to start retailing our own brand of dips and possibly sauces and meal kits in the future. We also want to start a delivery service and strengthen the sustainability of our supply chain by setting up our own vertical farm utilising growing pods.

TF: What is your advice for aspiring restaurateurs?

PP: Follow your passion and stay true to your roots. It's essential to maintain authenticity and quality in everything you do. Be prepared for hard work and challenges, but don't be afraid to take risks and innovate. Building a strong team and creating a great dining experience for your customers is key to success.

TF: Thank you both for sharing your journey and insights with us.

SP & PP: Thank you, Tim. It was a pleasure talking to you.



Range of produce used in SoPa's menu

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Module notes from Zeeland College of Hospitality

Module notes: Sustainability in hospitality

Chapter 2 - Vertical farming and the future of sustainable dining

Introduction
Due to the rising costs of food and transport as well as supply chain disruption due to climate and other geopolitical instability, restaurants are considering innovative ways to serve fresh, sustainable quality meals consistently whilst minimising cost. One answer that is becoming more popular is vertical farming.

What is vertical farming?
Vertical farms grow crops in growing pods, usually indoors, using systems like hydroponics or aquaponics (growing systems based on fluids rather than soil). Figure 1 shows the elements in a hydroponic growing pod system. Each growing pod contains several individual hydroponic trays that are stacked vertically. The growing pods operate within a closed environmental system, ensuring plants thrive year-round, whatever the weather outside.

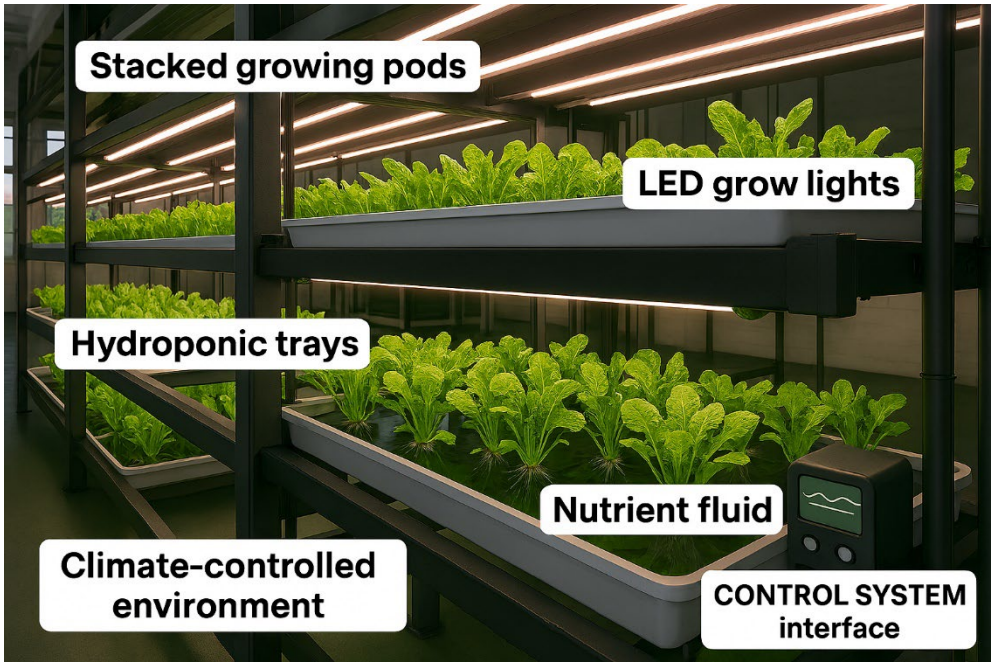


Figure 1 The components of a hydroponic vertical farm

Why are restaurants embracing vertical farms?
Restaurants are turning to vertical farms for three main reasons:

- Freshness and flavour: Crops such as edible flowers, herbs and lettuces can be harvested minutes before plating, arriving with the end customer at peak taste, texture, and nutrition.
- Supply chain resilience: Growing near to end users in a controlled environment reduces reliance on long haul logistics and protects from climate disruptions and market volatility.
- Brand differentiation: Such crops can be brand differentiators especially when sustainability is an important component of a brand.

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Sustainability benefits
There are also distinct sustainability advantages to such growing systems:

- Water efficiency: Up to 98% less water used due to closed-loop recycling.
- Land conservation: Growing vertically means more food per square meter leading to less pressure on farmland.
- Reduced emissions: Renewable energy is often used to run systems and local production means limited or no transport emissions.
- Pesticides: Controlled environments mean no requirement for pesticides.

Other considerations when setting up a vertical farm

- Startup Costs: Equipment, such as growing pods can be expensive although they are becoming cheaper.
- Crop Selection: Fast growing high margin crops are more suitable for this method.
- Staff Training: Teams may require training to learn how to monitor nutrients and manage harvesting cycles.

Conclusion
In all types of hospitality venue, vertical farming is redefining what “local” means. Whilst it won’t replace traditional agriculture, vertical farming can be a powerful tool for those who want to grow smarter, greener and closer to home.

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Tax regime in Zeeland

- The corporate income tax rate to be applied to taxable profits is 25%.
- 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 (including computer 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.

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Operational Case Study Exam

Maximum Time Allowed: 180 minutes

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.

This examination is structured as follows:

Task number	Time for task (minutes)	Number of tasks	Number of sub-task/s	% time to spend on each sub-task
1	45	1	3	(a) 40% (b) 32% (c) 28%
2	45	1	3	(a) 36% (b) 32% (c) 32%
3	45	1	4	(a) 20% (b) 32% (c) 16% (d) 32%
4	45	1	2	(a) 76% (b) 24%

Each task has a number of sub-tasks. An indication of how much of the time available for the task 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

Today is 1 June 2026. Paolo Perez, Managing Director & Executive Chef, has developed a range of SoPa-branded dips for retail. This new range will be called SoPa@home and will be sold through third-party retailers. The Senior Management Team (SMT) is considering whether to set up a small production facility for SoPa@home and produce in-house or whether to outsource production.

You receive the following email:

From: Jack Griggs, Head of Finance
To: Finance Officer
Subject: SoPa@home: in-house or outsource decision

Chart 1 (attached) is a profit/volume chart for the new SoPa@home range, showing the break-even position for both the in-house and outsource options. This is based on our initial estimates of sales volume, sales mix, sales price, variable cost per unit and total fixed costs for the first 12 months of operation.

Please prepare a report for the SMT in which you:

- Interpret Chart 1 to explain what it tells us about budgeted profit, fixed cost, average variable cost per unit, break-even position and margin of safety for the in-house and outsource options.

[sub-task (a) = 40%]

- Discuss the benefits and limitations of this break-even analysis.

[sub-task (b) = 32%]

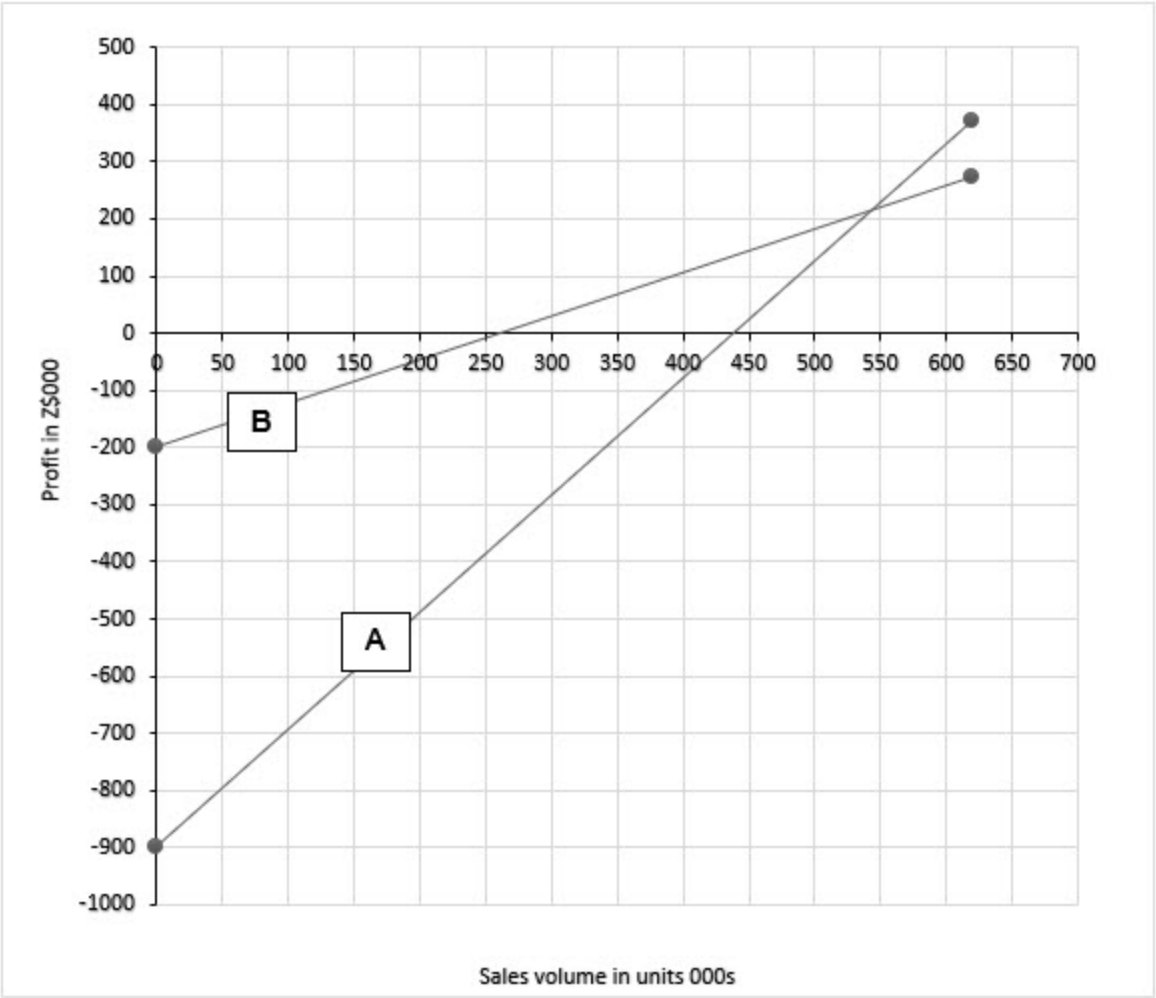
- Discuss how weighted benefit scoring would be applied to assist with the decision whether production should be in-house or outsourced.

[sub-task (c) = 28%]

Jack Griggs
Head of Finance
SoPa

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

Chart 1: Multi-product profit/volume chart for SoPa@home for the first 12 months



Notes:

- Line A represents in-house production and Line B represents outsourced production.
- The budgeted volume, mix and selling prices of SoPa@home products are assumed to be the same for lines A and B. Budgeted volume is 620,000 units in total, although could be 20% higher or lower than this in the period.
- Fixed cost includes production overhead (where appropriate) and selling and marketing costs, all specific to the SoPa@home range.

Reference Material Pre-seen

Write the report requested by Jack Griggs in the box below.

Paragraph

Reference Material Pre-seen

It is now 1 July 2026. To maintain control over quality, the Senior Management Team (SMT) decided to set up a small production facility for the production of SoPa@home products.

Jack Griggs, Head of Finance, calls you into his office and says:

"We are currently setting up the new SoPa@home Production Facility and we plan to start selling products on 1 October 2026. We now need to prepare the production budgets for the period until 31 December 2026, based on sales volume being the principal budget factor. So far, we have established a sales budget and standards for the raw material inputs for 1,000 jars of each type of product. Table 1, which I will give you shortly, is the raw materials standard for Salsa Dip, which is one of the dips that we will be producing.

We have just appointed Rob Gaines as SoPa@home Manager and he will be responsible for all aspects of production. Raj Patel, Finance Director, would like Rob to be involved in establishing the production budgets, although he has little experience of this.

Please prepare a briefing paper for Rob in which you:

- Discuss why preparing production budgets for the SoPa@home Production Facility will help Rob with respect to planning, co-ordination and control.

[sub-task (a) = 36%]

- Discuss how to construct the production budget, the raw materials usage budget and the raw materials purchases budget for the period until December 2026. Please support your discussion with reference to the information in Table 1.

[sub-task (b) = 32%]

We will be producing SoPa@home products for inventory, which means at the year-end we will have finished goods inventory. Most of our products will have a 6-month shelf life and the normal selling price of all products will be sufficient to cover costs of production. We will sell off any inventory with less than a 1-month shelf life to a discount retailer at 20% of the normal selling price.

At the last SMT meeting, a query was raised over how this inventory would be valued in the financial statements. One member of the SMT suggested that it should be valued at resale value, another at the cost of ingredients used, whilst another said the full cost of producing and storing the products. Raj didn't have time at the meeting to discuss this any further.

Please prepare a briefing paper for the SMT in which you:

- Apply the provisions of the relevant financial reporting standard to explain how SoPa@home finished goods inventory will be valued in our financial statements."

[sub-task (c) = 32%]

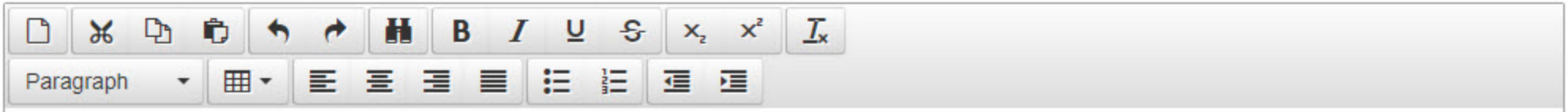
Jack then passes you Table 1, which can be found by clicking on the Reference Material button above.

Table 1: Raw material standard for 1,000 jars of Salsa Dip

Raw material	Quantity	Standard price per unit of quantity Z$	Standard cost Z$
Tomato	280kg	0.45	126.00
Onion	180kg	0.30	54.00
Chilli	50kg	0.65	32.50
Fresh herbs	50kg	0.80	40.00
Seasoning	10kg	1.20	12.00
Jars	1,000 jars	0.30	300.00
Total raw material cost			**564.50**

Reference Material Pre-seen

Write the briefing papers requested by Jack Griggs in the box below.



A week later, you receive the following email:

From: Jack Griggs, Head of Finance
To: Finance Officer
Subject: Costing and EOQ

The new SoPa@home range will initially include four different dips: Salsa, Guacamole, Chipotle and Super-hot. An overview of the production process is shown in Schedule 1 (attached). At the last Senior Management Team (SMT) meeting, a discussion was started about how production overheads would be treated for costing purposes in the facility. Absorption costing and activity based costing (ABC) were both mentioned.

Please prepare a briefing paper for the SMT in which you:

- Recommend, with appropriate justification, suitable bases for absorption rates for each production process in Schedule 1, assuming absorption costing is used.

[sub-task (a) = 20%]

- Evaluate the suitability of using ABC for the new SoPa@home Production Facility.

[sub-task (b) = 32%]

We will be using jars made from recycled glass and the supplier has just been selected. Rob Gaines, SoPa@home Manager, has suggested that we use the economic order quantity (EOQ) model to determine our order policy for glass jars.

We are expecting that, whilst sales of SoPa@home dips may vary month on month, we will produce dips evenly throughout the year. The supplier is a company that Rob used before at his previous employer and he has said that the supplier is reliable, although there were times when jars were either delivered earlier or later than the anticipated delivery date.

Please prepare a briefing paper for the SMT in which you:

- Explain what the EOQ represents and the information that we will need to establish in order to calculate it.

[sub-task (c) = 16%]

- Recommend, with appropriate justification, whether the EOQ model is suitable for determining our ordering policy for glass jars.

[sub-task (d) = 32%]

Jack Griggs
Head of Finance
SoPa

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

Schedule 1: Overview of production process for the SoPa@home range

Weighing: Ingredients will be weighed for a single batch of production and placed into a cage, which will be wheeled to the mixing area by an employee. The weighing process will be a manual process.

Mixing: The ingredients from the cage will be added to a mixing bowl in a specific order. Ingredients that require chopping will be added first and chopped by the mixing machine. After chopping is complete, the other ingredients will be added and the batch mixed by the machine.

Packaging: After mixing is complete, the bowl will move along an automated line and the mixture fed into a vat on the packaging line. The packaging process will be fully automated as the mixture will be measured into jars, which will then be sealed, labels attached and packed into cardboard boxes.

Notes:

- Each type of dip will have the:
  - The same batch size
  - The same jar size
  - Different number of ingredients
  - Different mixing times
- The processes of weighing, mixing and packaging each has its own team of direct employees.
- Production overheads are expected to be around 35% of the total cost of production.
- The mixing bowls and packaging line will be cleaned after each batch to ensure that there is no mixing of dips.

Reference Material Pre-seen

Write the briefing papers requested by Jack Griggs in the box below.

Paragraph

Reference Material Pre-seen

It is now early December 2026. The SoPa@home Production Facility started production in September.

You receive the following email:

From: Jack Griggs, Head of Finance
To: Finance Officer
Subject: Performance of the SoPa@home Production Facility

The Senior Management Team (SMT) has requested a report on the performance of the SoPa@home Production Facility for November. Attached are some of the variances (Table 1) and an extract of the Key Performance Indicator (KPI) dashboard (Table 2) for the facility for November. I have established that:

- There have been no changes to standards since they were originally set, which was before production commenced.
- During October, some batches had to be scrapped because of poor consistency of the mixture. Investigation established that this was due in part to some poor-quality ingredients but also because of the settings on the mixing machines. As a result, in early November, the following happened:
  - Higher quality ingredients were sourced from new suppliers. The remaining inventory from the original suppliers was scrapped.
  - Additional quality checks were included in the mixing process. These are carried out by direct employees.
  - The time taken in the mixing machine was reduced for all types of dip.
- Production was higher than anticipated in November, resulting in additional direct employees and supervisors being recruited early in the month. The direct employees recruited had previously worked at a food production plant.
- Due to increased production, the bottling line was speeded up in the middle of November. This resulted in a higher number of breakages than expected.
- At the start of November, there was a technical fault with the solar panels on the roof of the facility. It took 2 weeks for external engineers to fix the fault. We had to use power from the national grid whilst the fault was fixed.

Please prepare a report for the SMT in which you:

- Interpret what each of the variances in Table 1 indicate about production performance in the SoPa@home Production Facility in November. Please make reference to both the information above and the KPI dashboard in Table 2 in your interpretation.

[sub-task (a) = 76%]

Raj Patel, Finance Director, is keen to expand the KPI dashboard to include indicators linked to sustainability.

In your report for the SMT, please:

- Recommend, with appropriate justification, two suitable KPIs relating to sustainability that could be added to the KPI dashboard for the SoPa@home Production Facility.

[sub-task (b) = 24%]

Jack Griggs
Head of Finance
SoPa

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

Table 1: Variances for the SoPa@home Production Facility for November 2026

Variance	Z$	
Raw material price	1,995	Adverse
Raw material usage	1,197	Adverse
Direct labour rate	1,820	Adverse
Direct labour idle time	520	Adverse
Direct labour efficiency	910	Adverse
Variable overhead expenditure	1,625	Adverse
Variable overhead efficiency	912	Favourable

Notes:

- The SMT decided that there would be one facility-wide absorption rate for variable production overheads based on machine hours.
- Idle time is not budgeted for and overtime premium is included as part of variable overhead.
- Raw material usage includes any raw materials scrapped and the raw materials used in scrapped production.

Table 2: KPI dashboard for the SoPa@home Production Facility for November 2026

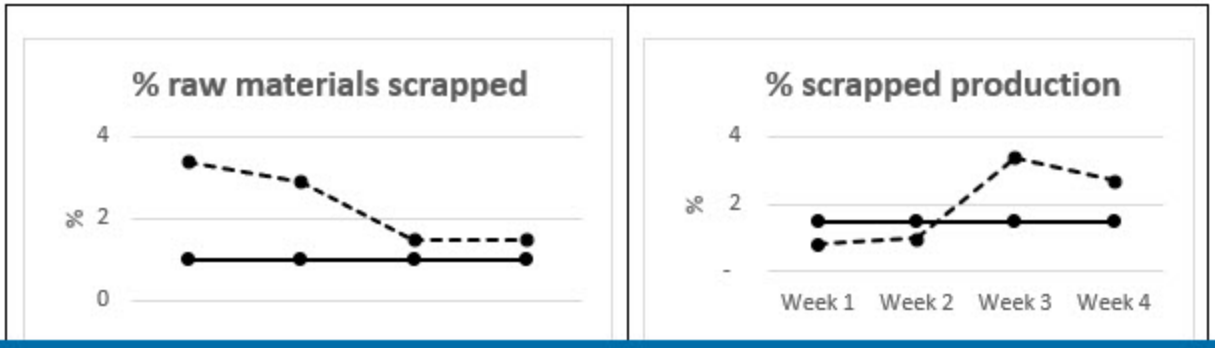


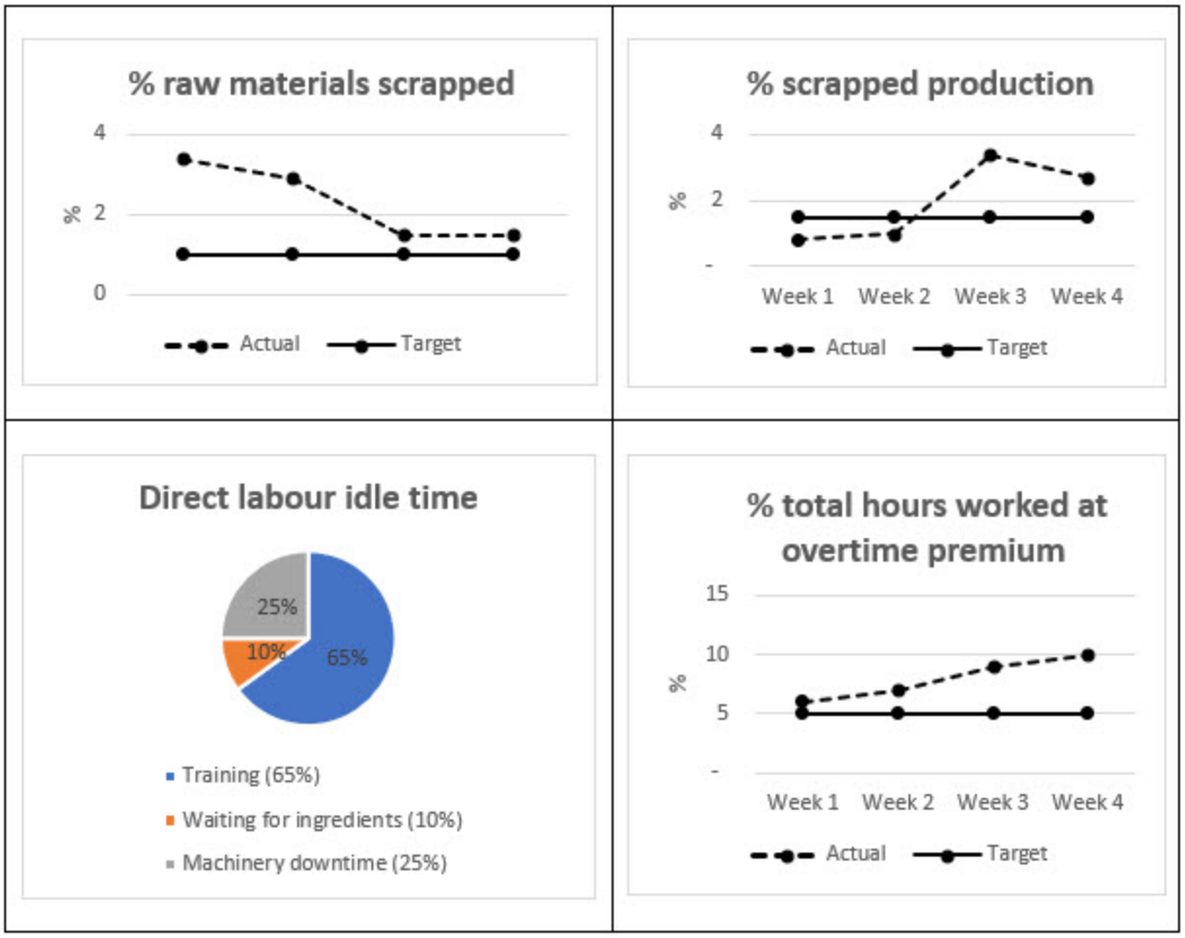
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Table 2: KPI dashboard for the SoPa@home Production Facility for November 2026



Reference Material Pre-seen

Write the report requested by Jack Griggs in the box below.



Thank you for completing the Operational 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.



Operational Case Study Exam

Maximum Time Allowed: 180 minutes

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.

This examination is structured as follows:

Task number	Time for task (minutes)	Number of tasks	Number of sub-task/s	% time to spend on each sub-task
1	45	1	3	(a) 28% (b) 24% (c) 48%
2	45	1	2	(a) 52% (b) 48%
3	45	1	2	(a) 48% (b) 52%
4	45	1	3	(a) 28% (b) 24% (c) 48%

Each task has a number of sub-tasks. An indication of how much of the time available for the task 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

Today is 1 June 2026. There is a shortage of hospitality staff in Tombor, Zeeland's capital city, due to the number of new restaurants. SoPa's restaurants in Tombor have recently received poor reviews about customer service.

You receive the following email:

From: Raj Patel, Finance Director
To: Finance Officer
Subject: Using time series analysis and AI and big data in forecasting

Customer demand has been volatile over the last 9 months due to increased competition from many new restaurants. The Senior Management Team (SMT) has asked me to consider whether using time series analysis to forecast customer demand would be appropriate.

I have produced, in Graph 1 (attached), a data plot of total sales value for all of our Tombor restaurants. I would like you to prepare a commentary on this information and the suitability of using time series analysis. I also wonder if artificial intelligence (AI) and big data might help produce more accurate sales forecasts.

Please write a report for the SMT in which you:

- Review Graph 1 and assess the suitability of using time series analysis to produce a forecast of future sales from it.

[sub-task (a) = 28%]

- Discuss how the use of AI and big data could help to produce better forecasts.

[sub-task (b) = 24%]

It has also been noticed that the quality of service in our restaurants has fallen. Sofia Perez, Restaurant Operations Director, wants to introduce KPIs to assess individual performance of staff in the restaurants.

In your report, please also:

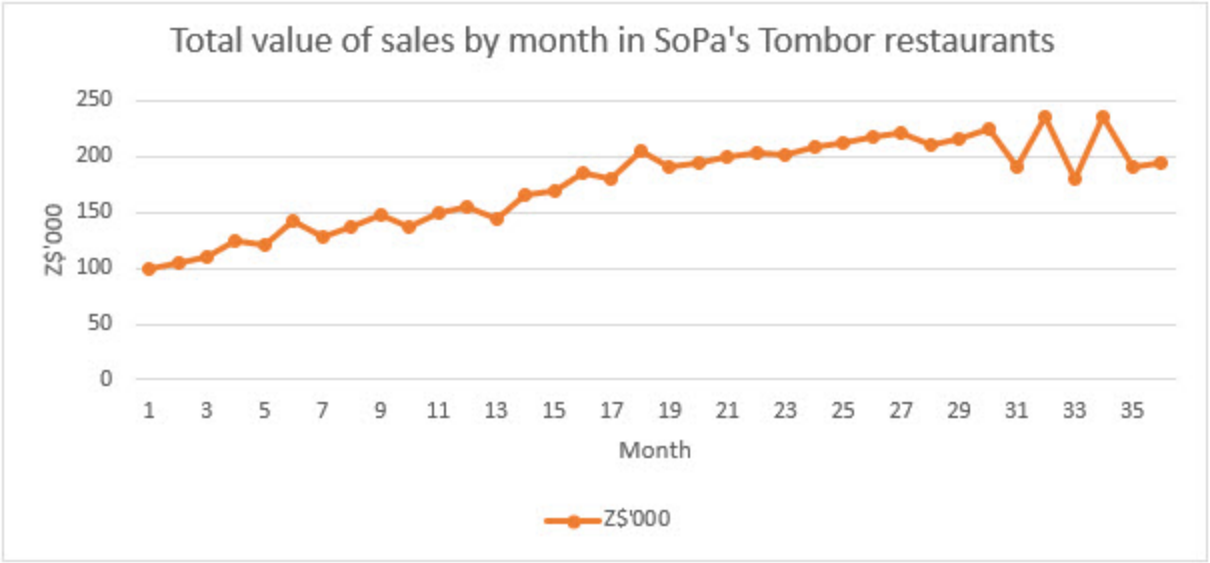
- Recommend two KPIs to assess the performance of individual servers and two KPIs to assess the performance of restaurant managers. For each KPI, please explain how the KPI would be measured and justify why it would be appropriate.

[sub-task (c) = 48%]

Raj Patel
Finance Director
SoPa

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

Graph 1: Sales value



Notes:

- Month 1 is May 2023.
- Month 35 is March 2026.

Reference Material Pre-seen

Write the report requested by Raj Patel in the box below.

Reference Material Pre-seen

Today is 1 September 2026. Staff recruitment and retention are increasingly difficult in SoPa's Tombor restaurants.

Raj Patel, Finance Director, calls you into his office and says:

"The Senior Management Team (SMT) continues to be concerned about the quality of service we offer and the impact on profits of not having sufficient servers in our restaurants when needed. Recruiting and retaining staff are major problems for us.

There is uncertainty over the number of staff that we will have in our restaurants, depending on whether staff recruitment is low, medium or high. As a result of this, it has been suggested that as a 1-month trial, at the start of next month, we limit the capacity of one of our restaurants to either 50%, 70% or 80% of the maximum number of covers possible. Regardless of which restaurant capacity level we choose, the actual number of covers served will be determined by the number of staff recruited to ensure we can deliver high-quality service. To help with the uncertainty surrounding the recruitment and retention of staff, it would be necessary to contract with all staff for a set number of hours each week. I have produced a pay-off table, Table 1, summarising this, which I will give you shortly.

I would like you to prepare a report for the SMT in which you:

- Analyse the information in Table 1 and explain how the decision about restaurant capacity would be made using maximax, maximin and minimax regret decision criteria, stating what that decision would be for each criteria.

[sub-task (a) = 52%]

I have also spoken to a recruitment agent who said it would be possible to estimate the probability of recruiting each of the three levels of staff.

In your report, please also include a section in which you:

- Discuss the impacts on the decision-making process of obtaining estimated probabilities for the level of staff we could potentially recruit and the relevance of three risk profiles of decision makers."

[sub-task (b) = 48%]

Raj gives you Table 1, which can be found by clicking on the Reference Material button above.

Table 1: Pay-off table showing the net income generated

	% of restaurant capacity		
	50	**70**	**80**
Staff recruitment level	**Z$**	**Z$**	**Z$**
Low	52,011	52,011	52,011
Medium	50,192	72,816	72,816
High	49,282	71,906	83,218

Notes:

- Net income is contribution less staff costs for the restaurant for the month.
- For logistical reasons, we must choose the restaurant capacity level before we recruit. We will recruit as many staff as we can, irrespective of the decision about restaurant capacity level.
- Regardless of which restaurant capacity level we choose, the actual number of covers served will be determined by the number of staff recruited to ensure we can deliver high-quality service.
- Due to festivals occurring over the period, we will have enough customer demand to meet the available capacity. Available capacity will depend on the level of staff recruitment.
- It will not be possible to adjust staffing levels or increase restaurant capacity during the month.

Reference Material Pre-seen

Write the report requested by Raj Patel in the box below.

Paragraph

Reference Material Pre-seen

Today is 1 December 2026. SoPa is still unable to recruit sufficient staff. This has led to poor customer service, poor reviews online and volatile revenue.

Raj Patel, Finance Director, calls you into his office and says:

"As we are still finding it difficult to recruit enough staff, we need to look for ways to improve productivity. The Senior Management Team (SMT) has agreed a project put forward by Sofia Perez, Restaurant Operations Director, to introduce a robotic mixologist and automated drink delivery (RMAD) system in one of our restaurants. We will lease the RMAD system. I have included a summary of the lease we have received from the supplier in Table 1, which I will give you shortly.

Please prepare a briefing note for the SMT in which you:

- Apply the provisions of the relevant financial reporting standards to determine how, using the information in Table 1, the lease liability and right-of-use asset for the RMAD system should be initially recorded and subsequently measured in our financial statements for the year ending 31 December 2027.

[sub-task (a) = 48%]

Because of the sales volatility we are experiencing, the SMT is becoming increasingly worried about the cost of financing our working capital. It is considering taking a more aggressive position on working capital to reduce these financing costs. I have summarised the current and proposed working capital policies and provided the costs of short-term and long-term finance in Schedule 1, which I will give you shortly.

Please send me a report, using the information in Schedule 1, in which you:

- Discuss the potential benefits and drawbacks for SoPa of moving to the proposed working capital policy."

[sub-task (b) = 52%]

Raj then gives you Table 1 and Schedule 1, which can be found by clicking on the Reference Material button above.

Table 1: Summary of the RMAD system lease

Lease payment per year	Z$75,629
Lease period	3 years
Owner at end of lease period	Lessor

Notes:

- Lease payments will be made annually in advance, with the first payment due on 1 January 2027, the day the RMAD system is delivered.
- The system will be installed in January and be available for use on 1 February 2027.
- The agent who arranged the lease received a Z$1,500 payment on 15 November 2026 when the order was made.
- The estimated useful life of the RMAD system is 5 years.
- The interest rate implicit in the lease is 10.3%.
- There is an option for SoPa to purchase the RMAD system for a sum of Z$32,769 at the end of the lease. This is unlikely to be taken up. If the option to purchase is not taken up, the leasing company will collect the RMAD system at the end of the lease period at a cost of Z$2,545 to the lessee.

Schedule 1: Working capital information

Current Policy		
Working capital requirement	**Short-term finance**	**Long-term finance**
Permanent	0%	100%
Fluctuating	30%	70%

Proposed Policy		
Working capital requirement	**Short-term finance**	**Long-term finance**
Permanent	30%	70%
Fluctuating	100%	0%

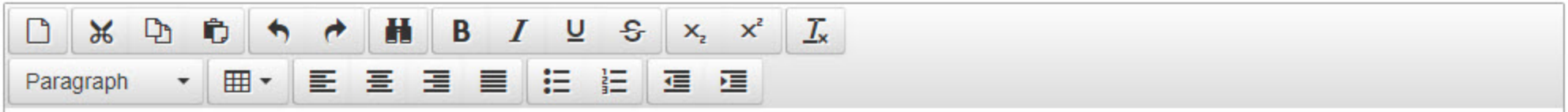
	Finance facility characteristics	
	Short-term finance	**Long-term finance**
Interest rate	Bank of Zeeland base rate + 2%	7% fixed
Facility length	7 months	2 years

Note:

- The Bank of Zeeland base rate is currently 4%.

Reference Material Pre-seen

Write the briefing note and report requested by Raj Patel in the box below.



Reference Material Pre-seen

Today is 31 March 2027. The robotic mixologist and automated drinks delivery (RMAD) system is now in use in the nominated restaurant.

You receive the following email:

From: Raj Patel, Finance Director
To: Finance Officer
Subject: Data from RMAD system and its use in budgeting and control

The robotic mixologist and automated drinks delivery (RMAD) system is now in use and can operate up to a level that can cope with 100% of the capacity of the restaurant. The restaurant no longer employs staff to mix, serve or deliver drinks to customers at their tables.

Please prepare a report for the SMT in which you:

- Discuss possible impacts on the budgets that replacing human staff with the RMAD system may have.

[sub-task (a) = 28%]

The RMAD system has been programmed with the recipes and prices of all the drinks we offer in the restaurant and the activities required to mix, serve and deliver drinks. The RMAD system provides us with a lot of data; for instance, it keeps detailed real-time records of the time taken to mix each drink, each drinks order served and the quantity of the ingredients used. I have included examples of some of the information produced in Schedules 1, 2 and 3 (attached). The Senior Management Team (SMT) wants to understand how the information produced by the RMAD system impacts on various aspects of our business.

Please prepare a report for the SMT in which you:

- Discuss the impact of the information in Schedules 1 and 2 for reviewing sales and service performance.

[sub-task (b) = 24%]

- Explain, using the information in Schedules 2 and 3, how the RMAD system will impact on the formulation and use of standard costs of drinks sold in the restaurant.

[sub-task (c) = 48%]

Raj Patel
Finance Director
SoPa

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

Schedule 1: Till Receipt produced by RMAD system for single order of drinks at SoPa Tombor restaurant

SoPa Till Receipt			
TABLE	DATE	TIME	
7	20 Mar 27	ordered	19.24
		delivered	19.34
Drinks	Number	Unit price Z$	Total price Z$
Boogie	1	6.75	6.75
Slinger	1	7.85	7.85
Ginger beer	2	6.80	13.60
Bottled water	1	4.50	4.50
Apple juice	3	3.50	10.50
Payment	Debit card	TOTAL	Z$43.20

Schedule 2: Extract from summary of sales report produced by RMAD system

Mixologist system: Extract from beverage sales report on 20 March 2027				
Sales		Drinks sold		
Code	Narrative	Number	Unit price/ Z$	Total sales/ Z$
1	Boogie	50	6.75	337.50
2	Slinger	100	7.85	785.00
3	Bottled water	20	4.50	90.00

Schedule 3: Extract from mixed drinks ingredients usage report produced by RMAD system

Drink	Number drinks sold	Ingredients				
		Aurellim leaf	Lemonade	Orange juice	Cranberry juice	Lime juice
		grams	Litres	Litres	Litres	Litres
Boogie	50	0	12.5	0	12.5	2.5
Slinger	100	50	12.5	12.5		1.5

Close

Reference Material Pre-seen

Write the reports requested by Raj Patel in the box below.



Thank you for completing the Operational 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.



Operational Case Study Exam

Maximum Time Allowed: 180 minutes

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.

This examination is structured as follows:

Task	Time for task (minutes)	Number of tasks	Number of sub-tasks	% time to spend on each sub-task
1	45	1	3	(a) 36% (b) 32% (c) 32%
2	45	1	4	(a) 24% (b) 24% (c) 36% (d) 16%
3	45	1	2	(a) 56% (b) 44%
4	45	1	3	(a) 40% (b) 28% (c) 32%

Each task has a number of sub-tasks. An indication of how much of the time available for the task 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

Today is 1 June 2026. SoPa will open its new restaurant in Northtown, a major city in the North of Zeeland, on 1 July 2026.

You receive the following email:

From: Jack Griggs, Head of Finance
To: Finance Officer
Subject: Northtown restaurant

The budget for our new Northtown restaurant for the period to 31 December 2026 is shown in Table 1 (attached). This is based on our standard occupancy rate of 85% and is included in our total budget for the year ending 31 December 2026. Given that we have not operated in this region of Zeeland before, there is considerable uncertainty regarding occupancy rate. Raj Patel, Finance Director, has suggested that because of this, we prepare the Northtown restaurant budget using a flexible budgeting approach. He believes that the occupancy rate could be anywhere between 65% and 90%.

Please prepare a briefing paper for the Senior Management Team (SMT) in which you:

- Discuss how a flexible budgeting approach can be applied to the Northtown restaurant budget for the period to 31 December 2026 with reference to the information in Table 1.

[sub-task (a) = 36%]

Raj has also mentioned that, thinking ahead to the budget for the year ending 31 December 2027, he would like to utilise big data analytics and artificial intelligence (AI) when preparing the sales forecast.

Please prepare a briefing paper for the SMT in which you:

- Discuss the benefits of using big data analytics and AI for forecasting sales revenue in our restaurants.

[sub-task (b) = 32%]

The ovens for the new restaurant have been purchased and will be installed this month. Included in Table 2 (attached) is the expenditure related to these ovens.

Please prepare a briefing paper for the SMT in which you:

- Apply the appropriate financial reporting standard to determine, with justification, how the expenditure in Table 2 will be recognised and then initially and subsequently measured in our financial statements for the year ending 31 December 2026.

[sub-task (c) = 32%]

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

Table 1 | Table 2

Table 1: Northtown restaurant budget for the first 6 months

	Z$000
Revenue	2,587
Direct costs	(616)
Profit after direct costs	**1,971**
Restaurant running costs	(1,068)
Gross profit	**903**

Notes:

- The expected number of covers per day is based on the standard occupancy rate of 85% and is therefore 255 covers per day. This equates to 45,900 covers in the 6-month period of this budget.
- The budget is based on 80% of covers having a starter, 100% of covers having a main, 40% of covers having a dessert, 100% of covers having both sides (tortillas and dips) and 100% of covers having two cold beverages and 50% of covers having a hot beverage.
- Restaurant running costs are estimated to be 40% variable (varying by the number of covers) and 60% fixed.

Table 2: Expenditure on new ovens

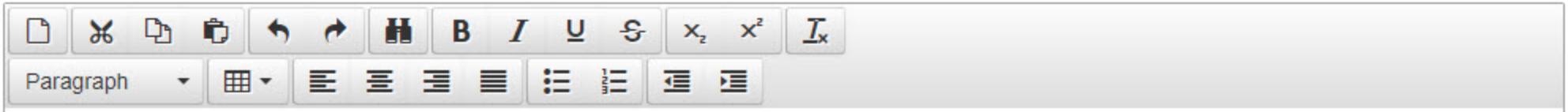
Expenditure item	Z$
Purchase of ovens	423,000
Import duty paid on purchase	21,150
Installation fee	10,350
Safety certification fee	1,000

Notes:

- The ovens have a useful life of 10 years, although the fans in the ovens will need to be replaced in 5 years' time.
- The safety certification is a legal requirement and will be obtained midway through June 2026

Reference Material Pre-seen

Write the briefing papers requested by Jack Griggs in the box below.



Reference Material Pre-seen

A week later, Jack Griggs, Head of Finance, calls you and says:

"To reduce food miles, we are sourcing local ingredient suppliers for the Northtown restaurant. The Senior Management Team (SMT) needs to decide between two potential fresh fish suppliers: Proctors or Blakes. Each has provided quotes for a 6-month exclusive supply agreement.

I have drawn up Chart 1 (which I will send you shortly), showing the total cost of fresh fish purchases for both suppliers at different possible purchase volumes for the 6-month period. I have also completed Table 1 (which I will also send you shortly), which shows our estimates of the probabilities associated with each possible purchase volume.

Please prepare a briefing paper for the SMT in which you:

- Explain what Chart 1 shows and analyse the chart to determine how the cost structures differ between Proctors and Blakes for the supply of fresh fish.

[sub-task (a) = 24%]

- Determine which supplier would be chosen based on the expected value of purchase volume identified under Table 1. Please also discuss two limitations of making this decision on that basis.

[sub-task (b) = 24%]

The SMT is also in the process of deciding between two suppliers (LarderStore or CaterWise) for the supply of dry ingredients such as flour, sugar and spices. We have been asked to provide an evaluation of each suppliers' financial stability based on how it manages its working capital. Table 2 (which I will send you shortly) includes some financial information for both suppliers.

Please prepare a briefing paper for the SMT in which you:

- Compare and contrast the working capital ratios (shown in Table 2) for LarderStore against the industry averages and also for CaterWise against the industry averages, providing possible reasons why the ratios may differ to the industry averages.

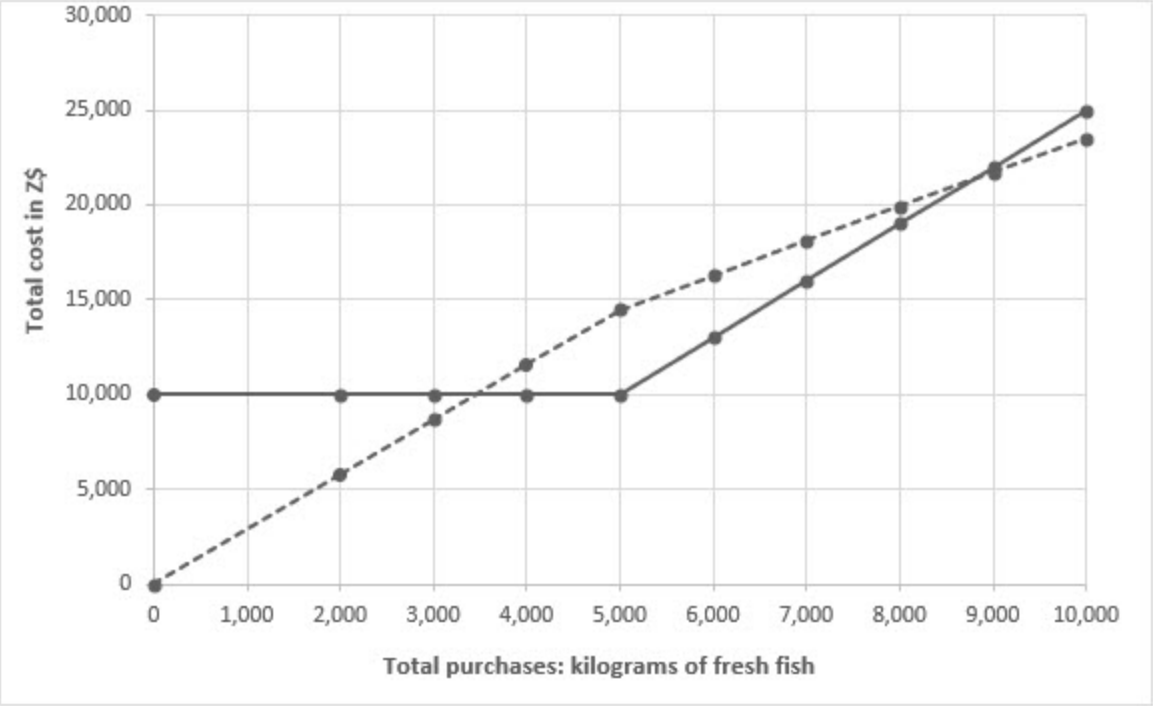
[sub-task (c) = 36%]

- Recommend, with appropriate justification, which of the potential suppliers would be most suitable as our supplier."

[sub-task (d) = 16%]

Jack sends you Chart 1, Table 1 and Table 2, which can be found by clicking on the Reference Material button above.

Chart 1: Cost of fresh fish for the Northtown restaurant for 6 months



Key:

- The solid line is the cost of Proctors and the dotted line is the cost of Blakes, at different total purchase volumes for the 6-month period.

Table 1: Expected value of purchase volume

Possible purchase volumes (kilograms of fresh fish)	Probability
2,000	0.05
3,000	0.07
4,000	0.10
5,000	0.20
6,000	0.30
7,000	0.18
8,000	0.05
9,000	0.03
10,000	0.02

Note:

- The expected value of purchase volume for the 6-month period is 5,640 kilograms of fresh fish.

Table 2: Information about LarderStore and CaterWise

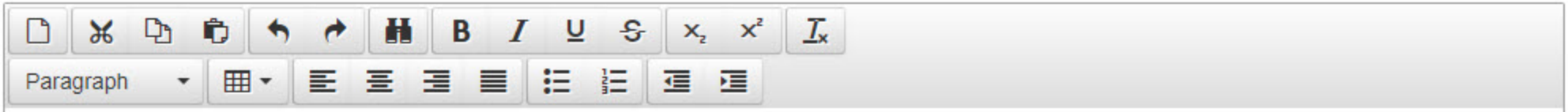
	LarderStore	Industry average	CaterWise
Inventory days	32 days	32 days	12 days
Receivable days	22 days	37 days	64 days
Payable days	50 days	45 days	78 days
Operating cycle	4 days	24 days	-2 days
Cash / (overdraft) balance	Z$1.4 million	Z$0.8 million	(Z$0.4 million)
Change in revenue from prior year	-1%	+4%	+15%
Average number of customers	24	15	5

Notes:

- The information is based on financial statements for the year ended 31 December 2025.
- Each supplier's standard credit terms are 30 days to customers and 30 days from its own suppliers.

Reference Material Pre-seen

Write the briefing papers requested by Jack Griggs in the box below.



Reference Material Pre-seen

It is now October 2026 and the Northtown restaurant has been operating since 1 July 2026.

You receive the following email:

From: Jack Griggs, Head of Finance
To: Finance Officer
Subject: Northtown restaurant performance

The Senior Management Team (SMT) has asked for a report on the performance of the Northtown restaurant for its first 3 months of operation. Table 1 (attached) includes some relevant variances and Table 2 (attached) shows the key performance indicator (KPI) dashboard for the restaurant for the period.

Please prepare a report for the SMT in which you:

- Interpret the variances in Table 1 using the notes provided.

[sub-task (a) = 56%]

- Justify why each of the KPIs in the dashboard in Table 2 is appropriate for assessing the performance of the restaurant and, for each KPI shown, discuss how it supports your interpretation of the variances in Table 1.

[sub-task (b) = 44%]

Jack Griggs
Head of Finance
SoPa

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

Table 1: Variances for the Northtown restaurant for the 3 months to September 2026

Variance	Z$	
Sales price	16,738	Adverse
Sales mix profit	10,264	Adverse
Sales quantity profit	225,926	Favourable
Ingredients price	10,452	Adverse
Ingredients usage	8,325	Adverse
Direct labour rate	3,561	Adverse
Direct labour efficiency	4,797	Adverse

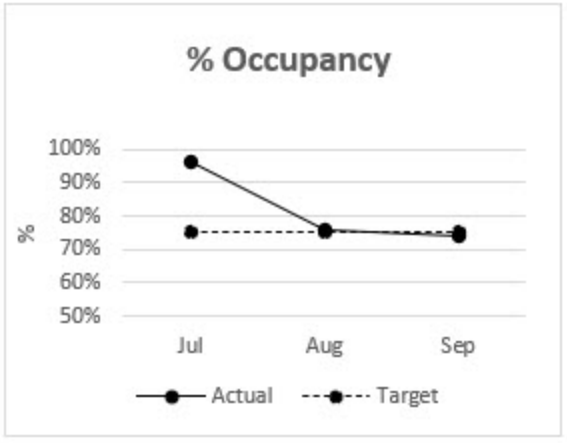
Notes:

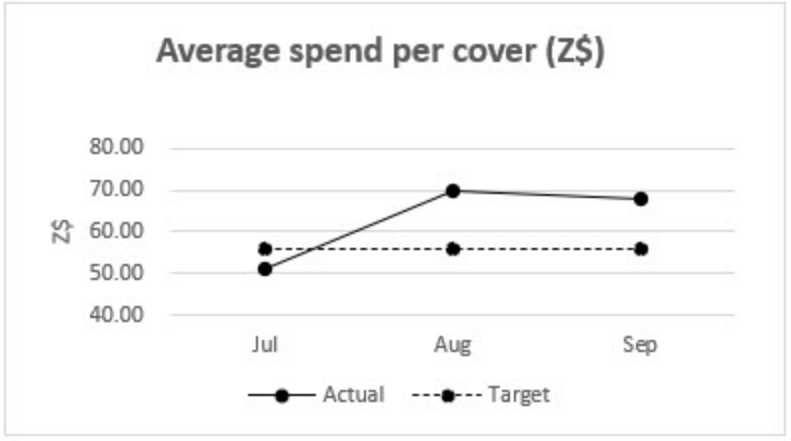
- Budgeted occupancy was set at 75% as a result of the uncertainty regarding the region. Actual occupancy across the period was 82%. In addition, on average, each cover ordered more menu items than expected.
- The sales mix profit and sales quantity profit variances are based on the individual units method. The mix variance is calculated as the difference between the budgeted and actual mix for the actual number of menu items sold, multiplied by the profit per menu item (which is selling price less direct costs).
- For the launch of the restaurant, desserts and beverages were discounted in July and August. This was not reflected in the standard.
- Across the period, less covers ordered mains but instead ordered multiple starters. In addition, more covers ordered desserts and beverages than expected.
- The restaurant was opened on 1 July as planned, although some employees in the kitchen had not received training. As a result, in July, some menu items were returned to the kitchen and had to be scrapped. In addition, the Head Chef stopped some menu items from leaving the kitchen and these also had to be scrapped and new items prepared.
- Due to higher-than-expected occupancy, additional ingredient supplies were required at short notice.
- All employees had a 1-month probationary period. In August, some of the kitchen employees were replaced with employees with greater kitchen experience.

Table 1 | Table 2

Table 2: KPI dashboard for the Northtown restaurant for the 3 months to September 2026







Close

Reference Material Pre-seen

Write the report requested by Jack Griggs in the box below.

Reference Material Pre-seen

A week later, you receive the following email:

From: Jack Griggs, Head of Finance
To: Finance Officer
Subject: Cost of quality and Street Project

At the recent Senior Management Team (SMT) meeting, customer reviews for the Northtown restaurant were discussed. There were some excellent reviews, but also a number of poor reviews about the quality of some of the food and the service provided, especially in the first month.

Additional training has already been undertaken for both kitchen and front-of-house employees and the Head Chef has started to perform extra checks on menu items leaving the kitchen. This has resulted in a lower number of poor reviews, fewer menu items being returned and a lower level of food waste.

As a result of these quality issues, it has been suggested that it would be a good idea to formalise the reporting of quality costs using the cost of quality framework.

Please prepare a report for the SMT in which you:

- Discuss how costs will be categorised in a cost of quality report, giving an example relevant to the Northtown restaurant for each category of cost.

[sub-task (a) = 40%]

- Discuss the benefits to the business of producing a cost of quality report for each of our restaurants.

[sub-task (b) = 28%]

We have been approached by a charity in Northtown to contribute to its Street Project. This project supports people that are living on the streets in Northtown by providing food and other necessities. The charity has asked us to donate 40 meals 2 days a week for the next 3 months (which equates to 1,040 meals). The SMT is keen to support this but would like to know how much it will cost on a relevant costing basis, before making a final decision to proceed. Table 1 (attached) includes information about this.

Please also prepare a report for the SMT in which you:

- Justify, for each cost in Table 1, whether it will be relevant or irrelevant to the decision whether to support the Street Project.

[sub-task (c) = 32%]

Jack Griggs
Head of Finance
SoPa

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

Table 1: Cost information for the Street Project

Cost item	Detail
Ingredients	The meals produced on a particular day will be created to utilise fresh ingredients in inventory which would otherwise need to be scrapped at the end of the day. Other ingredients will be taken from our kitchen's ingredient store.
Packaging	Each meal will be served in a take-away box. These will need to be bought in at Z$0.20 per box. The supplier has indicated that there would be a minimum order quantity of 2,000 boxes.
Direct labour	The meals will be made by our usual kitchen employees who are paid for a set number of hours each week. We expect that as a result of the additional work preparing the meals, some overtime will be required, which is paid at a premium to the normal hourly rate for set hours.
Delivery	The meals will be picked up from the restaurant by the charity and delivered to the Street Project in a hot box. We have a hot box in storage that they can use, although we had planned to sell this for Z$200. The hot box originally cost Z$500 2 years ago but has never been used. If we sell the hot box in 3 months' time, it is likely that we will only be able to generate proceeds of Z$50.

Reference Material Pre-seen

Write the reports requested by Jack Griggs in the box below.



Thank you for completing the Operational 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.



Operational Case Study Exam

Maximum Time Allowed: 180 minutes

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.

This examination is structured as follows:

Task	Time for task (minutes)	Number of tasks	Number of sub-task/s	% time to spend on each sub-task
1	45	1	3	(a) 32% (b) 32% (c) 36%
2	45	1	3	(a) 28% (b) 24% (c) 48%
3	45	1	2	(a) 60% (b) 40%
4	45	1	4	(a) 28% (b) 24% (c) 20% (d) 28%

Each task has a number of sub-tasks. An indication of how much of the time available for the task 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

Today is 1 June 2026. The Senior Management Team (SMT) of SoPa has decided to open a "pop-up" restaurant in Seaville, a tourist town in the neighbouring country of Neeland. The restaurant will operate from 1 August 2026 until 31 January 2027. Neeland and Zeeland are in a currency union and use the Z$. The SMT has also decided that the current Marketing Team will be responsible for developing and managing the restaurant (with support from other departments) as part of their training and development.

You receive the following email:

From: Tobias Smit, Marketing Director
To: Finance Officer
Subject: Budget preparation for the pop-up restaurant in Neeland

I believe Raj Patel, Finance Director, has told you that I will be leading the team responsible for the development and management of a pop-up restaurant in Seaville, Neeland. Attached in Schedule 1 are notes to give you some background on the pop-up restaurant concept and on Seaville.

The team is about to start the budgeting process for the pop-up restaurant. This is an exciting but challenging project as it is the first time SoPa has operated outside of Zeeland. Raj said that you would be available to help team members, which will be very helpful as they have very little accounting knowledge. There are two areas I think will cause difficulties when we start the budgeting process. These are setting objectives and identifying the principal budget factor.

Please prepare a briefing paper for the Marketing Team in which you:

- Discuss the difficulties the team may encounter related to setting objectives and identifying the principal budget factor when starting the budget setting process for the pop-up restaurant in Seaville.

[sub-task (a) = 32%]

- Discuss how data gathering technologies can help us obtain information on which to base the budgets for the new restaurant.

[sub-task (b) = 32%]

The SMT stated that we must use zero-based budgeting (ZBB).

In your briefing paper, please also:

- Describe the operation of ZBB and discuss how it should be used to set the labour budget for staff serving food to diners in the pop-up restaurant.

[sub-task (c) = 36%]

Tobias Smit
Marketing Director
SoPa

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

Schedule 1: Background notes on pop-up restaurant and on Seaville

Pop-up restaurant

We plan to run the restaurant for a short time to give the Marketing Team management experience and test the SoPa concept in a new market with minimal risk. We will look to use our existing menu in the new restaurant, although this will mean some ingredients will have to be imported as they are not available in Neeland.

Seaville

Seaville is the largest town on the west coast of Neeland. Despite Neeland and Zeeland being neighbours, their cultures are very different.

Seaville has a resident population of approximately 62,000. Approximately 9% of the resident population of Seaville are over 60 years old compared to approximately 21% of the total population of our home country of Zeeland.

Tourism is a major driver of the local Seaville economy, with the tourist season running from May to October each year. 51% of the visitors to Seaville are from Neeland, with the remainder coming from a mix of other countries.

The population of Seaville doubles during the tourist season, not only due to tourism, but also because of an influx of part-time workers seeking jobs in the tourist industry. This provides a ready supply of labour between May and October.

Reference Material Pre-seen

Write the briefing paper requested by Tobias Smit in the box below.

Reference Material Pre-seen

Today is 1 July 2026. The pop-up restaurant is due to open in 1 months' time and will operate until 31 January 2027. The Marketing Team is looking to promote the new restaurant to generate customer interest before it opens.

Raj Patel, Finance Director, calls you into his office and says:

"The Marketing Team has asked for your help with two issues. Firstly, it needs to decide which of three promotional campaigns for the new restaurant it should implement. Each campaign costs the same but has different potential outcomes. Tobias Smit, Marketing Director, has asked if you will analyse the information provided on the three campaigns in Table 1 (which I will give you shortly) to help the Marketing Team with its decision.

Please prepare a report to the Marketing Team in which you:

- Interpret the payoff table and statistical information in Table 1.

[sub-task (a) = 28%]

- Justify which campaign would be chosen by a risk neutral, a risk seeking and a risk averse decision maker.

[sub-task (b) = 24%]

The new restaurant in Seaville is going to use several ingredients which are unique to our recipes and therefore integral to the dishes on the menu. These ingredients are not available in Neeland and so will need to be imported into the country.

The second issue the Marketing Team has asked for help with concerns these unique ingredients, and particularly Aurellim Leaf. The Marketing Team wants to ensure that there is always sufficient inventory of the leaf available. Tobias has read about the Economic Order Quantity (EOQ) model. He would like to know more about whether this would work to manage the Aurellim Leaf inventory. However, I do not think EOQ is suitable. He has sent me some information about Aurellim Leaf (Table 2, which I will give you shortly).

In your report, please also include a section in which you:

- Discuss the difficulties of managing the inventory of Aurellim Leaf at the Seaville restaurant including the suitability of using the EOQ model."

[sub-task (c) = 48%]

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

Table 1: Pay-off table and statistical information for promotional campaigns

Market reaction	Probability	Social media only Z$000	Radio only Z$000	Mixed campaign Z$000
Poor	0.3	50	40	47
Good	0.4	82	65	76
Excellent	0.3	103	73	89
Expected value		**79**	**60**	**71**
Standard deviation		**21**	**13**	**17**
Coefficient of variation		**0.27**	**0.22**	**0.24**

Notes:

- The pay-off table shows the additional contribution generated by each campaign (after campaign costs) under each market reaction.
- The mixed campaign uses both radio and social media.

Table 2: Information about Aurellim Leaf

Aurellim Leaf:		
Storage	Leaves must be kept at 87% humidity and a high temperature to avoid Aurellim mould which makes the leaf inedible.	
Maximum storage period	3 weeks	
Uses	Used in half of main course dishes. Amount used depends on customer preference.	
Supplied from	**Zeeland**	**Asia**
Growth & supply period	March to September	August to January
Transport	Road	Air
Lead time	4 days	14 days
Transport cost per KG per kilometre	Z$1	Z$2
Cost per KG	Z$10,000	Z$15,000

Reference Material Pre-seen

Write the report requested by Raj Patel in the box below.

Reference Material Pre-seen

Today is 1 September 2026 and the Seaville pop-up restaurant has been open for 1 month. An eco-charity has posted videos on social media of waste bins full of food behind the Seaville restaurant. The posts have generated extensive negative sentiment and comments online around food waste and sustainability.

Raj Patel, Finance Director, calls you into his office and says:

"Tobias Smit, Marketing Director, is very concerned that publicity generated by the online videos showing waste at the Seaville restaurant is negatively impacting the success of the restaurant. He wants to introduce controls to monitor waste. He asked one of his team at the restaurant to produce variances to monitor the cost and usage of ingredients in the Seaville restaurant for the first month of operation. He forwarded the email he received from his Marketing Officer to me (Email 1) and I will send it to you shortly. I want you to produce a commentary for the attempted variance calculations in that email and explain how the analysis can be improved.

Please prepare a report to Tobias in which you:

- Explain the issues with the approach and computation of the price and usage variance calculations attempted by the Marketing Officer. Please also explain how ingredients price and usage variances should be calculated and discuss the records which should be kept to ensure that the variance analysis provides useful information.

[sub-task (a) = 60%]

Tobias also believes everyone in the business has a role to play in sustainability and therefore he would like to introduce KPIs, which target sustainability and monitor how we manage inventory in the Seaville Restaurant.

Please prepare a report to Tobias in which you:

- Recommend two KPIs to monitor sustainability and two KPIs to monitor inventory management. For each KPI, please justify why it is appropriate and explain how it would be measured.

[sub-task (b) = 40%]

Raj then sends you Email 1, which can be found by clicking on the Reference Material button above.

Email 1: Ingredient variances for first month of trading in Seaville

To: Raj Patel, Finance Director
From: Marketing Officer
Subject: Ingredients, prices and usage variances for the Seaville Restaurant

Dear Raj,

As requested, please find below my calculations for the ingredient variances for the month of August for the new Seaville restaurant in Neeland. I have calculated a weighted average standard and prepared the variances based on covers to save time but I am not sure my approach or calculations are correct. I am also not sure if they will give us the information we need about the cost and usage of individual ingredients.

Ingredients price expenditure variance

Detail	Z$
Cost of ingredients purchased in August	39,544
Budgeted covers at budgeted standard cost	35,750
Difference	**3,794**

The budgeted figure shown above is the value in the budget for the cost of ingredients needed to produce the budgeted covers for August.

This was based on budgeted number of customers and the average expected ingredient cost of a three-course meal.

Ingredients usage variance

Detail	Amount
Equivalent covers* produced (3,215) minus actual covers (2,694)	521 covers
Standard cost per cover	Z$11.72
Difference	**Z$6,106**

*Represents the number of covers that should have been served for the amount of ingredients used.

I have assumed that the standard cost of ingredients per cover is the average cost of the ingredients in a three-course meal.

Best wishes
Marketing Officer

Reference Material Pre-seen

Write the reports requested by Raj Patel in the box below.



Reference Material Pre-seen

The date today is 11 March 2027. The pop-up restaurant in Neeland closed on 31 January 2027 as expected. SoPa is now preparing its financial statements for the year ended 31 December 2026. The Senior Management Team (SMT) wants to reduce food waste and improve inventory systems across all SoPa restaurants by developing a food management app.

You receive the following email:

From: Raj Patel, Finance Director
To: Finance Officer
Subject: Food management app and financial statements

The new food management app will be used internally as the link between food waste and our inventory system. The Senior Management Team (SMT) is considering whether to develop the app internally or commission an external company, ZeAp, to develop it for us. To help with this decision, the SMT wants to understand more about the costs of developing, implementing and running the app if we were to do it all internally.

Please write a report for the SMT in which you:

- Discuss the type and nature of the costs which will be incurred in developing, implementing and running the app if we did this internally.

[sub-task (a) = 28%]

- Discuss the problems we could face when determining the total cost of the app and the issues to consider when apportioning the cost of the app to individual restaurants.

[sub-task (b) = 24%]

If the SMT decides to commission ZeAp to develop the app it will also need to decide whether to purchase an optional 12-month maintenance contract from ZeAp or to train our own staff to do the maintenance internally. Maintenance would be needed to provide operational updates to the app.

In your report please also include a section in which you:

- Discuss the non-financial factors that the SMT should consider when deciding whether to pay for the ZeAp 12-month maintenance contract or to train our own staff to do the maintenance internally.

[sub-task (c) = 20%]

We are now preparing the SoPa financial statements to 31 December 2026. Table 1 (attached) details two leased items used in the Neeland restaurant.

Please prepare a report for me in which you:

- Apply the rules in the relevant financial reporting standard to explain how the items in Table 1 should be reflected in SoPa's financial statements for the year ended 31 December 2026.

[sub-task (d) = 28%]

Tobias Smit
Marketing Director
SoPa

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

Table 1: Leased items relating to the Neeland Restaurant

Item	Lease start date	Lease term	Monthly lease payment Z$	Value when new Z$
Mobile telephone	1 August 2026	36 months	15	500
Car	1 August 2026	6 months	250	15,000

Notes:

- Lease payments for the car were paid in total in advance at the start of the lease.
- Lease payments for the telephone are paid monthly.

Reference Material Pre-seen

Write the reports requested by Raj Patel in the box below.





Thank you for completing the Operational Case Study Exam.

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

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Operational Case Study Exam

Maximum Time Allowed: 180 minutes

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.

This examination is structured as follows:

Task	Time for task (minutes)	Number of tasks	Number of sub-task/s	% time to spend on each sub-task
1	45	1	3	(a) 48% (b) 24% (c) 28%
2	45	1	3	(a) 24% (b) 24% (c) 52%
3	45	1	2	(a) 64% (b) 36%
4	45	1	3	(a) 32% (b) 32% (c) 36%

Each task has a number of sub-tasks. An indication of how much of the time available for the task 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

Today is 1 June 2026. The Senior Management Team (SMT) has decided to invest in growing pods to develop a vertical farm. The vertical farm will be established in an unused basement in one of the restaurant buildings. Production in excess of what the restaurants need will be sold to local shops and supermarkets.

You receive the following email:

From: Sofia Perez, Restaurant Operations Director
To: Finance Officer
Subject: Vertical farm development project

We are going to buy eight growing pods for the vertical farm. I have summarised the crop growing process in Table 1 and summary crop information in Table 2 (attached). We plan to hire six staff and a supervisor to work at the vertical farm. They will all be employed on fixed hours contracts, therefore all labour at the vertical farm will be a fixed cost.

The vertical farm is so different from our existing business that the SMT doesn't feel our normal systems will give us good information for costing. It wants to consider using activity based costing (ABC) instead.

Please write a report for the SMT in which you:

- Discuss, with reference to Tables 1 and 2, how ABC should be implemented at the vertical farm for costing labour resources. Please also discuss the potential benefits of doing this.

[sub-task (a) = 48%]

I have also summarised the expenditure SoPa will make in relation to the growing pods in Table 3 (attached). The SMT wants to understand how this will be recorded in our financial statements.

Please also write a briefing note for the SMT in which you:

- Apply the provisions of relevant financial reporting standards to justify how the expenditure in Table 3 should be recognised and initially measured in our financial statements for the year ending 31 December 2026.

[sub-task (b) = 24%]

Additionally, the Zeeland government is providing an enhanced tax depreciation allowance for non-current assets purchased in the year ending 31 December 2026. For new capital expenditure, the standard 25% reducing balance method is replaced by an enhanced approach, giving a 50% allowance in the first year and 25% in each of the following 2 years.

Please also include in your briefing note a section in which you:

- Discuss the effect on taxable profit of the change in tax depreciation allowance for the new growing pods.

[sub-task (c) = 28%]

Sofia Perez
Restaurant Operations Director
SoPa

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

Table 1: Example crop growing cycle

Stage	Detail	Activities
1	Planning and preparation	• System preparation: sterilise equipment, calibrate sensors • Resource planning: order seeds, growing medium
2	Seeding*, germination and development	• Sow seeds • Monitor germination • Thinning and transplanting of seedlings to larger trays
3	Growth	• Pruning and training of plants • Pest and disease management
4	Maturation and harvesting*	• Quality control to remove diseased plants • Manual harvesting
5	Post harvest handling*	• Processing including washing and packing • Monitor storage conditions
6	Maintenance and evaluation	• System checks on lighting and irrigation lines • Analyse yield, resource consumption and crop quality

Notes:

Table 3: Proposed expenditure per growing pod

Expenditure item	Z$
Purchase and installation	600,000
Import duty	13,567
Electrical safety certificate	550
Maintenance contract for 4 years @ Z$2,000 per year	8,000

Notes:

- Estimated useful life of a growing pod is 4 years.
- The electrical safety certificate is legally required before a growing pod can be used.

Reference Material Pre-seen

Write the report and briefing note requested by Sofia Perez in the box below.



Reference Material Pre-seen

Today is 1 July 2026. The vertical farm's crops grow in nutrient fluid rather than soil. The nutrient fluid market is dominated by three suppliers.

Raj Patel, Finance Director, calls you into his office and says:

"Sofia Perez, Restaurant Operations Director, is currently deciding which of three nutrient fluid suppliers to use in the vertical farm. She has asked if you will analyse the information provided in Table 1, which I will give you shortly. This table compares the contribution generated by using nutrient fluid from each supplier if the resulting crop yield is poor, good or excellent.

Please provide a briefing note for Sofia, in which you:

- Interpret the pay-off table and statistical information in Table 1.

[sub-task (a) = 24%]

- Justify which supplier would be chosen by a risk neutral, risk seeking and risk averse decision maker.

[sub-task (b) = 24%]

We have so far funded the launch of the vertical farm using our cash balance. However, as the project develops, we will need additional working capital and additional spending on the growing pods. Therefore, I have obtained details of three possible sources of short-term finance we may be able to use to provide the additional funding required and I have summarised these in Table 2.

Please also include in your briefing note for Sofia a section in which you:

- Discuss each of the three possible sources of short-term finance in Table 2 and recommend which of these would be the most appropriate to provide the additional working capital and funding required for the vertical farm project."

[sub-task (c) = 52%]

Raj then gives you Table 1 and Table 2, which can be found by clicking on the Reference Material button above.

Table 1: Pay-off table, expected values and coefficient of variation for nutrient suppliers

Crop yield per growing cycle	Probability	Supplier A Z$000	Supplier B Z$000	Supplier C Z$000
Poor	0.35	41	50	49
Good	0.40	68	75	72
Excellent	0.25	79	81	85
Expected value		**61**	**68**	**67**
Standard deviation		**16**	**13**	**14**
Coefficient of variation		**0.26**	**0.19**	**0.21**

Note:

- The pay-off table shows the contribution generated from each crop cycle.

Table 2: Financing options for vertical farm project

Form of financing	Notes
Proposed trade payable terms	Credit period of 45 days 0.5% discount for payment within 35 days 0.5% interest on amount due for payment period of more than 45 days
Short-term loan	Facility length 2 years Interest rate 7% Early repayment charge Z$4,000
Overdraft	Facility length 9 months Interest rate Bank of Zeeland base rate + 3%

Notes:

- The Bank of Zeeland interest rate is currently 2%.
- Current credit terms for trade payables are 40 days with no early payment discount or late payment penalty interest.

Reference Material Pre-seen

Write the briefing note requested by Raj Patel in the box below.



Reference Material Pre-seen

It is 15 December 2026. The vertical farm has now been running for over 3 months. Activity based costing has not been implemented. There are eight growing pods in the vertical farm. The Senior Management Team (SMT) has asked for a report on performance of the vertical farm for the first 3 months of operation.

You receive the following email:

From: Raj Patel, Finance Director
To: Finance Officer
Subject: Vertical farm performance for the first 3 months of operation

I have been preparing the variance analysis to present to the SMT. I will be using traditional absorption costing methodology to report variances. Due to a last-minute change of plan, lettuce was the only crop grown during the period.

I worked closely with the supervisor of the vertical farm while I was preparing the variances. He wants to better understand variable and fixed overhead variance analysis and how some events that occurred in the period impacted the variances. Other events also contributed to some of the variances, but he does not need those explaining. The budget has not been adjusted to reflect any events that occurred in the period.

I have already explained to the supervisor why absorption costing is used and that we will treat the vertical farm as a single cost centre rather than trying to break it down into departmental cost centres. I have also explained that output would be measured as the weight of lettuce harvested from the growing pods, and why I have based the variable and fixed overhead absorption rates on the standard time needed to grow a crop of lettuce in a growing pod (growing pod hours).

Schedule 1 (attached) shows the overhead variances, information about the budget, and the events that the supervisor mentioned. I have also attached Table 1 which summarises the stages in the growing cycle for lettuce in our growing pods.

Please write a report for the supervisor in which you:

- For each of the six variances in Schedule 1, explain how it is calculated, interpret what it means and explain any limitations. Please also discuss how the events raised by the supervisor will have contributed to the variances.

[sub-task (a) = 64%]

The SMT also wants to monitor and assess activities performed throughout the growing cycle (see Table 1 attached). It has been suggested we introduce KPIs.

Please include a section in your report in which you:

- Recommend three KPIs to be used to assess the performance of the vertical farm workers at any of the stages of the growing cycle. For each KPI, please explain how the KPI would be measured and justify why it would be appropriate.

[sub-task (b) = 36%]

Raj Patel
Finance Director
SoPa

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

Schedule 1: Vertical farm variable and fixed overhead variances for the 3 months to 30 November 2026

Variance	Z$	
Variable overhead expenditure	1,280	adverse
Variable overhead efficiency	1,864	favourable
Fixed overhead expenditure	750	adverse
Fixed overhead volume	5,760	adverse
Fixed overhead capacity	12,750	adverse
Fixed overhead efficiency	6,990	favourable

The budget for the 3-month period was to produce a total of 90,000kg of lettuce from eight growing pods in a total of 5,760 growing pod hours. The standard growing pod time is 0.064 growing pod hours per kg of lettuce.

We have not done any work on the vertical farm other than for this crop of lettuce.

Events raised by the supervisor:

1. A problem with a nutrient inflow valve on one of the growing pods meant that only seven growing pods were used.
2. The total harvest from the seven growing pods was 84,000kg of lettuce and the total growing pod time was 4,910 hours.
3. Solar panels provide power to heat generators in the growing pods. Due to low levels of sunshine, the solar panels did not generate sufficient power during the period. This meant that we had to buy some electricity from a utility company to power the heat generators in the growing pods.
4. In October, the supervisor negotiated a salary increase for this year, backdated to 1 September 2026.

Reference Material
Schedule 1 Table 1

Days	Detail	Activities
1 - 6	Planning and preparation	• System preparation: sterilise equipment, calibrate sensors • Resource planning: order seeds, growing medium
7 - 26	Seeding*, germination and development	• Sow seeds • Monitor germination • Thinning and transplanting of seedlings to larger trays
27 - 41	Growth	• Pest and disease management
42 - 54	Maturation and harvesting*	• Quality control to remove diseased plants • Manual harvesting
55 - 57	Post harvest handling*	• Processing including washing and packing • Monitor storage conditions
58 - 60	Maintenance and evaluation	• System checks on lighting and irrigation lines. • Analyse yield, resource consumption and crop quality.

Notes:

- Activities marked with an asterisk (*) in the table are time critical and will require all six workers to complete that task for a specific growing pod at the same time.

Reference Material Pre-seen

Write the report requested by Raj Patel in the box below.

Reference Material Pre-seen

It is 31 March 2027. The vertical farm has been operating for 6 months and now grows a range of crops. SoPa has been approached by a supermarket which has offered a temporary contract for us to supply it with Aurellim Leaf, a specialist herb.

Sofia Perez, Restaurant Operations Director, calls you into her office and says:

"I am evaluating an offer from a local supermarket to sell Aurellim Leaf to it for 3 months. I am not sure which of the costs in Table 1 (which I will give you shortly) is relevant for this decision.

Please can you write a report for me in which you:

- Justify whether each of the costs in Table 1 are relevant or irrelevant to the financial evaluation of the supermarket contract.

[sub-task (a) = 32%]

The Senior Management Team (SMT) is also now wondering if we should expand growing facilities to be able to sell more to external customers. The size of the expansion will be determined by external demand. We therefore need to produce accurate sales forecasts to inform the decision. The SMT would like to consider how technology could help to produce a sales forecast for our range of salad crops.

Please also include a section in your report for me in which you:

- Discuss how technology and different sources of data could help to produce forecasts of external demand for our salad crops.

[sub-task (b) = 32%]

The SMT is aware that the proposed expanded vertical farm and increasing sales to external customers will impact cashflow. It would like to be made aware of the possible impacts on the cash budget of vertical farm expansion.

Please also include a section in your report for me in which you:

- Discuss the factors to consider in relation to the cash budget of expanding production to sell our salad crops to external customers."

[sub-task (c) = 36%]

Sofia then sends you Table 1, which can be found by clicking on the Reference Material button above.

Table 1: Extracts of cost information for assessment of supermarket contract

Cost	Commentary
Nutrient fluid	To start the growing cycle, we have sufficient nutrient fluid available in inventory, which cost us Z$6,000. To replenish inventory fluid to its former levels, bearing in mind we use the fluid in all our growing pods, will currently cost Z$8,000.
Labour	There is currently no spare labour capacity in the vertical farm to produce the Aurellim Leaf required by the supermarket. Hiring and training new staff within the contracts time frame is not possible. Existing staff who are on fixed hours contracts can be moved from a specific project they are working on. However, moving the staff will reduce contribution by Z$80,000 as the project will not be completed. The total wages for the staff being moved, that would have been apportioned to the project, are Z$15,000 and are not included as part of the Z$80,000 lost contribution.
Growing pod	We purchased a second-hand growing pod for Z$55,000 for use in emergencies. It can be used to increase capacity for the supermarket contract. The growing pod could be sold now for Z$50,000. The depreciation charge for the growing pod for the period of the supermarket contract would be Z$3,850.

Reference Material Pre-seen

Write the report requested by Sofia Perez in the box below.



Thank you for completing the Operational Case Study Exam.

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

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Operational Case Study Exam

Maximum Time Allowed: 180 minutes

Welcome, Candidate Name

If this is not your name, please let your administrator know.

Click **Next** to start the test.

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Task	Time for task (minutes)	Number of tasks	Number of sub-task/s	% time to spend on each sub-task
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2	45	1	3	(a) 36% (b) 32% (c) 32%
3	45	1	2	(a) 64% (b) 36%
4	45	1	3	(a) 40% (b) 20% (c) 40%

Each task has a number of sub-tasks. An indication of how much of the time available for the task 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

Today is 1 June 2026. SoPa is setting up a home delivery service in Tombor. All food will be prepared in a 'ghost kitchen', which is a kitchen used exclusively for the preparation of delivery service food. This new kitchen is currently being set up and is expected to be operational from 1 August 2026.

You receive the following email:

From: Jack Griggs, Head of Finance
To: Finance Officer
Subject: Home delivery app provider and leased assets

We will be using an existing third-party delivery app, through which customers will be able to place orders. Two delivery apps are being considered: Eatz and Nosh, and each will charge us a fixed fee for being hosted on its app and is suggesting a 6-month exclusive contract.

As well as deciding on the delivery app to use, the Senior Management Team (SMT) is yet to decide whether we will use our own employees to deliver to customers or use the physical delivery services available from both Eatz and Nosh.

Given that home delivery is a new venture for us, we are not sure how the market will react. Sofia Perez, Restaurant Operations Director, believes that there is a 20% chance the reaction will be excellent, 45% chance that it will be good and a 35% chance that it will be moderate. To help the SMT decide which delivery app to use and whether to use our own employees for delivery, I have drawn up a decision tree. This is included in Schedule 1 (attached) together with some notes.

Please prepare a briefing note for the SMT in which you:

- Discuss what the decision tree in Schedule 1 shows us.

[sub-task (a) = 20%]

- Apply a risk neutral approach to decision making to explain how to use the decision tree to determine which combination of options should be chosen.

[sub-task (b) = 20%]

- Discuss two limitations of using this approach and two other factors that should be considered before the decision is finalised.

[sub-task (c) = 32%]

We are leasing a walk-in fridge unit for the new kitchen. Details of this are included in Table 1 (attached).

Please prepare a briefing note for the SMT in which you:

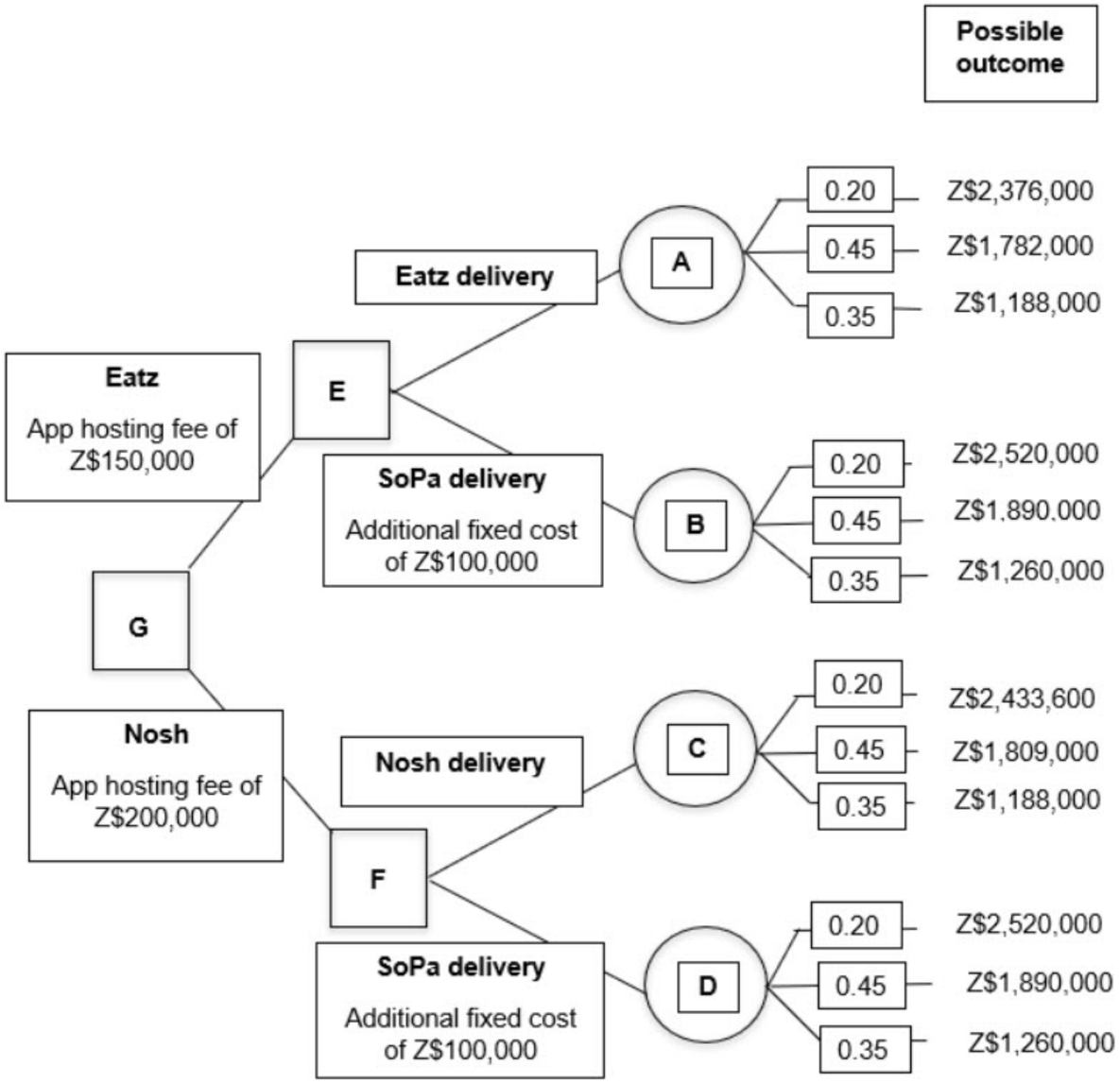
- Apply the provisions of the relevant financial reporting standard to justify how the lease liability for the lease detailed in Table 1 will be initially recorded and then subsequently measured in our financial statements for the year ending 31 December 2026.

[sub-task (d) = 28%]

Jack Griggs
Head of Finance
SoPa

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

Schedule 1: Decision tree and notes



Notes:

- The possible outcomes are contribution on sales to home delivery customers after third-party delivery costs (which are a fee per delivery) for the first 6 months of operation.
- The expected values at points A, B, C and D are as follows:

Point	Expected value Z$
A	1,692,900
B	1,795,500
C	1,716,570
D	1,795,500

Table 1: Lease for walk-in fridge unit

Lease arrangement fee	Z$4,000
Lease commencement date	1 July 2026
Non-cancellable lease payments in the initial lease period, payable in arrears	5 annual payments of Z$10,000
Cancellable lease payments in the secondary lease period, payable in arrears	4 annual payments of Z$4,000

Notes:

- The lease can be cancelled at any time in the secondary lease period. If cancelled, SoPa would need to pay a one-off penalty of Z$15,000.
- Sofia Perez, Restaurant Operations Director, expects that the walk-in fridge unit would be used for 7 years in total and then returned to the lessor.

Reference Material Pre-seen

Write the briefing notes requested by Jack Griggs in the box below.

Reference Material Pre-seen

Two weeks later, Jack Griggs, Head of Finance, calls you and says:

"At yesterday's Senior Management Team (SMT) meeting, I presented the draft budget for the first month of our new delivery service. At the meeting, Tobias Smit, Marketing Director, suggested three ways that the volume of orders could be increased: discount the selling prices of starters by 20%, give free sides with each order or a targeted social media marketing campaign. I was asked to model the impact of each of these suggestions on the draft budget and have therefore prepared a what-if analysis based on a number of assumptions. Table 1, which I will send you shortly, shows the what-if analysis and Table 2 shows the assumptions used.

Please prepare a briefing paper for the SMT in which you:

- Analyse Table 1 and discuss the impact of each of Tobias Smit's suggestions (reduce selling price, giving away free sides or a targeted marketing campaign) on budgeted revenue, variable cost, contribution and profit for the delivery service.

[sub-task (a) = 36%]

- Discuss the appropriateness of the assumptions in Table 2.

[sub-task (b) = 32%]

We have recently selected the supplier of the recyclable take-away packaging that we will be using. We were planning to hold 1 weeks' worth of inventory, which, based on our draft budget, would mean ordering 5,000 packaging items each week. The supplier is offering a bulk purchase discount if we order 40,000 packaging items each time we place an order.

In your briefing paper to the SMT, please also:

- Discuss how this bulk purchase discount will affect our ordering policy and inventory level compared to our planned approach. Please also discuss one financial and one non-financial factor that will need to be considered when deciding whether to use the discount."

[sub-task (c) = 32%]

Jack then sends you Table 1 and Table 2, which can be found by clicking on the Reference Material button above.

Table 1: What-if analysis for the new delivery service budget for August 2026

	Draft Budget Z$000	Reduce selling price of starters by 20%		Give away free sides		Targeted marketing campaign	
		Revised budget Z$000	Impact	Revised budget Z$000	Impact	Revised budget Z$000	Impact
Revenue	585	632	+8.0%	702	+20.0%	702	+20.0%
Variable cost	(270)	(324)	+20.0%	(356)	+31.9%	(324)	+20.0%
Contribution	**315**	**308**	**-2.2%**	**346**	**+9.8%**	**378**	**+20.0%**
Fixed cost	(200)	(200)	0.0%	(200)	0.0%	(250)	+25.0%
Profit	**115**	**108**	**-6.1%**	**146**	**+27.0%**	**128**	**+11.3%**

Table 2: Assumptions used in the what-if analysis

Budget variable	Assumption
Volume of orders	Volume of orders is assumed to increase by the same percentage for each suggestion.
Revenue per order, variable cost per order and fixed costs	Revenue per order, variable cost per order and fixed costs are assumed to be affected only by Tobias's suggestion.
Sales mix	The mix of items (between starters, mains and sides) included in an order is assumed to remain as budgeted.

Reference Material Pre-seen

Write the briefing paper requested by Jack Griggs in the box below.

Reference Material Pre-seen

It is now 15 August 2026 and the new delivery service has been operating for 2 weeks. SoPa uses its own team of delivery drivers.

You receive the following email:

From: Jack Griggs, Head of Finance
To: Finance Officer
Subject: Environmental costs and key performance indicators

We have worked hard to ensure that the new delivery service is operating as sustainably as possible. Table 1 (attached) includes some of the measures that we are taking to achieve this. Clearly, there are costs associated with this and it has been suggested that we report these costs using the environmental cost of quality framework.

Please prepare a briefing paper for the Senior Management Team (SMT) in which you:

- Discuss the distinction between environmental non-conformance and environmental conformance costs and the different categories of each of these. Please support your discussion with examples, for each category, of environmental costs that we have incurred based on the information in Table 1.

[sub-task (a) = 64%]

When a customer orders food through the app, the order comes through to a terminal in the kitchen. The food is then prepared and the manager on duty will provide an estimated delivery time to the customer on the app. The food is placed into a hot box, which the delivery driver attaches to their vehicle. Each vehicle is fitted with a satellite navigation system (sat nav). The driver inputs the customer address and the sat nav plots the most fuel-efficient route. The driver then delivers the order.

We have had a few complaints from customers about food not being hot when delivered and orders being delivered later than the time given on the app. Sofia Perez, Restaurant Operations Director, has asked for recommendations of key performance indicators (KPIs) that could be used to assess the performance of our delivery drivers.

Please prepare a briefing paper for Sofia in which you:

- Recommend three KPIs which would be relevant for assessing the performance of individual delivery drivers. Please explain how each KPI would be measured and justify why it would be appropriate.

[sub-task (b) = 36%]

Jack Griggs
Head of Finance
SoPa

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

Table 1: Information about the new delivery service and kitchen

Energy usage	The kitchen uses gas and electricity which is currently sourced from the national grid.
Smart metre	A smart metre has been installed to monitor energy consumption.
Food waste	All food waste in the kitchen is sent to a plant that makes biofuel. We are paid for this waste, but the cost to transfer the waste to the plant is more than the income we generate.
Packaging	All food is delivered to customers in packaging that can either be reused or is easily recycled. This packaging is more expensive to purchase than one-use non-recyclable packaging.
Light sensors	Throughout the kitchen, sensors have been installed so that lights automatically turn off if there is no movement.
Delivery vehicles	We have our own fleet of electrically powered delivery vehicles. We have installed solar panels to generate the power to recharge these vehicles.
Ingredients	Where possible, ingredients used in the delivery service kitchen are sourced locally. Some ingredients do need to be shipped in from other countries as they are not grown in Zeeland. Where this is the case, we try to counteract the food miles generated by donating to environmental protection charities in the country of origin. These charities carry out various projects including tree planting.

Reference Material Pre-seen

Write the briefing papers requested by Jack Griggs in the box below.

Paragraph

Reference Material Pre-seen

It is now November 2026. Following some early issues, the operation of the delivery service and its kitchen has been running smoothly for the past 6 weeks. Orders are higher than originally anticipated.

Jack Griggs, Head of Finance, comes to your desk and says:

"The Senior Management Team (SMT) has asked for a report about the performance of the new delivery service in October. We normally just report a sales volume variance, but Sofia Perez, Restaurant Operations Director, has requested more information about sales mix.

There has been some debate over whether the sales mix variance should be calculated using the individual unit method or weighted average method. Attached in Table 1 are the variances for starters using both approaches. Table 2 (also attached) includes some additional information.

Please prepare content for the report for the SMT in which you:

- Interpret the meaning of the sales mix contribution variances based on the individual units method (shown in Table 1) and the sales mix contribution variances based on the weighted average method (also shown in Table 1). Please also provide possible reasons why the mix has changed.

[sub-task (a) = 40%]

- Discuss the benefits of each method of calculating the mix variances.

[sub-task (b) = 20%]

Due to higher-than-anticipated sales for the delivery service and in our restaurants, we have started to accumulate a considerable cash balance. Sofia is keen that this is invested rather than just left in the main bank account. The funds will be needed in 4 months' time when we start to fit out our next restaurant. She has suggested that we consider investing in either the stock market, treasury bills or a money market deposit.

Please prepare a briefing paper for Sofia in which you:

- Compare and contrast the three forms of investment suggested by Sofia and recommend, with appropriate justification, which would be most suitable in this instance."

[sub-task (c) = 40%]

Jack then sends you Table 1 and Table 2, which can be found by clicking on the Reference Material button above.

Table 1: Sales mix contribution variances for starters for October 2026

Starter	Individual units method Z$	Weighted average method Z$
Ceviche	7,105 A	1,684 A
Taco	4,515 F	242 A
Tostada	675 A	321 F
Special	1,763 F	103 F
Total	**1,502 A**	**1,502 A**

Table 2: Information about starters

Starter	Budgeted sales volume	Actual sales volume	Standard contribution per starter Z$
Ceviche	2,000	1,100	5.80
Taco	2,000	3,400	4.20
Tostada	2,000	2,100	3.00
Special	2,000	2,700	4.70
Total	**8,000**	**9,300**	

Notes:

- The weighted average standard contribution per starter is Z$4.425.
- During October, there was a 1-week unplanned discount on Special starters due to over ordering ingredients. In addition, during October, there was a shortage of fresh fish meaning that Ceviche was sometimes not available.

Reference Material Pre-seen

Write the report contents and briefing paper requested by Jack Griggs in the box below.



Thank you for completing the Operational 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

Operational Case Study Examination

May & August 2026 – VARIANT 1

EXAM ANSWERS

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VARIANT 1

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TASK 1

Sub-task (a)

Interpretation of Chart 1

Chart 1 shows the amount of profit or loss that we expect to generate at different sales volumes, ranging from zero to the total budgeted sales volume of 620,000 units. Line A is what we can expect if we set up our own small production facility and make the SoPa@home products in-house. Line B is what we can expect if we outsource production.

Budgeted profit

At the total budgeted sales volume of 620,000 units, Chart 1 shows that the in-house option would have a profit of around Z$370,000 and the outsource option would have a profit of around Z$270,000. This is read from the point at the end of each line on the right-hand side of the chart. Therefore, at budgeted volume, the in-house option is expected to generate the most profit.

Fixed cost

Fixed cost is represented on the chart at the starting point of each line on the profit axis. Fixed cost for the in-house option is around Z$900,000 and for the outsource option is around Z$200,000. The Z$700,000 difference is the fixed cost associated with the small production facility that we would be setting up. This would include property-related costs such as rent, equipment-related costs such as depreciation and labour costs of indirect workers.

Average variable cost per unit

The slope of each line represents the weighted average c/s margin for that option. The higher the c/s margin, the steeper the gradient. The outsource option (line B) has a shallower gradient than the in-house option (line A), which means that the outsource option has a lower weighted average c/s margin than the in-house option.

The weighted average c/s margin is calculated as average contribution (average selling price – average variable cost per unit) divided by average selling price per unit. Given that selling prices and sales mix are the same for each option, then the difference between the slope of the lines is caused by a difference in average variable cost per unit. As outsourcing has the lowest c/s margin, this would indicate that this option has the highest variable cost per unit of the two options. This makes sense as we will be buying in the products from a third-party producer that will need to cover its fixed cost and make a profit.

Break-even point

The break-even point is the level of sales where neither a profit or a loss will be made (so fixed costs are equal to contribution). This is the point at which each line crosses the volume axis. The break-even point for outsourcing is sales of around 260,000 units and the break-even point for in-house production is significantly more at sales of around 440,000 units.

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The outsourcing option breaks-even sooner because of the significantly lower fixed cost with this option compared to the in-house option, despite average variable cost per unit being higher.

Margin of safety

The margin of safety is the amount by which sales volume could fall from the total budgeted sales volume of 620,000 units before a loss is made. For outsourcing, the margin of safety is around 360,000 units (620,000 – 260,000) or 58%. For the in-house option, the margin of safety is significantly lower at around 180,000 units (620,000 – 440,000) or 29%.

Sub-task (b)

Benefits and limitations of this break-even analysis

Benefits

A benefit of this break-even analysis is that it gives us a visual representation of the break-even point and therefore allows us to determine the margin of safety for each option. This is important because, as this is a new venture for us, there is considerable uncertainty over future sales volume. As indicated above, the chart shows that if we outsourced, sales volume could be 58% lower than budget before we made a loss. Alternatively, if we did the in-house option, sales volume could fall by 29% from budget before we made a loss. We know that sales volume could be 20% higher, but more importantly, 20% lower than budget, and if this were to happen, the chart indicates we would still make a profit regardless of the option chosen.

Another benefit of this analysis is that it identifies the cross over point (that is the level of activity where one option gives a greater level of profit than the other at higher sales volume). Up until sales volume of around 540,000 units, the chart indicates that the outsourcing option would generate the most profit, whilst after that point it switches, and the in-house option would generate the most profit. This point is 13% lower than budgeted sales volume (= (620,000 – 540,000) / 620,000) and within our 20% uncertainty band.

Limitations

A limitation of this analysis is that it is based on estimates that may not be accurate. We have never manufactured and sold our dips on a retail basis, and so SoPa@home is a brand-new concept. The estimate of sales mix is likely to be highly subjective, and whilst we have control over the selling prices we will charge, we may need to discount these or adjust as we understand more about market demand for these products. Estimates of fixed cost are also likely to be highly subjective, given we have never manufactured before.

Another limitation is that we are assuming that for each option, total fixed cost and average variable cost per unit are constant over the entire range of activity. Whilst we might expect selling and marketing costs to be reasonably fixed, in reality, production fixed costs are likely to be stepped in nature as activity levels rise. In addition, there may be economies of scale

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(possible bulk purchase discounts) that could reduce variable cost per unit at higher activity levels. These are ignored in the analysis.

Sub-task (c)

Weighted benefit scoring

Weighted benefit scoring is a technique that is used to support decision making. It is a technique in which all financial, non-financial and sustainability-related factors that affect the decision can be taken into account. It allows management to make a balanced evaluation of the decision.

When using the technique, the first step is to identify the decision options, which for us is outsource production of SoPa@home products or to set up our own small manufacturing facility to make the products in-house.

The next step is to establish decision criteria. These are the factors that need to be taken into account when evaluating the decision and which give rise to potential benefits. The scale of these benefits is likely to be different for each option. For our in-house/outsource decision, criteria may include:

- control over the quality of production
- expertise in production
- cost
- sustainability of production
- reliability of supply

Each criterion is then given a percentage weighting, with the percentages adding to 100% for all criteria. For example, we might consider quality of production to be important because we are putting our brand on the product and we need to ensure that it meets the standards expected by our restaurant customers. We may assign this a weighting of 25%. To counter this, we may consider that expertise in production is equally as important (given that we have never manufactured before). It is likely that cost may have a relatively small weighting using this technique, as protection of our brand and ensuring that we can meet demand is likely to be more important.

The next step in the technique is to then to assign a score out of 100 for each option for each criterion. For example, we might consider that expertise in production for the in-house option would be scored at 20 (because we will need to build the expertise), whilst the score for the outsource option might be 95 (because we will choose an outsource partner that can offer this expertise). These scores will require some degree of judgement.

The final step is to then calculate the weighted benefit score of each option based on the criterion percentages and the option scores and then choose the option with the highest weighted benefit score.

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TASK 2

Sub-task (a)

Importance of budgets

Planning

Budgets are a plan for the future. The process of creating a plan forces you, alongside other key managers, to look ahead, set targets, anticipate problems and provide direction for the SoPa@home Production Facility. For example, based on anticipated sale volume, you can look ahead and determine when production needs to start and how much production there needs to be. This in turn allows you to plan to have the resources in place (for example, employees, equipment and raw materials) to allow this to happen. Without budgets, day-to-day operations in the facility may be chaotic, leading to hasty decisions that are made on the spur of the moment, based on expediency rather than reasoned judgements. Therefore, having a plan, set down in a budget, will make the SoPa@home Production Facility easier for you to manage as everyone will know what is required. Potential issues, such as a shortage of resources, will have been anticipated and planned for in advance.

Co-ordination

Budgets enable co-ordination as they serve as a mechanism through which the actions of the different functions within the SoPa@home Production Facility can be brought together and reconciled. For example, given that sales volume is our principal budget factor, the sales budget will lead to a production budget, determining the volume of production required to meet the sales targets. The production budget in turn will lead to budgets for the purchase of raw materials (ingredients and packaging) and for direct and indirect labour based on the volume of production. Without the budgeting process and co-ordinated budgets, individual managers within the facility may each make their own decisions about purchasing or recruitment, believing that they are working in the best interests of the business.

Control

Budgets also provide the plan against which actual results can be compared in the future. Those results which are out-of-line with the budget can be further investigated and corrected if necessary. For example, we have set standards for the cost of each of the raw materials that we will need for our products, including a standard cost of Z$0.30 for each Salsa jar. After a period of operation, if the cost per jar is Z$0.40, this will generate an adverse raw material price variance, which you can investigate. It may be that the increase in price is unavoidable, or it maybe that it is the result of poor purchasing decisions which can be rectified going forward. The important thing is that having the budget allows you to see how actual results deviate from the original plan and react to this.

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Sub-task (b)

Production and materials budgets

Production budget

The production budget will show the number of units of each type of SoPa@home product to be produced in each budget period (let's assume that this is a month). Production will need to be sufficient to ensure that sales demand is met but to also allow for planned changes in finished goods inventory levels. In assessing the appropriate level of inventory, we will need to consider a number of factors, including the level of uncertainty in the sales forecast which may require us to hold buffer inventory, as well as any lead time that we may have promised retailers.

Sales of SoPa@home are due to start on 1 October 2026 and therefore, production will need to commence the month before to ensure that there are goods to sell on that date. Therefore, the first production budget will be for September 2026. In each month, for each product, production volume will be calculated as sales volume plus closing inventory volume required less the opening inventory volume. For the first month of production (September), opening inventory volumes will be nil. We may also want to include an allowance for production that fails quality control checks or gets damaged in the production process or in storage.

Material usage budget

The material usage budget will follow on from the production budget and shows the quantity of each type of raw material that will be required to satisfy planned production for the month. For example, let's consider tomatoes. Based on our standard, we need 280 kilograms (kg) of tomatoes to make 1,000 jars of Salsa Dip. The quantity of tomatoes we will need to make the volume of Salsa Dip required will be 0.280 kg multiplied by the volume of production (in units) from the production budget for the month. If tomatoes are used in other products, this process will be repeated for those products and the total quantity of tomatoes required in the month determined.

Material purchases budget

The material purchases budget is the final of the three budgets to be constructed and shows the volume and cost of the materials that need to be purchased. In quantity terms, material purchases are calculated as material usage for that raw material for the month plus the planned level of closing inventory for that material less the opening inventory. The appropriate level of inventory will depend on our assessment of factors such as lead times from suppliers and the availability of any bulk purchase discounts. We will need to make an allowance here for any raw material wastage that is anticipated in the production process, but also to reflect the perishability of the inputs. Given production is starting in September, we may need to consider whether some raw materials (such as maybe jars, which are nonperishable) need to be purchased in August.

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Sub-task (c)

SoPa@home finished goods inventory valuation in the financial statements

The relevant financial reporting standard that governs how to value inventory in the financial statements is IAS 2: Inventories. This states that inventory should be valued in the financial statements at the lower of cost and net realisable value. Cost should include purchase cost, costs of conversion and any other costs necessary to being the inventory to its present location and condition. Net realisable value is the selling price of the inventory in the normal course of business less estimated costs of completion and any costs necessary for the sale to happen.

Application to SoPa@home finished goods inventory

The 'cost' of SoPa@home finished goods inventory will be the full cost associated with production of that inventory, rather than just the cost of the ingredients used (although this will be an element of the cost). This will therefore include:

- The costs of purchasing the raw materials (ingredients and packaging) used in the production of the inventory. For example, for Salsa Dip, this will be Z$564.50 per 1,000 jars based on our standard costs. The costs of purchasing include any non-refundable taxes, any delivery inwards costs and should be net of any trade discounts claimed.
- The costs of converting the raw materials into finished goods. This will include any costs directly related to production (direct labour) and a systematic allocation of variable and fixed production overheads. With respect to fixed production overheads, IAS 2 states that this allocation should be based on normal production capacity and therefore we will need to ensure that this is the case.

What is not included in the cost of finished goods inventory is the cost of storage, as this is not a cost of getting the inventory into its present location and condition.

In terms of the 'net realisable value' of SoPa@home finished goods inventory, this will be selling price less any selling costs (such as onwards delivery costs). All products are expected to have selling prices which are higher than production cost, which means that inventory with a shelf-life of more than 1 month at the year end will be valued at cost, because this will be lower than net realisable value.

However, for any inventory at the year end that has a shelf-life of less than 1 month, it's possible that its net realisable value will be lower than its cost, given that it will be sold for 20% of its normal price to a discount retailer. If this is the case, this inventory will need to be valued at the lower net realisable value.

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TASK 3

Sub-task (a)

Recommendation of suitable absorption rates bases

If we use absorption costing for the new facility, absorption rates will be calculated as production overhead for the process (either fixed or variable) for the budget period divided by an appropriate base. This base should be the measure of activity that has the greatest causal effect on the overhead.

For weighing, the process is mostly manual and therefore the most suitable base would be direct labour hours. Each type of dip has a different number of ingredients and therefore it will take different amounts of time to weigh a batch, even though the batch size is the same.

For mixing, this is mostly machine intensive and therefore the most suitable base would be machine hours. A batch of each type of dip takes a different amount of time to mix and therefore a batch requiring more mixing time should have a greater share of the overhead cost compared to a batch with a small mixing time.

For packing, this is machine intensive again, although, because the jars are all the same size, and assuming that the time taken to package a batch is the same, the most suitable base would be number of jars.

Sub-task (b)

Suitability of activity based costing (ABC)

If we were to use ABC in the SoPa@home Production Facility, we will need to undertake a detailed analysis of all production activities to identify each activity for which there is a different driver of the cost. We would then absorb the cost of each activity using the appropriate cost driver. As such, ABC is expensive to implement and therefore we need to carefully consider whether it would be beneficial before starting to use it. There are three main situations in which ABC can be beneficial and these are considered in turn.

There is a wide range of products or products are tailored to customer specifications

There will be four different types of dip: Salsa, Guacamole, Chipotle and Super-hot. Each type of dip will be made to a recipe developed by Paolo Perez, Managing Director & Executive Chef, and so cannot be tailored to customer specification. In addition, at this stage, we will only be making dips and therefore we won't really have a wide range of products. There are some differences between the types of dip in terms of number of different ingredients and mixing time per batch. However, the process of weighing and mixing will be the same for all types of dip. Therefore, ABC is unlikely to give us a significantly different allocation of the resources consumed (such as power and indirect labour) compared to the approach suggested above of absorbing overheads on the basis of time (direct labour hours for weighing and machine hours for mixing).

The production process is complex

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The production process for SoPa@home dips, as shown in Schedule 1, will be relatively simple. Ingredients for a batch will be manually weighed, then mixed by machine and then packaged by machine on a packing line. Therefore, the production process is not complex. Each type of dip will have the same batch size, and activities such as cleaning the mixing bowl and the packing line will happen at batch level. There is therefore potentially an argument to say that the cost of cleaning should be absorbed on a volume basis rather than a direct labour hour or machine hour basis as suggested above, because each batch should have the same cleaning cost attached to it. However, the overhead costs associated with cleaning are likely to be very small, and on its own this is not sufficient to support the expense of ABC.

Indirect costs are high relative to direct costs

We expect that production overheads (which are our indirect costs) will be around 35% of the total cost of production. The other 65% of the total cost of production will therefore be the direct cost (cost of ingredients and raw materials and the cost of direct labour). Schedule 1 shows that there will be automation in the production process, and the costs associated with this automation (for example, energy and equipment maintenance) will be included as part of production overhead. However, the automation is relatively straightforward, hence why indirect costs will only be 35% of the total cost. It is therefore questionable whether the relative importance of overhead cost to total production cost is going to be high enough to warrant the use of ABC.

Overall, considering the above, it would appear that ABC is not suitable for the new SoPa@home Production Facility at this stage. However, if in the future we decided to add to the range and perhaps introduced sauces that required cooking, this would widen the range of products and the complexity of production. This could potentially mean that ABC would be suitable.

Sub-task (c)

The economic order quantity (EOQ)

The EOQ is the number of glass jars that we would order each time that we place an order with the supplier. It represents the optimum because it is the order quantity where the total of holding and ordering costs is minimised.

The information that we need to establish to calculate it includes the annual demand for glass jars, which will be based on production volumes for SoPa@home. It also includes the cost of placing an order (delivery costs charged by the supplier and internal administrative costs) and the cost of holding one jar in inventory for 1 year (storage and finance costs).

Sub-task (d)

Suitability of the EOQ model

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Given that at the EOQ the total of holding and ordering costs is minimised, the EOQ is in theory a suitable model to use for our ordering policy. However, the model is based on a number of assumptions that need to be met. Each of these is considered in turn.

Demand

The model assumes that annual demand is constant and known with certainty. We are planning to produce SoPa@home evenly through the year, even though demand for the products themselves may fluctuate. Because of this even production, it is likely that annual demand for glass jars will be at a constant rate. However, the level of demand is going to be highly uncertain given that the SoPA@home range is new and our first venture in retail. Therefore, the total demand for the year won't be known with certainty.

Lead time

The model assumes that lead time is also constant and known with certainty (and therefore there is no need to hold buffer inventory). The supplier has not specified a lead time but, based on Rob Gaines' previous experience dealing with the supplier, it is unlikely that lead time will be constant and known with certainty. This is because deliveries fluctuated and were sometimes before and sometimes after the specified delivery time. To deal with this, we can choose to hold a buffer level of inventory. This will increase holding costs (and therefore will not optimise the level of costs) but will help to protect us from running out of jars if the supplier is late with deliveries.

Purchase price

The model assumes that the purchase price of the glass jars is known and constant. We don't have any information on this, although presumably a price will be agreed in advance and therefore this assumption may hold. Where there may be an issue is if the supplier offers a bulk discount for an order quantity which is higher than the EOQ. If that's the case, we would need to evaluate the total cost of inventory (purchase, ordering and holding costs) at the EOQ against the total cost of inventory at the minimum order quantity.

Cost behaviour

The model assumes that holding costs will vary with the level of inventory held and that ordering costs are fixed per order. It is likely that for both types of cost, there will be a variable and a fixed element. For example, property-related storage costs will be fixed rather than variable, and delivery costs may increase as the volume delivered increases.

In conclusion, given that most, if not all of the assumptions of the EOQ are unlikely to hold, it would appear that this is not a suitable model to use. Given the uncertainties, my recommendation would be to take a more fluid approach to ordering, which can take into account changing demand and lead times.

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TASK 4

Sub-task (a)

Production variances for SoPa@home Production Facility

Raw material variances and KPIs

The raw material price variance is Z$1,995 adverse, which means that, on average, the prices we paid our suppliers for raw materials (ingredients and packaging) were higher than our standards. We changed some of our suppliers at the start of November, to improve the quality of the ingredients used, and it's likely that these higher quality ingredients cost more per kilogram than our standard cost.

The raw materials usage variance is Z$1,197 adverse, which means that, on average, we used a greater amount of raw materials than we should have (based on our standard) for actual production. Raw materials used in production include raw materials scrapped and raw materials used in scrapped production. Both of these will have been higher than expected in November. Firstly, we scrapped ingredients from original suppliers due to poor quality. Secondly, speeding up the bottling line resulted in more breakages than expected.

The KPI dashboard supports this reasoning for the adverse usage variance. We can see that in the first half of November, raw materials scrapped was significantly higher than target and will be down to the scrapping of existing inventories of the poorer quality ingredients. This has settled down in the second half of the month, although is still above target. We can also see that the % of scrapped production is higher than target in the third and fourth weeks, which will correspond with the speeding up of the bottling line leading to a higher-than-expected level of breakages.

Whilst the performance in November in respect of raw materials is worse than expected, there are very specific reasons for this. The change in the quality of the ingredients is a permanent change and therefore going forward we need to update our standards to reflect the increased prices. This action is to protect the quality the production and to ensure that we build a good reputation for our new production. In terms of material usage, whilst it appears to have improved by the end of the month, we need to investigate how we can improve it further.

Direct labour variances and KPIs

The direct labour rate variance is Z$1,820 adverse, which means that, on average, we paid more per hour for the hours paid than we expected to, based on our standard. We recruited additional direct employees in the month and these employees had previously worked at a food production plant. Therefore, these employees are experienced and we probably had to pay a higher-than-average rate because of this.

The direct labour idle time variance is Z$520 adverse, which means that we paid our direct employees for hours where they were not being productive. We do not budget for idle time and therefore this variance will always be adverse. The reasons for this idle time are shown

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in the KPI dashboard. Most idle time (65%) is related to training. This will have been training for the new employees recruited in the month in order to increase production capacity. It will also include training in respect of the additional quality checks that were introduced. Both of these are one-offs and won't be repeated going forward, although training is important, and therefore perhaps we should consider building this into the standard.

The other reasons for idle time are a little more concerning. Given that the facility is new, machinery downtime should not be happening and the reasons for this should be investigated. Similarly, waiting for ingredients is also an issue as it indicates potential bottlenecks in the production process that need to be ironed out.

The direct labour efficiency variance is Z$910 adverse, which means that our direct employees took more productive time than we expected them to, based on our standard, for actual production. We have introduced some additional quality control checks in the mixing process to safeguard quality and this will require more direct labour time, which would explain at least part of the variance. It's also possible that employees are not quite working at the speed that we expected them to. November is only the third month of production and employees may still be learning processes, especially those recruited recently.

Variable overhead variances and KPIs

The variable overhead expenditure variance is Z$1,625 adverse, which means that we spent more on variable production overhead than we should have for the machine hours actually worked. There are two key reasons for this. Firstly, the KPI dashboard shows us that the % of total hours worked at overtime premium was higher than the target, across the whole of the month. As overtime premium is included as part of variable overheads, this will have increased the cost per hour.

Secondly, there were technical issues with the solar panels on the roof, which means that for 2 weeks we were using power from the national grid rather than using our own self-generated power. This will have increased the cost of the energy consumed in the month, although, now that the fault is rectified, this should not be an on-going issue.

The variable overhead efficiency variance is Z$912 favourable, which means that it took less machine hours than standard for actual production. This is the only favourable variance in the month. Again, there are two main reasons for this variance. Firstly, because of the issues with consistency in October, at the start of November, we reduced the amount of mixing time required per batch. This will have reduced the mixing hours required to complete production.

Secondly, to ensure that we could produce more, we speeded up the packaging line halfway through the month. This means that throughput on the line will have increased compared to the target and hence less machine hours would have been used per unit of production. Whilst this impact is favourable, it needs to be considered alongside the negative consequences of this change, which is the increase in breakages, which is discussed above in relation to the adverse raw material usage variance.

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Sub-task (b)

KPIs for sustainability

Self-generated power

We have solar panels installed to provide power to our PaSo@home Production Facility and therefore will be using self-generated power. Therefore, a useful KPI to add to the dashboard will be the percentage of the total power used in the facility in a week (measured in kWh), which has been generated through these solar panels.

Generating and using power from sustainable sources, such as our own solar panels, is better for the environment than using power from non-sustainable sources such as coal. We know that our self-generated power comes from only sustainable sources, whilst power purchased from the national grid, will be from a range of sources. Self-generated power, once the investment is made, costs less to operate than buying in from the national grid. The greater the proportion of self-generated power we use in production, the better for sustainability as well as cost.

Waste outcomes

As we are engaged in food production, there will inevitably be waste in terms of ingredients that can't be used or production that fails quality checks. Therefore, a useful metric to include in the KPI dashboard will be an analysis of where our waste ends ups. This could be shown in the same way we currently show the reasons for idle time.

An important aspect of sustainability is to limit waste and we already have KPIs which monitor this. However, it is also important that any waste is eliminated in a sustainable manner. Ideally, sending to landfill, or pouring down a sink, should always be the last resort, as these are potentially harmful to the environment. We should be aiming to recycle as much waste as possible, either by sending food waste for composting or for animal feed and ensuring that broken glass jars are sent for glass recycling.

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Operational Case Study Examination

May & August 2026 – VARIANT 2

EXAM ANSWERS

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VARIANT 2

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TASK 1

Sub-task (a)

Time series analysis

Graph 1

Graph 1 shows a line chart representation of a series of values for monthly sales in our Tombor restaurants over a period of 36 months ending on 30 April 2026, although the last labelled month is month 35, March 2026, on the graph.

For sales in our Tombor restaurants, we can see an upward trend between months 1 and 21 or 22. Between months 22 and 29/30, the trend, whilst still upward, appears to be flattening. Following month 27, it is not possible to discern a trend due to volatility in sales and there only being a few months to analyse.

The graph shows that sales peaked above the underlying trend in months 6 and 18, possibly indicating that there was an annual cycle and seasonality. But more information would be needed to be certain. The possible repeating pattern of months 1 to 21 is broken from month 22 onwards when, although the upward trend continues, there is less variability.

Further evidence of an annual cycle may be seen in that months 7, 19 and 31 (all separated by 12 months) are the low points at the end of each 12-month period; however, month 33 is significantly below the upward trend seen previously. After month 31, there is a sudden drop in sales and successive rises and falls. During this period, the peaks are not on a rising trend. This shows the impact of the increased competition in Tombor and the recent volatility in our sales.

Suitability of time series analysis

Time series analysis would have been likely to be successful as a basis for future forecasting for the months up to month 30, as we can see an underlying trend and there is some pattern to the peaks and troughs on the graph. However, analysis based on this information would be of little use to us, as the forecasts would not reflect what we are currently seeing in the market or indeed what we could expect to see in the future.

The data from month 30 is showing no underlying trend to date, with peaks seeming to cancel out troughs. For this data to be useful for forecasting, we would have to see if this new anomaly disappeared over time or if this pattern was the new normal. Also, for information after month 30, we also only have five data points, so it is not only very difficult to identify any trends from such a small data set, but it would also be difficult to extrapolate future trends accurately from such a small number of data points.

Sub-task (b)

AI and big data in sales forecasting

Forecasting accuracy

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AI and big data can significantly enhance the accuracy of forecasting in these circumstances by analysing longer periods of historical and real-time data to identify more complex and hidden patterns and relationships. It will also include more diverse and complex data sources which can also help to account for high residual variations. Sources of such information may include point-of-sale information, weather reports and local events for Tombor.

Real-time updates

Machine learning algorithms within AI systems will continuously learn from new data, refining the predictions despite changing conditions. Forecasts will be updated in real-time, enabling the business to use the analysis to anticipate busy periods and quieter times with greater precision, thereby enabling us to align staffing with forecast demand. This would ensure no under or over staffing and possibly reduce labour costs and improve staff morale.

Automating data analysis

By automating data analysis, AI reduces manual errors and guesswork, leading to better planning, less waste and more efficient allocation of resources. For instance, we can identify the most popular dishes on a menu at specific times, which can enable us to quickly amend our ingredients purchasing and reducing food waste and aiding our sustainability goals.

Strategic decision making

Ultimately, using AI and big data in forecasting supports more agile decision making and will help us to respond quickly to changes in demand, pricing opportunities and promotional strategies. The effect of this should be that it allows for more strategic decision making supporting our restaurant expansion plans.

Sub-task (c)

KPIs for restaurant staff

Serving staff

To be able to identify individual staff members, it would be necessary for each server to be identified on the billing system as serving a particular table. This could be done by name or code. The QR code printed on every bill can be used to facilitate customers giving feedback and will allow comments to be traced to individual personnel. This identification would then allow the following KPIs to be used.

Customer satisfaction score: This can be measured through customer feedback either during service or online after visiting our restaurant using a percentage score for key areas, such as friendliness, efficiency and attentiveness. High scores indicate serving staff are meeting or exceeding customer expectations. It is visible and easily monitored.

Order accuracy rate: This can be measured as the number of meals returned by customers due to an incorrect order being taken as a percentage of the total number of meals served. The returned meals are likely to cost the company as they may be required to provide

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customers, where errors occurred, with a free or discounted meal. The aim of this measure will be to have zero returned meals.

Restaurant managers

Employee average length of service: This can be measured as the average period employees work for the company. The shorter the period, the higher the employee turnover rate. A high employee turnover rate can indicate issues such as lack of support or inadequate training.

Average revenue per available seat hour: This would be calculated as the average revenue per seat per hour. This would help to assess how efficiently a restaurant is utilising its capacity and how well a manager is optimising table turnover and customer flow. The higher the average revenue level, the better the management of seating and service times, leading to increased revenue.

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TASK 2

Sub-task (a)

Decision making with uncertainty

Information in Table 1

The payoff table here demonstrates the level of net income which may be generated by limiting the capacity of the restaurant to match the number of staff recruited, thereby ensuring customers always receive a high level of service. For example, if it is only possible to recruit a “low” number of staff, then irrespective of customer demand, it will only be possible to give a high level of service to a restaurant using 50% of its normal capacity which would generate a net income of Z$52,011.

The net income level rises when there is a match between a “medium” level of recruitment and 70% capacity. If we can recruit sufficient staff to provide a good service for 70% restaurant capacity, then we will generate a net income of Z$72,816. However, this amount would fall to Z$50,192 if we have that number of staff available but decided to operate at only 50% capacity. This is because we will have to pay the fixed cost of the staff needed for 70% capacity, but we will only receive income associated with operating at 50%.

The highest level of staff, with the capacity set at 80%, produces the highest level of net income at Z$83,218 as would be expected. However, if the recruitment level was high, we would have sufficient staff to service demand equal to 80% capacity, but we had chosen to operate at only 50% of capacity, the net income generated falls to Z$49,282. Again, this is because sales would be at 50%, but staff costs are at the level fixed at recruitment.

Deciding which restaurant capacity to use

Where there is uncertainty about which alternative to choose, there are three methods to support decision making. These are the maximax rule, the maximin rule and minimax regret rule. Based on Table 1, we can directly apply the first two of these. We would need to construct another table, a regret table, to use the minimax regret rule.

Maximax is used by optimists and involves selecting the alternative which produces the highest net income, effectively the maximum of the maximum or the highest of all the alternatives. Here, operating at 80% of restaurant capacity would be chosen as this generates the highest net income of Z$83,218.

In contrast, the maximin rule is used by pessimists who want to achieve the least bad outcome. So, they would choose the highest of the minimum payoffs available. The decision is made by selecting the lowest additional net income generated for each restaurant capacity level. Here, that would be Z$49,282 for 50% and Z$52,011 for 70% and 80%. So, for a pessimist, either 70% or 80% could be chosen as this would generate the least bad outcome, but they would most likely choose 80% given the upside after they had protected the downside.

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From the information in Table 1, it is possible to construct a regret table. This would show the regret from choosing the wrong restaurant capacity to operate at. For each of the three recruitment levels, we would identify the restaurant capacity that would give the highest contribution and this would have a regret of nil. The regret for the other capacity levels at that recruitment level would be calculated as maximum contribution less the contribution at that capacity level. We would then choose the capacity which gave the smallest of the maximum regrets. This approach to decision making under uncertainty would be used by someone who dislikes losing.

Sub-task (b)

Decision making with risk

Estimating probabilities changes the context from uncertainty to risk. Without probabilities all we know is that there are differing possible levels of recruitment, but we do not know the likelihood of each one occurring. By estimating probabilities, we attach a likelihood of a poor, medium or high level of recruitment occurring. The estimation of the probabilities could be based on our previous experience of the labour market in Tombor or Zeeland more generally or current research into the problem. But it is an estimate and therefore subjective.

One way to use the probabilities from the recruitment agent is to calculate the expected value of the outcomes. The expected value reduces all possible outcomes arising from choosing an option to a single value. It does this by calculating a weighted average of the outcomes where the weighting is determined by the probabilities of the recruitment levels. For example, if we were calculating the expected outcome for 50% restaurant capacity, we would multiply the probability for each of the levels of staff recruitment, with the respective net income at 50% capacity. We would then total these to calculate the expected value.

Expected value (EV) is a long run average and assumes the decision is made many times under exactly the same conditions. It is therefore not suitable for a one-off decision. The decision about the capacity at which to operate the restaurant is a one-off decision. The EV calculated may never occur as it is a long run average.

By reducing the possible different outcomes to just one figure, the use of expected value will not present the decision maker with a view of how wide the differing outcomes could possibly be. Calculating the standard deviation will give a representation of the spread of the possible outcomes from the average of the outcomes (the expected value). The bigger the spread, the bigger the standard deviation will be.

There are three attitudes to risk that decision makers could adopt: risk neutral, risk seeking or risk averse. A risk neutral decision maker would choose the option which generates the highest expected value.

A risk seeker will choose the option which will produce the best outcome, the highest net income here, however unlikely that specific outcome is estimated to be. They would therefore choose to run the restaurant at 80% capacity regardless of any estimate of the

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probability of recruiting a high level of staff to be able to offer that service. This is the same view of decision making as the maximax rule when dealing with uncertainty.

A risk averse decision maker is prepared to take risk but evaluates the risk against return. They do this by choosing the option that has the lowest coefficient of variation which is calculated by dividing the standard deviation by the expected value for that option. The standard deviation represents the spread of the possible outcomes and represents the risk, whereas the expected value is the long-run average outcome. Therefore, for two options that have the same standard deviation, a risk averse decision maker would choose the one that has the highest expected value. Similarly, if two options have the same expected value, the one with the lowest standard deviation would be chosen.

Introducing probabilities may not always lead to a more accurate decision. This is because the decision is reliant on the accuracy of the data provided by the recruitment agent which is then used in calculations. It is possible the underlying probabilities provided by the recruitment agent and therefore expected value and standard deviation calculations coming from them could be subjective. In addition, the predictive strength of such probabilities lies in multiple repetitions of the same decision, which does not align with the decision here, which is only being made once.

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TASK 3

Sub-task (a)

Leased asset

Initially recorded

The lease contract gives the right-of-use of the robotic mixologist and automated drinks delivery system for 3 years if lease payments are made. So, as detailed in IFRS 16 Leases, when the lease starts, SoPa as the lessee, should recognise the lease liability and a right-of-use asset.

The lease liability to be initially recorded is the present value of lease payments which have not yet been paid, which will be the two payments due on 1 January 2028 and 1 January 2029. We calculate this by multiplying the lease payments of Z$75,629 a year with discount factors at the interest rate implicit in the lease (10.3%) to obtain the present value. The lease liability should not include the fact that SoPa has the option to buy the mixologist and drink delivery system at the end of the lease as we are unlikely to take this up.

The right-of-use asset is initially recognised at cost in the statement of financial position. The cost will include the amount of the initial lease liability. It will also include any payments made before the commencement date, which are the Z$1,500 payment to the agent who arranged the lease and the first lease payment of Z$75,629. This former amount is included as it is a direct cost of obtaining the lease. The estimated cost of removing the systems at the end of the lease, here a cost of Z$2,545, should also be included, measured at its present value.

Subsequently measured

For the year ending 31 December 2027, the lease liability will be increased by the interest related to that year. This will be an increase of 10.3% which will be charged to profit or loss and reduce the profit for the year. In addition, in the year end financial statements, the lease liability will be split to reflect the current liability, amounts due within 1 year, and the non-current liability, amounts due in more than 1 year.

The right-of-use asset will then be depreciated in line with IAS 16: Property, Plant and Equipment. As we are unlikely to own the robotic mixologist system at the end of the lease, the depreciation period will be the 3-year lease period rather than the estimated useful life of 5 years.

For the year end 31 December 2027, the right-of-use asset will be included within non-current assets in the financial statements. For the year to 31 December 2027, depreciation will be 11 months rather than 12 months as the system will not be installed and working until 1 February 2027.

Sub-task (b)

Benefits and drawbacks of proposed working capital policy

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We are looking to reduce the costs of providing working capital to our business to be able to generate sufficient positive cashflow to cover the payments for the new mixologist and drink delivery system.

We have two types of working capital requirement, permanent and fluctuating. Permanent is the base level of working capital. Fluctuating is the amount above the base level which accounts for additional working capital requirements due to seasonality and other short-term changes.

We are aiming to improve our working capital position by increasing the use of short-term finance. Currently, we use long-term finance to cover our permanent working capital and 70% of our fluctuating working capital needs. We are looking to move to a position where we use short-term finance for all our fluctuating working capital needs and 30% of our permanent needs. This should produce a cost benefit as the current cost of short-term finance, in Table 2, is 6%, which is cheaper than the long-term capital cost which is fixed at 7%.

This new position is a more aggressive approach to managing our working capital as we will be financing all fluctuations with short-term finance and some of our base level working capital. This has a higher risk than our current conservative position.

Whilst the current cost is currently lower for short-term finance, this interest rate may be subject to change during the period of the finance agreement as it is a variable rate based on the Bank of Zeeland base rate. In times of volatile interest rates, this may make it more difficult to forecast our cashflow accurately. Whilst we may benefit from a base rate reduction, we may also lose our initial cost saving due to base rate rises, which may potentially increase our costs above those we currently see with long-term finance.

Using short-term finance will also require renewals to be negotiated more often due to the average short-term finance deal only covering a period of 7 months. This may increase our risks, as we may be unable to renew our short-term finance due to changes in lending conditions in the market or a temporary fall in our performance. This could have catastrophic consequences for the business if we are unable procure sufficient working capital to cover our requirements, which may lead to delays in paying suppliers or staff for instance.

Even where we do not face such a dramatic situation, the increase in renewals will require considerable time to be spent producing information required by lenders and negotiating new deals. This time also has a cost which should also be factored into any decision about the level and types of working capital finance which should be used.

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TASK 4

Sub-task (a)

Impact of replacing labour with the RMAD system

Budgeting for labour is a difficult process that is reliant on accurate forecasts of customer demand. The aim is to match the actual number of staff on duty to the number required to give a good experience to the actual number of customers in the restaurant at any time. If we assume labour is a fixed cost, they will become a stepped fixed cost because, for example, one individual could service up to 10 diners, but an additional server will be needed for customers 11 to 20 and so on. Exactly matching labour to customer demand, in such circumstances, will be problematic because the stepped costs are non-divisible.

There are also problems with being able to recruit, train and manage staff. All these issues will impact on the efficiency and effectiveness of the staff and therefore the budget.

The RMAD system will be a fixed cost. As such, we will know with certainty the amount to put in the budget. We will incur this cost irrespective of the level of customer demand. There could be a small variable element for power, but this would be small in relation to other costs.

Sub-task (b)

Sales and service performance

The RMAD system, as shown on the till receipt in Schedule 1, produces records that show the times and details of orders. From these records, it will be possible to produce a profile showing the number of customers in the restaurant for all the times that the restaurant is open. This detailed actual information can be compared against forecast demand and can be used to help with planning. This is because the information produced by the system will be in real time, so will be available instantly. The information will also be very specific with accurate drinks records being produced. The effect of this will be to highlight different customer buying patterns immediately. The new system will also provide an accurate record of the time between the order and the delivery of drinks, which will allow for an analysis of service performance.

In terms of review, the system output, produced in Schedule 2, can be compared against planned demand and used to flex the expected spend per customer, not only on drinks, but also, potentially, on all menu items. The increased level of precision available in planning and control using the information produced by the RMAD system in Schedule 1 and 2, including the time and number of drinks sold, will be of great assistance when reviewing sales performance and forecasting. For instance, this could be used to monitor the impact of promotional campaigns in real time. As well as allowing for the implementation of “flash” promotions through social media for instance, to boost sales of a particular drink which has higher margins for instance.

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The improved levels of accuracy will also be of benefit when formulating standards, as the information in Schedules 1 and 2 will allow us to be more accurate in our information recording and then subsequently when calculating variances.

Sub-task (c)

Impact of RMAD system on costing drinks

SoPa uses standard costing, and the RMAD system will result in the application and adherence to accurate standard costs based on the information produced as detailed in Schedules 2 and 3. The robotic system will do what it is programmed to do. If it is told to use 0.25 litres of lemonade when making a Boogie drink, then that is what it will do, and it will do it with accuracy and repeatability. Unlike with a human bartender, there will be no need to make allowances for spillage, inaccuracy or theft when setting the standard usage.

Similarly, unlike with a human bartender, all actions taken by the RMAD system will be programmed and it will be possible to calculate the expected time to mix a drink with greater accuracy. The action of the robot and therefore time taken will be the same every time that type of drink is mixed, unless there is a problem with the RMAD system's calibration at any point.

The ingredients, as recorded in the mixed drinks ingredients usage report (Schedule 3), will be a direct cost of a drink. Mixing time (currently labour time) is viewed as a direct cost as would be shown in a standard cost card. Serving and delivery labour costs are part of the restaurant running costs and are deducted from "profit after direct costs" as one figure. They are not attributed to specific meals or drinks. Given the accuracy of the information produced by the RMAD system, it could be possible to trace the cost of the RMAD system for serving and delivering drinks to specific drinks and thereby reclassify costs that are currently thought to be indirect costs to become direct costs.

The level of detail that it is possible to obtain from the RMAD system could enable us to break down the overall tasks of the system into activities and identify cost drivers. These cost drivers would make it possible to cost different parts of the process and possibly attribute all costs of the system to specific drinks. But before doing this, the absolute amount of the total overhead, that is, the cost of the RMAD system, will need to be evaluated in terms of its impact on the total cost of drinks and the actions that would arise from that.

The impact of knowing more accurately the cost of a mixed drink, using the information from the mixed drink ingredients usage report (Schedule 3), will need to be evaluated. Knowing the cost per drink will allow the profit per drink to be calculated. However, this may not influence selling prices. This is because a more important factor than cost will be the price that competitors are charging. Rather than looking at cost plus pricing, our pricing will be driven by the market and we will calculate residual profit as sales price less cost.

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Operational Case Study Examination

May & August 2026 – VARIANT 3

EXAM ANSWERS

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VARIANT 3

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TASK 1

Sub-task (a)

Flexible budgets

Applying a flexible budgeting approach will result in us having a series of budgets for the Northtown restaurant at different levels of activity. The principal budget factor for our restaurants is the expected number of covers, which ultimately is driven by the occupancy rate. The current budget is based on 255 covers a day (or 45,900 for the 6 months), which is 85% of the maximum occupancy of the restaurant. Given the uncertainty over the occupancy level, we might consider establishing budgets for the expected number of covers at 65%, 70%, 75%, 80%, 90% occupancy rates and showing these alongside the existing budget at 85%.

To establish revenue at each of the different occupancy levels, we will need to firstly determine the number of each type of starter, main, dessert, side and beverage we expect to sell for that number of covers. For example, our standards are that 80% of covers will order a starter and that this is split 20% ceviche, 20% tostada, 40% taco, 15% special and 15% salad. These quantities can then be multiplied by the selling price to determine revenue. This will need to be done for all menu items. We might also want to consider if, for example, a lower occupancy rate might impact on our standards for percentage of covers and the mix of menu items sold.

For direct costs (ingredients and direct labour), by definition, these are costs that vary in direct proportion to a unit of activity, in this case, a single menu item. Therefore, direct costs will be based on the number of menu items expected to be sold as determined above for revenue, multiplied by the standard cost per menu item.

For restaurant running costs, we will need to split this into variable and fixed costs. Based on 85% occupancy, we expect restaurant running costs to be 40% variable (where variability is based on the number of covers) and 60% fixed. For the variable costs, we know that our standard rate is Z$9.30 per cover and therefore we will use this to determine the variable restaurant running costs at each of the different level of covers. The fixed costs, by definition, are expected to stay the same regardless of the level of covers. However, we will need to consider if there may be a step up in fixed costs as a result of the higher level of covers arising from 90% occupancy. We also need to consider if at lower levels of cover, we might expect a step down in fixed cost.

Sub-task (b)

Benefits of using big data analytics and artificial intelligence (AI)

There are a number of variables that will impact forecast sales revenue in our restaurants, including the number of times tables can be turned over in a day (affecting the maximum number of covers, occupancy rate (affecting the expected number of covers) and the quantity and mix of menu items that we sell (affecting the number of food and beverage

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items sold). In addition, factors such as the number of competing restaurants, their menus and prices, as well as customer reviews will also impact on the level of sales we can generate.

Each of these is likely to vary by restaurant location, and currently this is not reflected in our forecasting, as we treat each restaurant the same. Using big data analytics and AI can help us to become more sophisticated in our forecasting and focus on the specific locations of each restaurant to provide more meaningful and accurate forecasts.

Big data analytics can gather data from the internet such as the proximity of other restaurants, population statistics around restaurant areas, restaurant usage, menus and prices from nearby restaurants and customer review information. Big data analytics can also incorporate other data, including economic indicators such as inflation and interest rates, as well as social media trends and the popularity of different eating out trends. All of this data, once gathered, can be analysed and used to inform a restaurant-by-restaurant forecast of sales revenue.

AI can also be applied to these complex datasets, using algorithms that adjust predictions dynamically as new data becomes available. For example, the launch of a competitor restaurant, a new menu at a competitor or large-scale events such as concerts can be factored into the forecast. Similarly, the impact of new housing developments or changes in local demographics can be factored in. This will allow us to adjust our forecast and enable us to react by changing menu items, offering promotions or changing opening times for the restaurants.

Given that the restaurant industry is dynamic and ever changing, big data analytics and AI can simulate different market scenarios that we might face at each of our restaurant locations. It will allow us to stress test our initial forecasts and plan and prepare for different contingencies.

Sub-task (c)

Treatment of expenditure on new ovens

Recognition

In accordance with IAS 16: Property, Plant and Equipment, an item of plant or equipment is tangible and held for production, supply or administrative purposes and is expected to be used for more than 12 months. The ovens meet this definition as they will be used for productive purposes in our kitchens for the supply of food to our restaurant customers. In addition, we expect to use the ovens for more than 12 months.

To recognise an item of plant or equipment as an asset, it must be probable that the future economic benefits associated with that item will flow to the company and the cost can be reliably measured. Using the ovens will allow us to generate profit in our restaurant and, presumably, we have reliable estimates of the expenditure. Therefore, we can recognise an asset as part of non-current assets in our statement of financial position.

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Initially measured

IAS 16: Property, Plant and Equipment states that an asset should be initially measured at cost. The cost of an asset is its purchase price (which includes non-refundable purchase taxes) and costs which are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating as management intends.

Therefore, the amount that we can initially recognise as the cost of the asset will be the Z$423,000 purchase price, plus Z$21,150 for import duty (on the assumption that this is non-refundable), plus Z$10,350 installation fee and Z$1,000 safety certification fee. The installation fees are included because these are necessary to be able to use the ovens. The safety certification fee is a legal requirement and therefore necessary in order for us to use the assets.

Subsequently measured

In accordance with IAS 16, all items of property, plant and equipment (except for land) are depreciated. Depreciation is the systematic allocation of an asset's depreciable amount (cost less any residual value) over its useful life. The depreciation method chosen should reflect the pattern of consumption of the benefits expected from the asset.

The useful life of the ovens has been assessed at 10 years, although the oven fans will need to be replaced in 5 years. We will therefore need to split out the cost of the fans and effectively treat the total amount capitalised as two assets for depreciation purposes. The cost of the fans will be depreciated over 5 years and the rest of the cost over 10 years.

In terms of depreciation method, given that the benefits from the ovens are likely to be consumed evenly, the straight-line method of deprecation is most appropriate. Deprecation will start from the date on which the assets are available for use as intended by management. This, presumably, will be after the safety certificate is received, which is expected midway through June. Therefore, 6.5 months' worth of depreciation will be expensed to profit or loss for the year ending 31 December 2026 and this will reduce the asset value in the statement of financial position.

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TASK 2

Sub-task (a)

Chart 1 and cost structure

Chart 1 compares the total cost of purchasing fresh fish at different purchase volumes for both Proctors (the solid line) and Blakes (the dotted line). It shows that Proctors would be the cheapest option, as long as the volume purchased was between around 3,500 kilograms and around 9,000 kilograms in the 6-month period.

In terms of cost structure, it would appear that Proctors has a minimum order quantity of 5,000 kilograms in the period. This is because up until this volume on Chart 1, the solid line indicates that cost is constant at Z$10,000 regardless of the volume. This means that even if we were to order no fresh fish, we would still need to pay for the minimum quantity. After 5,000 kilograms, the cost increases in proportion to the increase in volume. This indicates that the cost per kilogram after the minimum order quantity is constant.

For Blakes, there is no minimum order quantity, as there is zero cost when purchase volume is nil. Up until 5,000 kilograms, the cost increases proportionately to the increase in volume. However, after 5,000 kilograms, the slope of the line changes, which indicates that the cost per kilogram decreases above this point, which means that Blakes is offering a bulk purchase discount on purchases above 5,000 kilograms.

Sub-task (b)

Appropriateness of using the expected value of purchase volume

Basing a decision on expected value is a risk neutral approach to decision making. In this instance, we would select the supplier which has the lowest cost at the expected value of purchase volume. Chart 1 shows that at the expected value of purchase volume of 5,640 kilograms, the cost for Proctors would be around Z$12,000 and the cost for Blakes would be around Z$15,500. Therefore, on an expected value basis, Proctors would be selected.

Whist this approach does give us a clear decision, there are a number of limitations associated with the approach that need to be considered. Firstly, an expected value represents the outcome assuming that the decision is repeated many times, so that over the long term, the expected value is representative of the average outcome. This is a one-off decision to select a supplier for a 6-month contract and therefore focusing on the long-term average volume is not appropriate.

Secondly, as a risk neutral decision-making approach, using expected value ignores the spread of possible outcomes. From Table 1, we can see that there is a 14% chance that purchase volume will fall in the range where Blakes would provide the lowest cost. Whilst this is a relatively small chance, it is still a consideration.

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Sub-task (c)

Working capital ratios of potential suppliers

LarderStore

LarderStore has lower receivable and higher payable days compared to the industry average, both of which have the impact of shortening the operating cycle compared to the industry position. Indeed, LarderStore's operating cycle is only 4 days, as despite industry average inventory days of 32 days, the company receives money from its customers 28 days earlier than it pays its suppliers.

Receivable days is 22 days, and this is lower than both the industry average and the standard credit terms that the company gives its customers. One potential reason for this is that LarderStore offers its customers a prompt payment discount and that a significant proportion of customers take up this discount. This may not be common practice in the industry at large.

LarderStore's payable days is slightly higher than the industry average, indicating that, on average, it is taking 5 days longer than this average to pay suppliers. Standard terms are 30 days, although it is possible that the company has negotiated extended terms with some suppliers. Alternatively, LarderStore may be taking an aggressive approach to deliberately pay late. If so, this is an unethical approach to paying its suppliers.

CaterWise

CaterWise has lower inventory days, but higher receivable and payable days compared to the industry average. The impact on the operating cycle of the lower inventory days and higher payable days is greater than the impact of the higher receivable days, as the operating cycle is a negative 2 days compared to 24 days for the industry average.

The lower inventory days could be related to the types of products that CaterWise carries, although staple ingredients such as flour and sugar have relatively long shelf-lives and so we would not necessarily expect there to be such a difference. It is possible that CaterWise sources its products locally which enables it to order more frequently in small quantities. However, given the overdraft and the high payable days, it could be that CaterWise is struggling to make purchases.

CaterWise has significantly higher receivable days in comparison to the industry average and compared to the standard credit terms given to its customers. It is possible that the company has given extended terms to some customers, although it is more likely that it has lost control of its receivables collection. This could be a function of its rapid growth.

The company's payable days is also significantly higher than the industry average, which, given the overdraft, could indicate that it is struggling to pay its suppliers. Indeed, this, together with the high level of receivables and significant growth in revenue, could indicate that the company is overtrading. It is therefore possibly a relatively new company that has not managed its working capital adequately alongside its significant growth. This could affect its ability to continue to trade.

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Sub-task (d)

Recommendation of supplier

On the basis of the information provided, my recommendation would be to use LarderStore as our supplier. This is for the following reasons:

- Compared to CaterWise, LarderStore appears to be a larger and more well-established company based on its cash balance and number of customers. In addition, it appears to be in control of managing its working capital. This indicates that it may be a more reliable supplier.
- CaterWise appears to be overtrading, which means that there is a risk that it may cease to operate and therefore we may end up looking for a new supplier again.
- CaterWise has low inventory days, which may indicate that certain items could be out of stock if we used them. LarderStore's inventory days are in line with the average industry and as such, this risk is reduced.
- Finally, it may be possible to benefit from prompt payment discounts if we use LarderStore, given its receivable days. Although, we would need to assess the benefits of a discount against the loss of liquidity and additional finance costs from paying earlier.

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TASK 3

Sub-task (a)

Variances for the Northtown restaurant for the 3 months to September 2026

Sales variances

The sales price variance is Z$16,738 adverse, which means that during the period, average selling prices were lower than standard. During July and August, discounts were given on desserts and beverage sales, which was not reflected in the standard. This will be the reason for the adverse variance.

The sales mix profit variance is Z$10,264 adverse, which means that during the period, there was a change in the mix of menu items sold, and that this change in mix resulted in a decrease in profit. Across the period, we know that more covers ordered multiple starters, desserts and beverages and less mains than expected, which will have altered the mix of sales from the highest profit items (mains) to lower profit items, hence the reason the variance is adverse. The discount on desserts and beverages in July and August will have contributed to this change in mix. The reason for the switch from mains to having multiple starters is not clear, although it's possible that this is common practice for customers in this region of Zeeland.

The sales volume profit variance is Z$225,926 favourable, which means that during the period, we sold more menu items than we expected to. This is a significant variance and is due to two factors. Firstly, the occupancy level is higher than expected at 82% compared to 75%. Therefore, there would have been more covers than planned. In addition, each cover on average purchased more menu items than expected. Both of these will have increased the profit generated, hence the favourable variance.

Ingredients variances

The ingredients price variance is Z$10,452 adverse, which means that during the period, we paid more for the ingredients that we used for the menu items sold compared to the standard cost. As a result of the higher-than-expected occupancy, we had to order some ingredients at short notice. It's possible that we had to pay premium prices in order to secure sufficient supply in time.

The ingredients usage variance is Z$8,325 adverse, which means that during the period, we used more ingredients than we should have based on the standard to produce the menu items that we did. Due to a lack of training in the kitchen, there was a higher level of wastage than expected in terms of menu items being scrapped (either because of customer returns or Head Chef rejection). These menu items will have been remade and therefore, double the amount of ingredients would have been used, compared to that expected.

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Direct labour variances

The direct labour rate variance is Z$3,561 adverse, which means that during the period, we paid more per hour for our direct employees than we expected to, based on our standard. Some kitchen employees were replaced after their probationary period. These replacements were more experienced and therefore likely to be paid at a higher wage rate than the original employees.

The direct labour efficiency variance is Z$4,797 adverse, which means that during the period, our direct employees took more time than we expected them to, based on our standard, for actual production of menu items. The lack of employee training in the kitchen could be the reason for this. Perhaps employees were slower than expected. Additionally, the new employees replacing the employees leaving after their probationary period will have taken some time to get used to the kitchen and the dishes, despite their kitchen experience.

Sub-task (b)

KPIs for Northtown restaurant for the 3 months to September 2026

% Food waste

Food waste (whether it be ingredients that are past their use by date or ingredients wasted when producing menu items) is a cost to the business and a drain on profit. In addition, food waste is a cost to the environment, and in a world where sustainability is increasingly important, it is vital that we monitor waste to ensure that we are minimising it as far as possible.

Table 2 shows that the level of waste was initially five times higher than the target, but in August and September, has fallen towards the target, indicating improving waste control over the period. The fact that food waste was higher than target supports the reasons given for the ingredients usage variance, in that a lack of training led to menu items being returned or rejected by the Head Chef and having to be scrapped.

% Occupancy

Percentage of occupancy is our principal budget factor because it drives the number of covers that we expect, which in turn drives the number of menu items we expect to sell. The higher the occupancy, the higher our revenue and therefore profit. Monitoring occupancy is important, as a pattern of reducing occupancy could indicate issues with a restaurant that need to be addressed.

Table 2 shows that the level of occupancy in the first month was significantly higher than budget, but since then has fallen to the target of around 75%. We might expect more interest in the first month after a restaurant opens, especially as this is the first SoPa restaurant in the region. It's possible that the discount on desserts and beverages in July helped to boost this as well. The higher level of occupancy in July supports the sales quantity profit variance, although it should be noted that going forward, given that occupancy has fallen to target, any future variance is unlikely as to be as significant.

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Average spend per cover (Z$)

Whilst is it important that we have as many covers as possible, it is equally as important that those covers spend money in the restaurant. Average spend per cover is a simple measure that allows us to monitor how successful we are at generating revenue. A low level of spend could indicate that our front of house staff are not being successful in selling desserts or beverages or starters, or that our menu is not enticing people to order multiple items.

Table 2 shows that the average spend per cover was initially lower than target, but in the last 2 months has risen above target. The mix of menu items sold will be a factor affecting the spend per cover. As noted above from the sales mix variance, covers purchased proportionately more of the lower profit menu items, which we might expect would lead to a lower spend per cover than target. However, we also know from above that the sales quantity variance means that we sold more menu items than expected, which would have the effect of increasing spend per cover. Therefore, it would seem that the impact of the greater number of menu items is more than compensating for the change in mix.

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TASK 4

Sub-task (a)

Cost of quality reporting

In a cost of quality report, costs are categorised as either non-conformance (the costs of internal and external failure) or conformance (the costs of prevention and appraisal). Each of these is considered in turn.

Non-conformance costs

Non-conformance costs are those that happen because there has been a failure in quality at some point in the process. For our restaurants, internal failures occur when there is an issue with the quality of food or beverage, but this is picked up before it reaches the customer. In contrast, external failures occur when there is an issue with the quality of food, beverage or service that is picked up by the customer.

An example of an internal failure in the Northtown restaurant, will be a rejection of a menu item by the Head Chef on the grounds of quality. The cost of this failure will be the direct costs associated with producing that starter, main, dessert of side (ingredients and direct labour), assuming that the rejected menu item is scrapped rather than reworked.

An example of an external failure in the Northtown restaurant will be a customer complaint, either by returning a menu item or by complaining about the level of service. The cost of this type of failure can be significant and includes the cost of producing any menu items scrapped, the cost of any discounts given to compensate for the complaint and perhaps most importantly the costs associated with damaged reputation. Ultimately, if a customer is dissatisfied, they may not come back and also they may post a negative review, which could influence the wider community, both of which will reduce our ability to generate sales in the future.

Conformance costs

Conformance costs are those that happen to try and stop failure from occurring: either from seeking to prevent the failure or from appraisal or checking to identify failure before it becomes too significant.

An example of a preventive conformance cost will be the cost of the additional training given to all kitchen and front of house employees. This training will have been to educate all employees in their roles with the aim of stopping any failures in the quality of food or service.

An example of an appraisal conformance cost will be the cost of the additional checks that the Head Chef has instigated in the kitchen. This may include the cost of any additional time that they have worked and any equipment that they might have used.

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Sub-task (b)

Benefits of reporting cost of quality

A key benefit of reporting quality costs in a formalised manner, as discussed above, is that it provides management with a focus on quality and highlights the implications of failures in quality. In the restaurant business, costs of non-conformance from external failure can be significant, and ultimately could lead to the closure of a restaurant if reputation suffers and customers do not come to the restaurant. Therefore, formal and regular consideration of this can help management to anticipate where additional investment in conformance costs may be needed (for example, with extra training).

Another benefit of reporting costs of quality is that it can build a strong sense of quality and service with all employees. Such reporting can be used to empower employees to consistently consider quality and the implications of poor quality, whether that be in the kitchen or front of house. It can motivate employees to continually strive for top quality and to be self-aware about when quality is compromised.

Finally, reporting quality costs in a formal and regular way allows management to assess progress over time. Whilst it may be difficult to completely eliminate non-conformance, over time we would expect such costs to reduce as investment is made on prevention and appraisal. If the costs of non-conformance are not improving, this could indicate that the investments made are not effective and perhaps alternative actions should be taken.

Sub-task (c)

Relevant costing for Street Project

The relevant costs of supplying the Street Project with 1,040 meals over the 3-month period are those that result in a future change in cash flow as a direct consequence of supplying the meals.

Ingredients

There are two types of ingredients that we will be using for Street Project meals. Firstly, we will be using up fresh ingredients that would other be surplus to requirement and scrapped (presumably as they will be nearing use by dates). The relevant cost for these ingredients will be nil, as there is no incremental cash flow from using the ingredients and no alternative use for those ingredients, as they would otherwise be scrapped. There could actually be a small relevant benefit if, as a result of using the ingredients, we make a saving on our food waste disposal costs.

Secondly, the relevant cost of the other ingredients that are taken from the kitchen's store, will be the future cash flow from replacing those ingredients in the store. Such ingredients will be needed for our restaurant dishes and therefore in constant use, hence the need for replacement.

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Packaging

We will need to buy in take-away boxes for the meals. The cost of these boxes is a future incremental cost and therefore relevant. There is a minimum order requirement of 2,000 boxes and therefore the relevant cost will be the cost of all 2,000 boxes at Z$0.20 per box, even though we only need 1,040 boxes for this project. This would change however, if there was an alternative use for these boxes within the business, in which case the relevant cost would be for just the 1,040 boxes needed.

Direct labour

The meals will be prepared and cooked by our usual kitchen employees. Given that these employees work a set number of hours a week, any work on these meals within these normal hours will have a relevant cost of nil. Ultimately, the cost of these hours is a committed cost as the employees will be paid for the hours regardless of whether this project is undertaken. The cost of any hours worked as overtime though will be a relevant cost because these hours will be in addition to the contracted hours. The relevant cost will be the overtime hours worked at the full overtime rate including the premium.

Delivery

We will not incur any delivery costs ourselves because the charity will pick up the meals. We will though use our own hot box. The original cost of Z$500 is not relevant because this is a sunk cost. If we use the hot box for this project, then we will lose the opportunity to sell it now for Z$200, although we will be able to generate proceeds of Z$50 in 3 months' time. Therefore, there is an opportunity cost of Z$150, representing the reduction in sale proceeds from using the hot box rather than selling it. This is therefore a relevant cost.

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CIMA

Operational Case Study Examination

May & August 2026 – VARIANT 4

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VARIANT 4

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TASK 1

Sub-task (a)

Difficulties of budgeting in Neeland

To put the difficulties in context, it is necessary to understand what a budget is. A budget is an approved monetary plan for a future period. It will show the income generated, capital employed and resources consumed to reach stated objectives.

Objectives

Before we can start to think about preparing budgets, we need to be clear about our objectives. For instance, why is the new restaurant in Seaville being opened? Is it to make a profit, to gain experience of a new country or raise brand awareness in the tourist population in other countries? The restaurant's objectives will determine its purpose and therefore the target of the budgets. We should also understand the authorisation granted to the Marketing Team in relation to the "development and management" of the restaurant and, for instance, if the team is constrained by funding.

Budgets

Budgets are plans for a future period and this is a challenge for the process in two ways. Firstly, we will need to define the budget period. It is likely that there may be several periods required, for example, for the whole 6 months and each month of operation. Secondly, all budgets cover the future which is uncertain and therefore will need to rely on assumptions to anticipate what will happen.

This uncertainty is compounded in the Seaville project as this is the first time SoPa has operated a restaurant outside Zeeland.

Additional spending, for example, on legal advice or adaptation of business practices may be required where there are differences between Zeeland and Neeland. This will increase the cost of the process and potentially reduce the accuracy of the information produced. This may be difficult as the restaurant is only going to operate for 6 months.

Principal budget factor

A further difficulty is to identify and forecast the principal budget factor. This is the overall binding constraint for the budget and sets the scope of the Seaville operation. As we have successful restaurants and the SMT has decided to open a new restaurant in Neeland, it can be assumed that there are no financial constraints. Also, as our restaurants continue to offer a wide range of dishes, it can be assumed that ingredients are not in short supply. Similarly, we would not expect labour to be limited for the first months of operation given the influx of workers to Seaville during the tourist season.

So, it appears that the principal budget factor for Seaville is sales demand. Therefore, the major difficulty we will face is estimating the volume of sales. This is amplified by being in a

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new country as well as being a tourist location where the population doubles during the tourist season and having our opening period during both high and low tourist seasons.

Sub-task (b)

Data gathering technologies and their use in budgeting

Budgeting for the new Seaville restaurant is challenging as we lack historical data and are operating in a new country for the first time. Data gathering technologies mean our planning uses real information rather than speculation, increasing the accuracy of our Neeland budgets.

Online surveys and digital analytics can quickly capture local Seaville preferences on dishes, prices and dining habits, helping us build a more accurate sales budget. Sales budgeting can also be supported by estimating likely sales volumes and popular dishes by using specialist software to assess the menus, pricing strategies and customer reviews of competitor restaurants in Seaville. This is done by scraping publicly available data from websites and social media.

Anonymised mobile phone data and census information can be used by location analytics platforms to measure the profile and volume of people near the Seaville Restaurant site at different times. This allows us to budget more accurately for labour and inventory, including busy times such as during the tourist season when the population doubles.

Assessing information on the online portals of our existing suppliers and logistics platforms may allow us real time insight in respect of quotes, delivery schedules and seasonal trends. Analysing those in advance before the restaurant opens will help us plan more accurately for inventory ensuring we have a realistic budget for ingredients for instance.

Social media monitoring platforms can be used to anticipate demand spikes or lulls by tracking trending topics, customer sentiment about SoPa and unmet diner needs in Seaville, taking into account of factors such as Seaville's younger demographic. This will ensure our restaurant offers what is wanted and our budgets reflect reality as much as possible.

Sub-task (c)

Zero based budgeting

To construct a labour budget, the company needs to understand the number of staff required to provide the expected level of service to customers in Neeland at a given time and also the cost to the company of having those staff. Zero based budgeting (ZBB) is one method of budgeting which can achieve this.

ZBB's starting assumption is that the function being evaluated does not exist. The costs of performing the activity are evaluated against the benefits from performing that activity. ZBB re-evaluates all activities each time a budget is prepared. This should result in maximum benefit being delivered for a given budgeted cost.

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Whilst it might be thought that as we have not operated in Neeland before, we have no choice other than to use ZBB, applying ZBB should give more depth to our analysis. This is because for every activity we must look not only at the costs and outcomes, but we should also consider if there are alternative methods of reaching the desired outcome.

Servers

Looking at serving staff in Neeland with ZBB, we will need to consider how the restaurant should operate. So, for example, we will need to investigate issues such as:

- What activities will be performed: This may include, for example, whether servers should take drinks orders as happens in Zeeland or if there are cultural differences and customers will expect to order directly from the bar.
- How the activity will be performed: For instance, what is the expected normal level of service in Neeland. Is basic service or high-level service expected. Should we offer a basic or high-level of service? What is the expected norm in Seaville?
- Who will perform the activity: For instance, should experienced staff be recruited or should we train our own staff? Should we have full-time or part-time workers?
- How much will this cost: This will not only be determined by the nature and numbers of staff being used and their job description, but also, as Neeland is a new location for us, we will need to understand the unique cost implications for staff in this market to ensure a supply of high-quality labour.

We will then look to determine alternative ways of achieving our desired outcome. For instance, by looking at what customer-to-server ratio, or what server-to-supervisor ratio, is acceptable.

Once alternative methods of working for serving staff are identified, they must then be described and evaluated in decision packages. Decision packages relate to alternative options. For example, they could relate to providing the same level of customer service at a reduced cost or enhancing customer service for the same cost. This is an example of mutually exclusive packages whereby one would be chosen to exclude the other. There could be incremental packages whereby one package enhances a basic package, most likely at a higher cost.

The basis for the activities that form the final package must then relate to the outcome we want the servers to achieve. This is done by ranking the decision packages in order of them meeting the objectives of the budget relative to their cost. Funds will be allocated to the packages in relation to the ranking achieved.

Obtaining such specific information will require research which will incur costs and may be difficult to achieve as we only have 1 month before the new restaurant opens.

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TASK 2

Sub-task (a)

Pay off tables and statistical information analysis

The table shows the additional contribution generated by the nine possible combinations of the three promotional campaigns and the three possible reactions by the market to the campaigns. For example, if the market reaction is poor, investing in a social media-only campaign will increase contribution by Z$50,000 but investing the same amount in a radio-only campaign would result in a smaller increase of Z$40,000. A mixed campaign (we are not told the proportions of the total investment amount invested in the two channels) would increase contribution by Z$47,000.

The table shows that regardless of the market condition, splitting the funds between social media and radio results in a smaller increase in contribution than putting all the available funds into a social media-only campaign.

The standard deviation for each campaign is a measure of the variations of the outcomes from their expected value which gives an indication of risk. The coefficient of variation for each campaign is its standard deviation divided by its expected value. The co-efficient of variation allows the risk of each campaign to be compared, as it is a measure of risk per Z$1 of expected value.

The expected value for each of the three promotional campaigns has been determined. Expected value is calculated using a weighted average of the possible additional contributions generated by each promotional plan. The weighting used is the probability of a poor, good or excellent outcome. The social media-only campaign produces the highest expected value at Z$79,000 and the radio-only campaign produces the lowest at Z$60,000.

Sub-task (b)

Risk attitudes

An expected value approach suits only risk neutral decision makers, as it overlooks return variability and disregards risk measured by standard deviation and coefficient of variation. Therefore, whether this method would be the best one for deciding which campaign to choose depends on our attitude to risk, as it is only appropriate for a risk neutral decision maker.

Using expected value to make the decision as to which campaign to choose, would mean we would choose the campaign that gives us the highest expected value of additional contribution generated. Based on the three campaigns in Table 1, this would mean we would choose the social media-only campaign that has an expected value of Z$79,000.

For those with a risk seeking attitude, they would choose the campaign which generates the highest contribution level irrespective of whether this is likely to be achieved. This is the also the social media-only campaign, which has a potential to generate Z$103,000 if an excellent

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market reaction is achieved. For a risk seeker making this decision expected value, standard deviation and coefficient of variation will all be ignored.

On the other hand, a risk averse decision maker would look to maximise the additional contribution earned for the lowest risk level. So, they would use the coefficient of variation (COV) to make their decision, as this figure gives the level of risk incurred for each Z$1 of expected value. In this case, they would choose the radio-only campaign, which has the lowest COV at 0.22.

Sub-task (c)

Inventory management and EOQ

The difficulties of managing the inventory of Aurellim Leaf

The characteristics of Aurellim Leaf and its uses exacerbate the issue of managing its inventory. The fact that it is a main ingredient for 50% of dishes, means that in addition to it being a unique selling point, having insufficient inventory would seriously reduce the available menu and customer experience. Therefore, a buffer inventory may be required to ensure we do not run out of inventory which would negatively affect sales as well as brand reputation.

The high cost of the Aurellim Leaf, coupled with its short shelf life, will also make the product difficult to manage, as excess product, which goes mouldy and is unusable in the restaurant, will have large negative cost implications.

In some months, it may not be possible to quickly replace inventory that is unusable, or to source additional quantities of Aurellim due to its seasonality. As well as the issue of time to replace Aurellim due to its seasonality, there are also cost implications due to seasonality. Aurellim is an expensive product and its cost may be increased by its origins; both factors will have implications for the business.

Suitability of EOQ for Aurellim Leaf

The EOQ model makes several assumptions which are not compatible with managing Aurellim Leaf.

- **Constant use**: The EOQ model assumes that an inventory item will be used on a constant basis, so the amount required each day will be known in advance and not change. Whilst Aurellim is in 50% of main courses, there is no guarantee those main courses will be requested by diners, as such, it will not be easy to forecast requirements, especially when the restaurant first opens in a new country.
- **Constant availability**: There is also an assumption that inventory will be constantly available for order. With food products, this may not be the case due to seasonality. In addition, unlike man-made machine parts for instance, lead time and seasons for crops may vary due to factors outside everyone's control such as climate and pests. This does not fit well with the assumption of the EOQ model which assumes a constant period for lead time. We can overcome this shortfall by setting a level of

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buffer inventory but, as the Aurellim Leaf has a relatively short shelf life, this increases the risks that product may go past its 'best before' or 'use by' date or have a reduced quality which will in turn affect the quality of the dishes produced.

- **Order costs**: There is an assumption the cost of each order will be constant. However, this may not be the case. As mentioned above, it may be possible to buy Aurellim Leaf from different locations to ensure a near constant availability. However, in such cases, ordering costs may be different to take account of different transport measures. For example, if Aurellim Leaf is sourced from Zeeland, it will be transported by road at a cost of Z$1 per kg per kilometre, whereas if it is sourced from Asia, it will be transported by air at a cost of Z$2 per kg per kilometre. There may also be different taxes or tariffs payable depending on the location the leaf is sourced from as it crosses between countries.

Conclusion

The main driver for the EOQ is one of cost; however, the assumptions which allow real life to be simplified reduce its usefulness in real life especially where cost is not the only factor to be considered. For our company, the issue is both minimising cost and ensuring a high-quality product as its quality will impact on the quality of 50% of the main course dishes being produced and therefore our customers enjoyment and the reputation of the SoPa brand.

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TASK 3

Sub-task (a)

Variance analysis

Ingredients price expenditure variance

Incorrect calculation:

This is incorrect as the ingredients price variance should compare the cost of ingredients purchased with the standard cost of those specific ingredients.

The attempted calculation incorrectly compares the expected cost of ingredients for meals to satisfy the budgeted number of customers (covers) with actual purchases of ingredients made in August. The budget line is based on a stated number of customers, but the cost of ingredients purchased in August line has no reference to customer numbers. The actual quantities of ingredients purchased (which will determine the actual cost) will not be directly related to budgeted covers/customers but will be influenced by factors such as inventory policies. As such, the comparison does not help to provide insight as it does not compare 'like with like'.

The Marketing Officer's incorrect calculation uses the budgeted figures for the expected number of customers valued at the assumed average cost of the ingredients in a three-course meal. The ingredients price variance should be based on actual quantities of the specific ingredients purchased. Budgeting customer/cover numbers and budgeted average content of a cover/three course meal have no part to play in this calculation. The price variance is simply the difference between what we actually paid and what we should have paid for the actual quantity of ingredients purchased.

Correct calculation and record keeping:

As noted above, ingredients price variance should be calculated as the difference between the actual and standard purchase prices for specific ingredients, multiplied by the actual quantity bought.

To make the analysis of the correctly calculated price variance more useful, we need to move our record keeping away from the idea of covers to looking at individual ingredients. This will ensure two things.

The first is that we are comparing the actual cost and standard cost for the same ingredient. So, for instance, the actual cost of buying 10kg of steak should only be compared with the standard cost of 10kg of steak, not 10kg of salmon for instance. This would then show us whether we had paid more or less than expected.

In addition, we need to ensure we disaggregate ingredients, so we cannot compare the price paid for 10kg of mixed ingredients. Rather, to calculate the price variance, we will need to keep individual records for each ingredient showing actual quantity purchased and actual

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price paid. This can then be compared with the market price or a price we have agreed with our supplier, which would be our standard price.

This would need to be done for every specific ingredient. Only at that stage can we present a summary figure to management which would be useful and based on the individual variances calculated.

For this variance to remain accurate and therefore useful, the standard price of each ingredient should be reviewed on a regular basis to ensure that it reflects current conditions and we are not basing our calculations on incorrect information.

Ingredients usage variance

Incorrect calculation:

Here, the incorrect calculation has used the assumed standard cost to put a value on the difference between the actual customers served and how many customers could have been served from the actual ingredients used. The usage variance should show the difference caused by using a different quantity of ingredients than was expected to be used to serve the actual dishes. The specific differences for specific ingredients should then be valued at the standard cost for each specific ingredient.

The incorrect calculation in the email shows we used more ingredients than we should have. That is, it shows we served 2,694 customers in August but used enough ingredients to serve 3,215 customers. But again, this assumes that all customers will have a three-course meal. This will not be the case and this assumption undermines the worth of the calculation.

Correct calculation and record keeping:

An ingredients usage variance should be calculated as the difference between the actual quantity of ingredients used in production minus the standard quantity of ingredients that should be used to make that actual level of output, valued at the standard cost of each ingredient. In our restaurant, this would be the difference between the actual quantity of ingredients used to make a specific dish minus the standard quantity of ingredients for that dish valued at the standard cost of each specific ingredient.

To be able to calculate this, we will need to keep detailed records, so that we know the exact number of each dish served. So, for example, if 12 steak dishes have been served and each steak dish should use 0.25kg of steak. Our standard quantity should be 3kg as that is what we expect to use. We should then compare our expected quantity against the actual quantity of steak used (not purchased). The difference between the two will give us the usage variance in weight which can then be converted to a monetary value by multiplying it by the standard cost of steak.

Conclusion

For variance analysis to be useful, it must provide the user with analysis which is clearly understandable and compare equivalent data. This relies on records of the required information being kept for specific ingredients in each dish we serve allowing us to calculate

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a usage variance for each. We would then also need to record the exact number of starters, main courses and desserts served. Working on the assumption each customer will order a three-course meal and using the average ingredient cost of those meals, as has been done in the initial calculations, will not help us to analyse the position.

If our operating systems do not keep detailed records of actual menu items, it may be necessary to train staff to do this manually. This information will also have the bonus of allowing us to track trends in customer preferences.

Sub-task (b)

KPIs

Sustainability KPIs

Weight of food waste per day: Food waste bins would sit on scales and the weight of food waste would be shown on screens in kilograms. The ideal weight would be zero but the lower the weight the better, as this would indicate the minimum amount of food was being wasted. This would mean cost of ingredients would be minimised which should result in higher contribution. This method of measurement would also be easy for staff to see and to understand.

Number of suppliers carrying green certification: This would be calculated by dividing the number of suppliers with appropriate green certification as a percentage of the total number of suppliers used. This would track the percentage of suppliers with high sustainability credentials with the aim of reaching 100%. This would be appropriate as it would help SoPa to further develop their sustainability credentials which are important to the company.

Inventory management KPIs

Inventory variance percentage: This KPI compares actual inventory from a physical count with inventory expected from records and is reported as a percentage. This KPI would help to identify discrepancies due to spoilage, thefts or miscounting. Regular review will support tighter inventory control and accurate forecasting.

Food inventory turnover rate: This would calculate how often inventory is used and replenished over a given period, for example, a month. This would be calculated by dividing the cost of goods sold by the average inventory value. This would be appropriate as a high turnover rate suggests inventory is being used efficiently, whilst a low rate suggests the restaurant may be holding too much inventory of an item. Monitoring this KPI would encourage tighter inventory control and better purchasing and supplier co-ordination.

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TASK 4

Sub-task (a)

Nature and type of costs

The management food app will be used to minimise the cost of wasted food and therefore improve the sustainability of our operations. Most of the costs identified will predominantly be incurred during the app's development rather than its on-going use. Many of the identified costs, such as maintenance, will be fixed in nature. As well as this, whilst the initial cost of developing the app will be high, its marginal cost of use will be comparatively small.

Development costs

- Planning and research: This will include conducting feasibility studies to determine if the app is viable and a plan to determine the app's features and functionalities such as whether it is stand alone or integrated into our inventory system.
- Design: Costs will be incurred to develop the users interface, to ensure it is intuitive and easy for staff to use, which will drive up usage.
- Development: The app will require coding and programming to create features such as inventory tracking, waste logging and data analytics. This would include direct costs such as salaries for app developers and project managers to oversee the project.
- Testing: There will also be a requirement for research and development costs, including those for producing a prototype and user testing, which will be necessary to test the app before launching it within the SoPa chain of restaurants.
- Hardware costs: Such costs which cover the physical hardware on which the app will run will also be incurred. For instance, decisions to make will include whether the app will "see" the food waste using a camera for instance or use "written" record or even a QR code system for each food item received.

Implementation costs

- Deployment: If we decide to launch the app on more than one platform, such as head office computers and mobile devices in the restaurants, this will incur additional costs.
- Internal marketing and promotion: Although only for internal use, there will be costs associated with promoting its use at least during the initial roll out.
- Training costs: To ensure restaurant staff are ready to use the app, training and support will be required. This will include costs such as training materials and sessions and ongoing help functions.

Running Costs

- Maintenance and updates: There may be a requirement in the future to extend the apps range of features due to changing user requirements as well as the deployment of "patches" to fix bugs.

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- Staff support: To ensure the app is as widely and accurately used as possible, it will be necessary to ensure restaurant staff can address issues or questions they might have; these may include chat bots or dedicated phone lines for assistance.
- Hosting and infrastructure: Including the costs of cloud services for instance to allow data storage for information and other infrastructure to allow the app to run smoothly.
- Software and licences: The cost of the app will also include costs for any software tools and licences which are required; for example, the use of a proprietary brand of artificial intelligence or machine learning.

Direct and indirect costs

Currently, we only have one app, and therefore any costs charged to the project will be direct in relation to the app. However, if we have more than one app, there will be some shared costs, for example, platform, servers and maintenance costs that will need to be apportioned between the apps and, as such, they will become indirect costs.

Sub-task (b)

Total cost of app and cost apportionment

Total cost

Our app will be used internally as the link between food waste and our inventory system rather than being a subscription-based model. Therefore, it will form part of operating overheads for our restaurants. As with all our costs, we will need to calculate the cost of the app for planning, control and decision making.

Development costs will be ‘up-front’ and known with relative certainty, but other costs such as infrastructure and functionality services will be incurred in the future. It is difficult to estimate what these will be and for how many years we will need to incur them. This uncertainty over costs and life span makes costing the app difficult.

This is the first time SoPa has developed such technology, therefore we will not currently have the skills for such a project within our existing workforce. We need to understand how we would acquire those skills and the hardware and software which will be required to develop the app. Whilst the SMT is considering in-house development, it may be easier for us to buy in an existing app rather than develop it ourselves in these circumstances. Being quoted a price for the app’s development and one for using it would make costing the project much simpler.

When we will incur costs can also be difficult to determine, as they are likely to extend over multiple periods. With development costs, such as design and development being incurred prior to launch and other costs such as technical support being incurred once the app is rolled out to restaurants and staff need help in using it and resolving issues. Other costs, such as the platform on which the app runs, will be incurred immediately and on an ongoing basis.

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App development costs will be capitalised and amortised over the app's life. However, predicting the life of an app can be difficult due to our current lack of expertise in app development and the pace of technological change.

Apportioning costs

The app's purpose is to reduce waste and increase company profits. We are currently assuming use of the app will be mandatory and built into each restaurant operating procedures. It can be thought that the costs of developing and running the app are central costs. These should be apportioned to each restaurant in the same way as other central costs. That is, in an equitable manner, in relation to the benefits received. However, given that use of the app will become routine and results from an SMT mandate, it would be appropriate for each restaurant to be allocated an equal share of the app's total cost rather based on benefits received.

Sub-task (c)

Non-financial factors to consider

In making the decision about whether to pay for the 12-month maintenance contract from ZeAp or train our own IT staff to do the maintenance, there are several non-financial factors to consider.

Customisation and control: Purchasing the ZeAp contract means accepting a predetermined maintenance process that may not fully align with SoPa's business needs. However, if we train our own IT staff, we could tailor any updates or improvements to the app to our operational requirements.

Internal expertise: This will be the first time we have used an app in our business; therefore, we currently lack the necessary expertise to develop and run an app maintenance process. Buying the ZeAp contract for 12 months could provide a short-term solution while we build internal capabilities so we are self-sufficient in the future.

Operational impact: Using ZeAp to deliver app maintenance means we have less control over when updates and maintenance occur. This may disrupt our restaurants if ZeAp scheduled maintenance during peak business hours. Having our own internal team would allow us to minimise any disruptions.

Provider reliability: We will also need to assess any available information about ZeAp's record for reliability and responsiveness before deciding whether to buy their contract. Any downtime or delays in maintenance could negatively affect our ability to reduce food waste and improve inventory systems.

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Sub-task (d)

How assets should be reflected in the financial statements

IFRS 16 allows for simplified treatment of assets with a lease period of less than 12 months or for items with a low value. The monetary value of an asset which is considered low is not given in the standard. The assessment of monetary value must be made when the asset is new.

Mobile telephone

The lease payments for the mobile telephone would be eligible to be recorded under the simplified system. This is because, whilst the lease is longer than 12 months at inception, the asset is of a low value. Simplified recognition would mean no lease liability or right-of-use asset would be recognised. Instead, the lease payment of Z$15 a month would be recognised in profit or loss as incurred.

However, for eligible assets, the simplified reporting system is a matter of choice and does not have to be used.

Car

The use of the simplified system for recording leases is also available for the car. Whilst this is a high value asset based on its value when new, it is only leased for 6 months and therefore is a short lease.

Recording in the financial statements

As the payments for the mobile phone are made monthly then five payments will be recognised in the current financial year, with the remaining payments in following financial years.

The car payments have been paid in total at the start of the lease. However, only 5 months should be recognised in profit or loss, with the sixth month being included as a prepayment.

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Operational Case Study Examination

May & August 2026 – VARIANT 5

EXAM ANSWERS

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VARIANT 5

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TASK 1

Sub-task (a)

Activity based costing (ABC)

Implementation

Traditionally, labour has been viewed as a direct cost that varied with the level of output. In our vertical farm, the staff are on fixed hours contracts and therefore their cost is not variable. The workers will carry out many different activities as detailed in the example crop growing cycle.

Workers will work on a variety of different crops, such as tomatoes and edible flowers, each of which will have its own growing cycles. As we plan to produce more than one type of crop, it will be necessary to apportion the labour cost to the types of crops being grown.

Performing activities consumes resources. We need to identify individual activities such as sowing seeds or removing diseased plants for instance. We then need to identify what specifically causes costs to be incurred for those activities. This is the cost driver. If activities have a common cost driver, they can be grouped together in to cost pools.

Therefore, for all the crops we intend to grow, we will have to identify activities and what causes them to incur labour costs; for instance, the number of seeds sown. As we can see from Table 2, this will be different for different crops. For example, only 25 to 50 seeds per tray will be sown for tomatoes, but 500 per tray for edible flowers, meaning the cost of sowing a tray of edible flowers will be greater than for tomatoes. By identifying such activities, we will be able to apportion costs to different crops based on how many times they use a cost driver.

Benefits

Using ABC will allow us to more accurately allocate the cost of labour to specific crops grown. However, its success is reliant on being able to accurately identify activities and cost drivers. This could be difficult for us given our lack of experience of growing crops, although our approach is likely to be refined as we become more experienced.

Implementing ABC will necessitate the identification of activities. For example, sterilisation of equipment, calibration of sensors and ordering of seeds. This ensures that every activity is included and each activity has its own time allocation. The result of this is more accurate planning, as ABC can make the budget more accurate as resources are being linked to activities that need to be performed to attain objectives. A forecast can be made of the number of times that a cost driver will be triggered in a period. This will be of great help when planning labour resources.

Standard times for activities will be established when setting up ABC. The vertical farm will be using fixed hours contracts for staff which would mean they would be paid even if idle. By identifying individual activities and using them as a basis for costing, we can ensure labour resources are used efficiently and effectively, and that sufficient resources are available

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when needed at critical times in each crop growing cycle. For example, in stage 4, if there is only a small window of time for harvesting a crop in a specific growing pod, all workers could be needed to work simultaneously on that growing pod.

As the vertical farm plans to expand its crop types, the identification of activities for specific types of crops will ensure that each crop is costed appropriately. For example, with lettuce, harvesting is simply picking the entire plant. But with other crops, there could be additional activities involved. Tomatoes, for example, will involve picking the tomatoes and then removing and disposing of the base plant. The identification of additional and specific activities and resources required for the different crops will give us better costings.

ABC can be costly to implement, However the information that it provides for costing and planning labour resources is superior to that obtained from a traditional costing system.

Sub-task (b)

Growing pods

Recognition

The growing pods meet the criteria for recognition as non-current assets per IAS 16: Property, Plant and Equipment. This is because they are tangible items of plant or equipment. They are held for production purposes as they will be used in the production of crops for use in the restaurants. They also have an estimated useful life of 4 years, which is longer than the 12-month period they are required to be used for per IAS 16.

Using the growing pods will allow us to generate profits in the restaurants, which means that they will meet the criteria that it is probable that future economic benefits associated with the item will flow to SoPa. Also, we can expect to have reliable estimates of expenditure.

Based on the above, we can recognise the growing pods as part of property, plant and equipment in our statement of financial position.

Initially recorded

IAS 16: Property, Plant and Equipment states that an asset should be initially measured at cost. The cost of an asset is its purchase price (which includes non-refundable purchase taxes) and costs which are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating as management intends.

Therefore, the amount that we can initially recognise as the cost of the asset will be the Z$600,000 purchase price of each growing pod, plus Z$13,567 for import duty (assuming this is non-refundable). The Z$550 safety certification fee will also be included in the initial recognition of cost as it is a legal requirement for us to have this to be able to use the growing pods.

Maintenance contract

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This amount does not fulfil the requirement to be capitalised. As such if we decide to take out the maintenance contact, a quarter of the cost will be charged as an expense to profit or loss in the financial statements for each year.

Sub-task (c)

Tax depreciation allowance

Tax depreciation allowance is the portion of the cost of a new non-current asset permitted as an allowable expense against taxable profit.

This means that to calculate taxable profit, the depreciation allowance for the year would be added back to the profit figure and the tax depreciation allowance deducted instead.

A recent government policy adjustment has altered the rate and method for calculating tax depreciation. The current policy applies a 25% rate to non-current assets on a reducing balance basis. Going forward, the calculation will transition to a straight-line approach, with 50% deducted in the first year, followed by 25% in each of the next 2 years.

Under both methods, to calculate the allowable amount, the growing pod costs are multiplied by the relevant eligible tax allowance. Under the revised system, this percentage is 50%, compared to the previous 25%. This change results in a greater reduction of taxable profit in the initial year, potentially leading to a lower overall tax liability for that period.

At present, the system uses a 25% reducing balance calculation, which deducts 25% of the opening asset value from taxable profit each year throughout the asset's useful life. This process continues until the asset reaches the end of its useful life. The new system replaces this with a straight-line model where 25% of the original asset cost is charged against taxable profit in the second year. This adjustment is expected to result in higher tax depreciation allowances in subsequent years compared to the prior system. In turn, this may also reduce taxable profits and potentially decrease the company's tax payable.

Previously, a final year tax balancing allowance or charge was required under the reducing balance system, as the entire asset cost would not have been written off against profit during the growing pods useful life. This would have been calculated as the tax written down value adjusted for any residual value. In the new approach, the tax written down value will be nil in the final year, and therefore only a balancing charge may arise if there is a residual value.

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TASK 2

Sub-task (a)

Pay off table and statistics

The table shows the contribution generated by the nine possible combinations of the three suppliers of nutrient fluid and the three levels of crop yield. For example, if the crop yield is poor, using supplier A's nutrient fluid will result in a contribution of Z$41,000, but using supplier C with the same crop yield would generate Z$49,000, whilst supplier B would generate a contribution of Z$50,000.

The table shows that for poor and good crop yields, using supplier B's nutrient fluid results in the highest contribution generated. However, where there is an excellent crop yield, Supplier C generates the highest contribution at Z$85,000.

The expected value for each of the three suppliers' fluid has been determined. Expected value is calculated using a weighted average of the possible contributions generated by each potential crop yield. The weighting used is the probability of a poor, good or excellent crop yield.

Using expected value to make the decision as to which supplier to choose, would mean we would choose the supplier that gives us the highest expected value of contribution generated. Based on the three suppliers in Table 1, this would mean we would choose Supplier B as they have an expected value of Z$68,000. However, this is close to supplier C, which has an expected value of Z$67,000.

The standard deviation for each supplier is a measure of the variations of the outcomes from their expected value which gives an indication of risk.

The coefficient of variation for each supplier is its standard deviation divided by its expected value. The co-efficient of variation allows the risk of each supplier to be compared as it is a measure of risk per Z$1 of expected value.

Sub-task (b)

Choice of supplier based on risk profile

An expected value approach suits only risk-neutral decision makers, as it overlooks return variability and disregards risk measured by standard deviation and coefficient of variation. As noted above, Supplier B gives the highest expected value and therefore would be chosen by a risk neutral decision maker. However, whether this method would be the best one for deciding which supplier to choose depends on our attitude to risk, as it is only appropriate for a risk neutral decision maker.

For those with a risk seeking attitude, they would choose the supplier which generates the highest contribution level irrespective of whether this is likely to be achieved. This is supplier C, whose nutrient fluid has a potential to generate Z$85,000 if an excellent crop yield is achieved.

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On the other hand, a risk averse decision maker would look to maximise the additional contribution earned for the lowest risk level. So, they would use the coefficient of variation (COV) to make their decision, as this figure gives the level of risk incurred for each Z$1 of expected value. In this case, they would choose supplier B as their nutrient fluid has the lowest COV at 0.19.

Sub-task (c)

Cash operating cycles and cashflow management

Trade payables

We currently have a 40-day credit period. The proposed 45-day credit term is an improvement and extends our payment terms which would give cashflow a boost as payments to suppliers would leave our accounts more slowly. This cash would then be available for us to use on other expenditure in the meantime. We could also look to delay payment unofficially to provide extra cashflow. However, this will potentially be more expensive overall, as we are likely to be charged a 0.5% penalty by the supplier for late payment. They may also stop supplies until we pay which would halt production and increase prices in the future.

Conversely, whilst it would not help cashflow in the short term, paying within 35 days would entitle us to a 0.5% discount and we would have to determine if this discount was sufficiently large to exceed the additional cost of the working capital requirement to make a payment more quickly.

All the above are factors to consider in relation to generating additional cashflow by amending supplier payments; however, it is unlikely that supplier payments alone would generate sufficient additional working capital to cover amounts as large as the purchase price of a growing pod.

Short-term loan

A short-term loan may be more likely to be able to generate the sums required to cover working capital and purchase growing pods. However, the loan is for a period of 2 years, therefore we would have to be sure that we would require the funding for the full period. If we wanted to exit the loan before that time, there is an early repayment charge of Z$4,000 which would be due to be paid and which would increase the cost of this type of finance. We would also need to be sure that we did not require funds for longer than 2 years, as we would then face extra costs of refinancing.

Overdraft

The overdraft only has a period of 9 months before renewal and therefore the point above, in relation to the length of time we would need the funds, would also apply here. In addition, with the funding period being shorter, we would be subject to more re-financing costs as we would have to renew the facility more often.

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Whilst the cost of this type of finance is currently cheaper than the cost of the loan, it is possible that this position may change over time, as this facility has a variable interest rate which will change with the Bank of Zeeland base rate. However, conversely, we would only pay for the funds when we needed to use them, therefore this may be a more cost-effective option even if the interest cost rises.

Recommendation

Based on the current information, it would seem unlikely that delaying supplier payments would generate the sums being talked about in relation to working capital and buying growing pods. Therefore, I would not recommend this form of finance.

There are advantages and disadvantages to the other two methods; however, it may be that a mix of financing types will provide the best answer. With the growing pods being purchased using a short-term loan which gives certainty over funding and working capital being funded by an overdraft which is only paid for when used.

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TASK 3

Sub-task (a)

Overhead variances

Variable overhead expenditure variance

This is a variance for variable costs, specifically variable overheads. Costs are benchmarked against what we should have spent on variable overheads when using 4,910 growing pod hours. Expected spending is flexed in relation to the base we have used for the variable overhead absorption rate, which is growing pod hours.

The variable overhead expenditure variance is the difference between the actual variable overheads incurred when using the pods for 4,910 growing pod hours and what we should have spent when using the growing pods for 4,910 growing pod hours. What we should have spent will be calculated by multiplying the actual growing pod time of 4,910 hours by the variable overhead absorption rate.

The variance is adverse, which means that we spent more than we should have for the growing pod hours used. Buying-in electricity will have been an additional expense and, alone, it would have led to this adverse variable overhead expenditure variance.

Variable overhead efficiency variance

The variable overhead efficiency variance is measured as the difference between the actual 4,910 pod hours used and the growing pod hours that should have been needed to produce the actual output of 84,000 kg of lettuce. The standard growing pod hours are calculated as the weight of lettuce produced in kilos multiplied by the standard growing pod hours per kilo of lettuce (84,000 x 0.064 = 5,376 growing pod hours). This means we used (5376 – 4910 = 466 hours) less than standard giving a favourable variance. These hours are multiplied by the variable overhead absorption rate to produce the monetary value for the variance of Z$1,864.

The variance does not tell us anything other than the efficiency with which we have used the growing pod hours. This is because growing pod hours are the base for the variable overhead absorption rate.

Fixed overhead expenditure variance

This variance is the difference between what we spent on fixed overheads and the budgeted fixed overheads. The variance is for fixed overheads and therefore the budget is not flexed, it remains at the original budgeted level.

Your salary is an example of a fixed overhead; the amount paid to you is fixed and does not change with level of output from the vertical farm. When the vertical farm grows more than one crop, your time will be shared over supervisory duties for tasks relating to several types of crops, and possibly other duties, and therefore your salary is an overhead and not a direct cost. The increase in your salary is additional expenditure to the budget and alone would

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give rise to an adverse variance. The annual increase would be divided by four to give the additional expenditure on your salary for this period.

Fixed overhead volume variance

The fixed overhead volume variance shows the difference between the budgeted and actual outputs. As such, it shows if we have grown more or less than the budgeted weight of lettuce in the period. We have grown 6,000 kg of lettuce less than we should have done and therefore the variance is adverse. The difference in weight (6,000 kg) is multiplied by the standard growing pod time per kg (to give the standard growing pod time for that weight) and the fixed overhead absorption rate (which is based on growing pod hours) to give a monetary value for the variance of Z$5,760. The volume variance offers no insight to factors that could have contributed to the difference in output.

The fixed overhead capacity and efficiency variances when added together make up the fixed overhead volume variance. The capacity and efficiency variances break down the volume variance to show the impacts of working above or below budgeted capacity, and above or below the standard level of efficiency respectively.

Fixed overhead capacity variance

This variance shows the extent to which we have used the operating capacity stated in the budget. The budget was for 5,760 growing pod hours. We only used 4,910 growing pod hours and therefore we used 850 growing pod hours less than the budgeted capacity. The hours are then multiplied by the fixed overhead absorption rate to produce a monetary value of Z$12,750 for the variance. This variance is adverse, as we operated below capacity due the loss of a growing pod.

The growing pod hours actually used is compared against the original budgeted growing pod hours. Factors contributing to the number of growing pod hours used will be related to how the lettuce grew; for example, temperature regulation and strength of nutrients. These factors cannot be seen directly from the variance. The variance is purely a measure of how many growing pod hours we used compared to the budgeted growing pod hours and is not a measure of output. How well we used the growing pod hours is shown by the overhead efficiency variances.

This measure of capacity is determined by the base of the absorption rate (which is growing pod hours). This variance offers no insight into anything other than if we used the budgeted growing pod hours or not. The original budgeted growing pod hours are used in the calculation and they are not flexed because of the loss of a growing pod (700 hours) or the differing level of output (84,000 kg).

Fixed overhead efficiency variance

This variance uses the same methodology as the variable overhead efficiency variance but values the growing pod hours at the fixed overhead absorption rate instead of at the variable overhead absorption rate. The variance of Z$6,990 is favourable and indicates we have

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used less hours (466 growing pod hours – the same as for the variable overhead efficiency) than standard to grow 84,000 kg of lettuce.

As with the variable overhead efficiency variance, this variance does no more than tell us how efficiently we have used the actual growing pod hours used. The original total budgeted growing pod hours are not used in the calculation of the variance. The budget is flexed, based on the weight of lettuce grown, to determine the standard growing pod hours that should have been needed to grow the actual output of 84,000 kg of lettuce.

Sub-task (b)

Key performance indicators

Weight of crop processed

The actual weight of the crop could be measured against a target weight to assess performance of each growing pod. This would be an easily assessed target which ensures we are looking to maximise crop production.

Total nutrient fluid used during cycle

The number of litres of nutrient fluid actually used per growing pod per crop could be recorded. This could be compared to the standard amount expected to be used (recommended usage) and/or used in conjunction with data about crop yield to calculate ratio of kg of lettuce harvested per litre of fluid for each growing pod. This would allow an assessment of the effect of adding too much or too little fluid.

Time from harvest to packing

This should be measured in days or hours against expected time. The aim should be to have zero difference between actual and expected and with the further aim of regular reviews of expected time is ensure this is kept at a minimum. This measure will ensure that our crops retain their freshness when packed for shipping to our restaurants and onward use in relevant meals.

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TASK 4

Sub-task (a)

Relevant and irrelevant costs of supermarket contract

To be relevant to decision making, individual costs must be incurred in the future and capable of being changed. They must also represent actual cashflows as opposed to accounting adjustments and only the incremental or differential costs incurred because of taking the decision are relevant.

Nutrient fluid

We have sufficient inventory of nutrient fluid for this contract, with an original cost of Z$6,000. This is the same nutrient fluid we use in all of our pods and therefore we will need to replace any inventory that we use. The relevant cost of the fluid is therefore the cost of replacement, which is a future cash flow of Z$8,000. The original cost of Z$6,000 is irrelevant as it is a sunk cost.

Labour

Labour is a scare resource. The only way to meet the labour requirement for the supermarket contract is to move staff from another project, but that will prevent completion of the project. The lost contribution from not completing the project is Z$80,000 and should be included in the assessment as a relevant cost. This is contribution and is therefore directly linked to the contract. As an opportunity cost, it is therefore relevant.

The labour cost that was to be apportioned to the project (and which is not included in the contribution) is a fixed cost and as such is irrelevant. The Z$15,000 would be paid irrespective of how the labour is deployed.

Growing pod

The relevant cost of using the growing pod on the supermarket contract is the fall in resale value of the growing pod from now to the end of the contract. We know the current resale value is Z$50,000 but for now, we will have to estimate the future resale value. The initial purchase price of the growing pod is irrelevant as it is a sunk cost. The depreciation charge of Z$3,850 is also irrelevant. Depreciation is an accounting concept; it is not a cash flow and is also therefore irrelevant.

Sub-task (b)

Use of technology to gather data for a sales budget

Technology can make the process of collecting data for a sales budget more efficient and more accurate. Currently, we have never sold our produce from the vertical farm commercially so we have no internal information on which to base our sales budget. However, as our customer base for such sales grows, we will be able to draw on more

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internal information as well as sourcing external information. The gathering of both external and internal sources of information can be enhanced by using technology.

External sources of information

The following types of technology can be used to enhance data gathering on external sources of information.

Data analytics tools: Such tools can analyse large data sets, from external sources, such as competitors records, to uncover patterns and insights not easily seen by human analysis. For a sales budget, this may include seasonal variations in produce requirements; for example, where there is high demand due to a national holiday or there has been a downturn in economic conditions which has reduced demand.

Market research: Technology can be used to gather customer feedback or market data, for instance, through online focus groups, as this can help us to understand customer preferences and to predict future sales.

Cloud based collaboration tools: This can potentially allow teams from our different restaurants in Tombor or our other localities as well as those in vertical farm to work together more effectively to improve the timeliness of obtaining data for the use of crops, and therefore allowing for more accurate information of available produce to be included in the sales budget.

Internal sources of information: As we expand our external market and our use of production technology, they can help us to analyse information we generate internally. This information may include more relevant sales data, that reflects the increasingly complex business environment resulting from a broader and more diverse customer base, which will include external buyers for our products.

Integrated business processes: Enterprise resource planning systems can be used to integrate various business processes including sales, inventory and finance leading to a comprehensive view of sales performance which can be used to support more accurate forecasting which in turn will allow more accurate budgeting.

Artificial intelligence and machine learning

Such algorithms can be used to analyse historical crop sales data to predict future sales trends both internally to our own restaurant's and externally to commercial customers.

Social media and Industry analysis

Analysing data from social media and industry platforms may provide insights into customer sentiment and emerging trends. This information can be useful for forecasting sale which form the basis of future budgets.

Sub-task (c)

Cash budget

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A cash budget is a commitment to a plan for cash inflows and outflows for a future period in accordance with the business plan. The stated plan is to expand the vertical farm to be able to sell produce to external customers in addition to supplying our own restaurants.

Every type of cash inflow and outflow must be forecast. It is important to recognise the timing of those inflows and outflows. They will differ from sales and cost of sales shown in an evaluation of the profits arising from the project.

Selling to external customers will require us to invest in additional infrastructure in which to grow crops. This will include purchasing additional growing pods or upgrading existing growing pods to allow for more produce to be grown. Such upgrades will potentially require significant upfront cash outflows which will need to be carefully planned and budgeted for. Funds will need to be sourced, and those funds will need to be matched to our needs. The associated inflows and outflows of cash acquired and then paid respectively for the growing pods and infrastructure will be significant amounts in the cash budget. Unlike in a profit statement where the cost of an asset is spread over its useful life, the cash will be shown in full in the cash budget when it is actually paid.

To assess the full impact of the project on the cash budget, it will be necessary to identify the exact timing of all cash flows. Some timings will be easy to identify and plan for. The purchase of non-current assets, payments for fixed wages and salaries, and payments for fixed overhead expenses will all be easy to identify.

However, timings for sales and purchases will be more difficult. For sales, the issue will revolve around the bargaining power of our proposed customers. We have no previous experience of selling to customers such as supermarkets and the credit terms they will expect from us. The length of the credit period will determine when we receive payment and, if this is significant length of time, there could be cash budget periods in which we are making payments to achieve production targets but are not receiving cash inflows. This will have a negative impact on our cash budget.

This exposure can be reduced if we can obtain favourable credit terms from our suppliers. This may be possible given that we will be increasing what we buy from them. We will need more nutrient fluid which will increase the payments we need to make. However, this increased cost may be mitigated, as the increased volume could mean that we are allowed extended credit terms or bulk discounts. All of these issues will impact on the cash budget. It should also be recognised that production is not instantaneous and that there is a lengthy cycle for growing crops, for example, the cycle for growing lettuce is 60 days.

It can be argued that the most important role of the cash budget is to ensure that adequate funds are available to meet obligations. To do this, it is important to identify all inflows and outflows and their timings. This project is about selling produce to external customers and we have very little experience in this area. Accurate forecasts, particularly of sales, are needed to fully assess the impact of the project on our cash budget.

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Operational Case Study Examination

May & August 2026 – VARIANT 6

EXAM ANSWERS

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VARIANT 6

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TASK 1

Sub-task (a)

What the decision tree shows

We are facing two decisions here. Firstly, whether to use the Eatz or Nosh delivery app and secondly, whether to use our own delivery employees or to use the delivery service available from the app provider that we use. These decisions are represented by the squares on the decision tree in Schedule 1. Point G represents our choice between Eatz and Nosh and points E and F represents the decision for each delivery app, whether to use its delivery service or to use our own delivery employees.

There are four circles on the decision tree. These represent the possible outcomes arising from each combination of options. Point A is using the Eatz app and using its delivery service. Point B is using the Eatz app and using our own delivery employees. Point C is using the Nosh app and using its delivery service. Finally, point D is using the Nosh app and using our own delivery employees.

For each circle, and therefore combination of options, there are three possible outcomes based on whether the market reaction is excellent, good or moderate. For example, from point A, we can see that if the market reaction is excellent, the contribution on sales to delivery customers will be at its highest at Z$2,376,000, and that there is a 20% chance of this happening.

Looking from point B, we can see that possible contribution is higher than from point A for all market reactions. This difference is due to the fee per delivery that Eatz would charge us (a variable cost), which we would not need to pay if we use our own delivery employees.

Comparing the outcomes from point A and point C, we can see that if market reaction is moderate, the outcomes will be the same. This indicates that the fee per delivery for Eatz and Nosh is the same at this level of activity. However, the contributions for using the delivery services of Nosh are higher than for the delivery services of Eatz if market reaction is either good or excellent. This indicates that the fee per delivery for Nosh is lower than that of Eatz at higher delivery volumes.

Sub-task (b)

Application of a risk neutral approach to the decision tree

Application of a risk neutral approach means that we need to make our decision on the basis of expected value; in this case, we need to select the combination of options which will give us the highest expected value.

Applying this approach when using the decision tree requires us to work from right to left. We start at either decision square E or F and compare the expected value of each possible option. So, for decision point E, we compare the expected value of using Eatz and its delivery service of Z$1,692,900 with the expected value of using Eatz but our own delivery

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employees, which is Z$1,695,500 (Z$1,795,500 from point B less the additional fixed costs of Z$100,000). Therefore, we would choose to use our own delivery employees. At decision point F, we compare Z$1,716,570 (the expected value of using Nosh and its delivery service) against Z$1,695,500 for using our own delivery employees. Here, we would choose to use Nosh's delivery service.

Finally, we move to decision point G. Here, we compare the options chosen at point E and F, adjusting for the app hosting fees of each provider. So, we compare Z$1,545,500 (Z$1,695,500 – Z$150,000) for Eatz, with Z$1,516,570 (Z$1,716,570 – Z$200,000) for Nosh, and choose the highest expected value.

Sub-task (c)

Limitations and other factors to consider

Limitations of using this approach

As noted above, a risk neutral approach to decision making is based on selecting the best expected value, which is the weighted average of all possible outcomes, weighted according to their probability of occurrence. So, at point A, the expected value of Z$1,692,900 represents the average outcome, which would be relevant if the outcomes were to be repeated many times. In this instance, the outcomes are for the first 6 months of operation, which will only happen once, and we expect that outcome to be one of three possibilities, none of which are the same as the expected value.

Linked to this, using a risk neutral approach also means that we are ignoring the range of possible outcomes and the probability of their occurrence. For example, at decision point E above, we would choose to use our own delivery employees rather than the delivery service of Eatz. However, when we consider each of the possible states of the market, this would be the best decision for excellent and good, but not for moderate. There is a 35% chance of this happening, which is ignored with this approach.

Other factors to consider

One other factor to consider before finalising the decision is the reach of each app provider. We need to establish how many subscribers each app has in Tombor and consider whether those subscribers are likely to order from us. We need to ensure that we reach as many people as possible in Tombor, to maximise sales and contribution from our new delivery service.

Another factor to consider is the reliability of each app provider in terms of delivery service. We may decide that keeping control of delivery, by using our own employees, may be preferable to outsourcing. Key to building up a good reputation for our new delivery service, will be ensuring that deliveries are made whilst the food is still hot so that we have satisfied customers. It may be easier to control the quality of this service in-house.

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Sub-task (d)

Lease liability for lease walk-in fridge unit

The lease liability will initially be measured and recorded at the present value of the lease payments that are unpaid at the commencement date of the lease, which is 1 July 2026. The discount rate to use should be the interest rate implicit in the lease, or if not available, the lessee's incremental rate of borrowing. This is information that will need to be established, as it's not included in Table 1.

To determine which payments to include, we need to consider the lease term. This will include the non-cancellable period of the lease (which is 5 years) as well as any period covered by an option to cancel the lease, assuming that it is reasonably certain that this option will not be exercised.

Given that we expect to use the fridge unit for 7 years, this would indicate that we expect to cancel the lease after 7 years. Therefore, the initial lease liability will be the present value of the five payments of Z$10,000 a year, plus two payments in the cancellable period of Z$4,000 a year.

The initial measurement of the lease should also include the present value of the cancellation fee of Z$15,000, which will be payable in 7 years when the lease is cancelled. Note that the lease arrangement fee is not included as this will be capitalised as part of the right-of-use asset.

For the year ending 31 December 2026, the lease liability will be increased by a finance charge, which will be the initial lease liability value multiplied by the interest rate used to discount to present value, pro-rated to reflect the fact that 6 months of interest will relate to this financial year. There will be no further adjustments to reflect any lease payments as these will happen in future years.

The finance charge will be debited to profit or loss and reduce profit for the year. At 31 December 2026, the lease liability will be split into a current liability (reflecting the capital element of the lease due within 12 months) and a non-current liability (the remaining part of the lease liability).

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TASK 2

Sub-task (a)

What-if analysis on the new delivery service budget

Reduce selling price of starters by 20%

The what-if analysis in Table 1 shows that reducing selling prices of starters by 20% will increase both revenue and total variable cost, but by different percentages. The increase in revenue of 8% will reflect the impact of the predicted increase in volume (which will increase revenue) as well as the impact of the reduction in selling prices (which will decrease revenue). This reduction in selling prices will be less than 20% overall, given that the reduction will relate to starters and not mains.

For this suggestion, there will be no impact on variable cost per order and therefore, the 20% increase in total variable cost must be wholly due to the increase in volume. Therefore, the predicted increase in volume of orders must be 20%. As a result of the reduction in selling prices and no change in variable cost per order, contribution per order will fall. The impact of this reduction in the contribution margin would appear to outweigh the impact of a 20% increase in orders, because Table 1 shows that total contribution will fall by 2.2%. This in turn leads to an even greater percentage decrease in profit, despite fixed costs not changing, because profit is a significantly smaller value in absolute terms compared to total contribution.

Give away free sides

The what-if analysis in Table 1 shows that giving away free sides will increase revenue by 20%. Given that we have assumed that the same increase in volume applies to all suggestions, this means that there will be no impact on selling prices. However, total variable cost will increase by 31.9% which is greater than the increase in volume of 20%. Therefore, the impact of the additional free sides is to increase variable cost per order, which will lead to a reduction in contribution margin.

The overall impact on total contribution is an increase of 9.8%. This means that the impact of the 20% increase in volume is more than compensating for the reduction in contribution margin arising from the increase in variable cost per order. This is opposite to the overall impact of the first suggestion discussed above. The overall increase in contribution is Z$31,000, which, given there is no change in fixed cost, leads to a Z$31,000 increase in profit. Given profit is a smaller value than contribution, the increase in profit has a significantly higher percentage increase at 27%.

Targeted marketing campaign

The what-if analysis in Table 1 confirms that the predicted increase in volume for all three suggestions is 20%. This is because a targeted marketing campaign will have no impact on selling prices or variable cost per unit and therefore the increase in revenue and variable cost is wholly related to the increase in volume. With this suggestion, there is no impact on

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the contribution margin and hence contribution is also increased by 20%, the increase in volume.

However, fixed costs are expected to increase by Z$50,000 (25%), which represents the cost of the additional social media campaign. The net result is an 11.3% increase in profit, which is a lower percentage increase than the increase in contribution because of the increase in fixed costs.

Sub-task (b)

The appropriateness of the assumptions

Volume of orders

It has been assumed that the volume of orders will increase by 20% for all three suggestions. There are a few potential issues with this:

- Firstly, whilst each suggestion is likely to increase the volume of orders, it may not be realistic to assume that this will be the same for each suggestion. Customer reaction to each suggestion could be very different, which will result in changes in volume which vary. For example, it is unlikely that giving away free sides will have the same effect on customers as a significant price decrease. If, for example, the additional sides only increased volume by 10%, this would alter the analysis and could lead to this suggestion reducing rather than increasing profit.
- Secondly, even if we could say that each suggestion would have the same effect on customers, do we know that this will be an increase in the volume of orders of 20%? This is a new venture for us and therefore there is considerable uncertainty surrounding the number of orders we can expect. We have a good brand name as a restaurant business in Tombor, but this may not translate into a high level of orders for home delivery. A multitude of factors will affect how customers react to our new service and to each of the suggestions. It may be useful to model a range of scenarios at different volume changes and then consider the likelihood of each happening.

Revenue per order, variable cost per order and fixed cost

It has been assumed that revenue per order, variable cost per order and fixed cost will not change, other than for the direct impact of each suggestion. This is perhaps an over-simplification. There may be steps in the fixed cost of running the kitchen as a result of additional orders. For example, additional kitchen or delivery supervisors may be required, or additional equipment rented to accommodate the increased volume (especially at a 20% increase, which is quite significant).

Revenue per order and variable cost per order may also change as a result of the suggestions. For example, giving free sides may result in customers ordering less and reducing both revenue and variable cost per order.

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Sales mix

Finally, it has been assumed that the sales mix between starters, mains and sides will be unchanged as a result of the suggestion. Again, this is unrealistic, especially for the first suggestion. Offering a lower selling price on starters, may encourage customers to order multiple starters rather than starters and mains. If this were to happen, it would further reduce the profit for the first suggestion, because sales revenue would fall even further than shown in Table 1.

Sub-task (c)

Bulk purchase discount

Impact on our ordering policy and inventory balance

The bulk purchase discount being offered would mean that, instead of ordering 5,000 packaging items a week, we would need to order 40,000 items each time that we placed an order. This means that we would be placing an order every 8 weeks rather than every week, as the bulk discount would not affect our overall level of demand.

Assuming that we use up inventory at a constant rate, have no buffer inventory and no lead time, ordering 5,000 items each time means that at the start of each week inventory will be 5,000 items and at the end of the week 0 items. This gives an average inventory level of 2,500 units across the week.

With the same assumptions, if we order 40,000 items each time, this means that at the start of the 8-week period, inventory will be 40,000 items and at the end of the 8-week period it will be 0 units. This gives an average inventory level of 20,000 units across the period.

Therefore, our average inventory level will be considerable higher if we order to utilise the bulk purchase discount. This will increase our cost of holding inventory. To counter this though, our cost of ordering inventory will be lower because we have 1/8th the number of orders.

Financial and non-financial factors to consider

A financial factor to consider is whether the bulk discount is financially worthwhile by evaluating whether there is a net financial benefit from taking the discount. To do this evaluation, we will need to calculate the total of purchase, holding and ordering costs for each policy and then compare. For the discount policy, we would expect the cost of purchase to be lower. In addition, as noted above, the cost of ordering will be lower as there will be fewer orders. However, the cost of holding will be higher, given the significant increase in average inventory levels.

A non-financial factor to consider will be whether we have the capacity to store 8 weeks worth of packaging at the new kitchen. There may not be sufficient space to store the items in a place where they will not get damaged or destroyed. Clearly, items that cannot be used because of damage from poor storage will be a cost to the business.

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TASK 3

Sub-task (a)

Environmental cost of quality reporting

There are two types of environmental quality costs: non-conformance costs and conformance costs. Non-conformance costs are those costs which are incurred because of a failure in quality, which, in the case of environmental costs, is where there has been damage to the environment as a result of our actions. Conformance costs, in an environmental context, are the costs that we incur in order to try and stop this happening.

Environmental non-conformance costs

There are two categories of environmental non-conformance costs: internal failure and external failure.

Environmental internal failure costs:

These are costs that we incur to rectify any environmental damage that our business has caused so that the damage does not negatively impact the environment. Such costs are borne entirely by the business and are to mitigate the impact of environmental damage.

Within our delivery business, it is almost inevitable that we will generate some food waste perhaps because fresh ingredients can no longer be used or because meals are over-cooked or fail quality checks before sending out for delivery. However, we send all food waste to a plant that makes biofuel and the net cost that we incur transferring the waste to the plant is an example of an internal quality failure cost. By allowing for the conversion of waste to another usable resource, we are mitigating the impact of the waste on the environment.

Environmental external failure costs:

These are costs that either the environment suffers as a result of harmful impacts caused by our actions or costs that we incur where we have caused harm to the environment. Such costs are therefore borne by the environment and society at large as well as our business.

Due to the nature of what we do, there are numerous ways in which our actions impact on the environment negatively. Some examples are the use of energy from the national grid in our kitchen and the use of ingredients that cannot be sourced locally, generating food miles. Each of these has a potentially large impact on the environment and we are responsible for creating that impact, hence external failures where the environment effectively bears the cost.

With respect to food miles, we do donate to environmental charities in the countries of origin of some of the produce that we use. As such, the cost of these donations is an example of an external failure cost borne by us.

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Environmental conformance costs

There are two categories of environmental conformance costs: prevention and appraisal.

Environmental prevention costs:

These are costs that we incur to try to prevent environmental damage from happening, so that there is no failure. There are a number of examples relevant to the new delivery service, including:

- The cost of our delivery fleet and the solar panels used to power the fleet. The fact that we have invested in electrically powered vehicles is a prevention action, as the alternative would be diesel or petrol-powered vehicles which would have a greater negative impact on the environment in terms of vehicle emissions. Similarly, using solar panels and generating our own renewable energy source rather than electricity from the national grid is also a prevention action.
- The extra cost associated with using delivery packaging which can either be reused or easily recycled is another example. By doing this, we are stopping waste from being sent to landfill and therefore harming the environment, assuming of course that our customers either reuse or recycle.
- Finally, the cost of the light sensors is also an example of an environmental prevention cost. The sensors automatically turn lights out and therefore potentially reduces our use of energy from the national grid.

Environmental appraisal costs:

These are costs incurred to assess whether we are complying with environmental standards and policies, whether these are internally or externally set.

The cost of the smart metre that we have installed is an example of such a cost because it allows us to monitor energy consumption in detail and therefore measure our impact on the environment. This information will help identify areas where we can reduce electricity consumption and therefore our impact on the environment. Table 1 gives no further examples, but any costs that we incur in the future on monitoring or seeking advice on how to meet targets would also be appraisal costs.

Sub-task (b)

Key performance indicators (KPIs) for delivery drivers

The three suitable KPIs recommended are:

Percentage of on-time delivery

This could be measured per driver as the number of deliveries made on time divided by the total number of deliveries made, expressed as a percentage. Using the delivery app, this could be calculated on a daily basis and also considered on a rolling basis, perhaps over a week or month. When reviewing this KPI, we may need to consider whether there were any reasons why late deliveries may not have been the fault of the driver.

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Customers are given a delivery time on the app and therefore have an expectation. If this expectation is not met, customer satisfaction is likely to be negatively affected. In addition, if food is late being delivered, then there is a greater chance that it will be delivered cold, which again will damage customer satisfaction. Clearly, if customers are not satisfied with our service, they are unlikely to order from us again. They may also post negative reviews and comments on social media or the delivery app, which could influence other potential customers.

Kilometres travelled as percentage of sat nav route

This could be measured per driver as the number of kilometres travelled each day divided by the number of kilometres of travel suggested by the sat nav, expressed as a percentage. The ideal here would be to have a measure at 100% or perhaps lower.

A measure above 100% would indicate the driver has taken their own route, which is not the optimal route. This would lead to great cost in terms of electricity consumption and also additional time, which would result in late deliveries. Care would need to be taken that drivers were not held accountable for issues extending their route (such as accidents) which were outside of their control.

Customer satisfaction

Customers could be asked to rate their delivery driver on the app and these ratings could be collated across a day or a week for each driver. The ratings could be based on the same five-star rating system we use for our restaurants.

Ultimately, our new delivery service will only be successful if customers are happy with the service provided so that they will order again and post positive reviews on social media, which will encourage other people to order from us. Part of that delivery service is the impression that the driver gives and any drivers that score poorly should be identified for additional training.

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TASK 4

Sub-task (a)

Sales mix contribution variances

The sales mix contribution variance measures the impact on contribution of the actual volume of starters sold being sold in a different mix to that budgeted. As we can see from Table 1, whichever method is used, the total mix variance is the same at Z$1,502 adverse. This means that the change in the mix of starters sold has had the effect of decreasing total contribution during October.

Individual units method

The variances calculated using the individual units method tell us that we sold proportionately more Taco and Special starters (the favourable variances) and proportionately less Ceviche and Tostada starters (the adverse variances) compared to our budgeted mix. As such, this method focuses on the changes in quantities within the mix for the actual level of sales.

Weighted average method

The variances calculated using the weighted average method go further than this and tell us the impact of this change in quantity mix for each type of starter when measured against the weighted average contribution. Taking each of the starters in turn:

- Ceviche has a standard contribution which is higher than the weighted average (Z$5.80 compared to Z$4.425). The adverse variance here means that we sold proportionately less of this starter, which has a higher contribution than average.
- Taco has a lower contribution than the weighted average (Z$4.20 compared to Z$4.425). The adverse variance here means that we have sold proportionately more of this starter, which has a lower contribution than average.
- Tostada also has a lower contribution than the weighted average (Z$3.00 compared to Z$4.425). However, here, there is a favourable variance which means that we have sold proportionately less of this starter which has a lower contribution than average.
- Special has a standard contribution which is higher than the weighted average (Z$4.70 compared to Z$4.425), which is the same as Ceviche. However, here, the variance is favourable, which means that we have sold proportionately more of this starter which has a higher contribution than the weighted average.

Possible reasons for the change in mix

Both sets of variances tell us that we have sold proportionately more Taco and Special starters and proportionately less Ceviche and Tostada starters. Possible reasons for this are:

- The standard mix could be incorrect in the first place. Given that this is still a new service, our standard mix is based on an equal split between each type of starter. It is

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entirely possible that this is not representative of demand. Perhaps we could look at the mix of starter sales in our restaurants and adjust in line with that.

- In October, there was an unplanned discount for Special starters as a result of over ordering ingredients. This could have tempted customers to order the Special starter rather than other starters and therefore changed the overall mix.
- Also, in October, there was a shortage of fresh fish which meant that Ceviche wasn't always available for home delivery. Customers that would have ordered this will have had to order alternatives, which again would change the overall mix.

Sub-task (b)

The benefits of each method

The benefits of using the individual units method are that it is easier to calculate than the weighted average method, is easier to explain and immediately shows the impact of the change in mix quantities. An adverse variance simply means that we sold proportionately less of a starter and a favourable variance simply means that we sold proportionately more of a starter.

However, the weighted average method captures both the effect of the change in mix quantities and whether this change in mix has a positive or negative affect on total contribution, based on whether the starter has a lower or higher contribution than average. Therefore, the weighted average method gives us more useful information.

For example, Taco starters have a favourable variance using the individual units method because we have sold proportionately more, but on a weighted average basis it is adverse because this has the lower contribution than the weighed average. Therefore, selling more of this type of starter in relation to the other starters, will have an adverse impact on the overall contribution.

Similarly, Tostada starters have an adverse variance using the individual units method because we have sold proportionately less, but on a weighted average basis, this is favourable because this starter has the lowest contribution per unit. Therefore, selling less of this type of starter in relation to the other starters will have a favourable impact on the overall contribution.

Sub-task (c)

Short-term investment

When investing surplus cash for the short term, there are three key factors that need to be considered: liquidity, risk and return. We shall consider each of Sofia's investment suggestions against these factors.

Liquidity

Liquidity is about how easily an investment can be converted back into cash, should the need arise. Any investments that are marketable and therefore traded on exchanges, are highly liquid because they can be sold at any time and converted back into cash.

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Investments in shares listed on the stock market and also treasury bills are both examples of this. In contrast, a money market deposit is not traded. It is an arrangement with a bank to deposit funds for a fixed term. It is usually possible to draw funds out early, but only after paying a significant penalty fee. Therefore, a money market deposit would be considered less liquid than either the stock market or treasury bills.

Risk

Risk is the variability of the return that we will get from the investment and also the chance that the investment may lose value. Of the three investments suggested by Sofia, investing in the stock market is by far the riskiest. Share prices are volatile and subject to global and economic shocks and therefore, whilst it is possible for high returns, it is also possible that the capital value of the funds is eroded. Treasury bills are a form of borrowing by the government and as such are considered a very low risk form of investment, although there will be some uncertainty as market values of the bills do change. A money market deposit is where funds are deposited on the money markets by a bank, with the investor usually receiving a variable rate of interest. As such, this is usually a slightly less risky form of investment than treasury bills.

Return

Typically, the lower the risk of an investment, the lower the return it will generate and vice versa; hence, risk is a key factor in how much return will be generated. In addition, the more liquid the investment, usually the lower the level of return. Therefore, we may expect a higher return for shares compared to treasury bills, because shares are a riskier investment, although this higher level of return would only be in the long term given potential fluctuations in share prices. We might also expect a greater return for a money market deposit compared to treasury bills because of liquidity.

Recommendation

The funds that we are looking to invest are needed in 4 months' time to fund investment in our next restaurant. Therefore, it is vital that the capital value of the funds is maintained and so risk is perhaps our key consideration here. Because of the speculative nature of the stock market, investing there would therefore not be appropriate.

When considering an investment in treasury bills against a money market deposit, both are low risk and therefore perhaps the next key consideration is liquidity. At the moment, we expect that the funds will not be needed until 4 months' time, but how certain are we of this?

If there is potential that the funds will be needed sooner, my recommendation would be to consider investing in treasury bills. However, if we are reasonably confident that the funds will not be needed earlier than expected, my recommendation would be the money market deposit as this will give us more certainty over the return that we will make. It is also likely to have lower administrative fees associated with it.

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Operational Case Study Examination

May & August 2026 – VARIANT 4

MARKING GUIDANCE

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Variant 4

About this Marking Guidance

This Marking Guidance has been prepared for variant 4 of the CGMA Operational Case Study for exams from May & August 2026.

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 not to 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 mark 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 where 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.

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- 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.

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Summary of the core activities tested within each sub-task

Sub-task	Core activity		Sub-task weighting (% section time)
Task 1			
(a)	**B**	Discuss budget information for the purposes of planning and control.	**32%**
(b)	**B**	Discuss budget information for the purposes of planning and control.	**32%**
(c)	**B**	Discuss budget information for the purposes of planning and control.	**36%**
Task 2			
(a)	**E**	Analyse information to support short-term decision making.	**28%**
(b)	**E**	Analyse information to support short-term decision making.	**24%**
(c)	**F**	Discuss the management of working capital.	**48%**
Task 3			
(a)	**C**	Analyse financial and non-financial information to communicate insights about organisational performance.	**60%**
(b)	**C**	Analyse financial and non-financial information to communicate insights about organisational performance.	**40%**
Task 4			
(a)	**A**	Discuss costing information to support differing needs of the business.	**28%**
(b)	**A**	Discuss costing information to support differing needs of the business.	**24%**
(c)	**E**	Analyse information to support short-term decision making.	**20%**
(d)	**D**	Apply relevant financial reporting standards and corporate governance, ethical and tax principles.	**28%**

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TASK 1

TASK 1			
Sub-task (a): **Discuss** the difficulties the team may encounter related to setting objectives and identifying the principal budget factor when starting the budget setting process for the pop-up restaurant in Seaville.			
Trait			
Budgeting difficulties	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the difficulties that setting objectives and identifying the principal budget factor may cause. The discussion lacks clarity, detail and reference to the scenario.	1 – 3
	Level 2	Demonstrates a reasonable understanding of the difficulties that setting objectives and identifying the principal budget factor may cause. The discussion lacks some clarity, detail and/or reference to the scenario.	4 – 6
	Level 3	Demonstrates a good understanding of the difficulties that setting objectives and identifying the principal budget factor may cause. The discussion is mostly clear, detailed and referenced to the scenario.	7 – 8
Sub-task (b): **Discuss** how data gathering technologies can help us obtain information on which to base the budgets for the new restaurant.			
Trait			
Data gathering	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of how data gathering technologies can assist with obtaining information on which to base the budgets for the new restaurant. The discussion lacks clarity, detail and reference to the scenario.	1 – 3
	Level 2	Demonstrates a reasonable understanding of how data gathering technologies can assist with obtaining information on which to base the budgets for the new restaurant. The discussion lacks some clarity, detail and/or reference to the scenario.	4 – 6
	Level 3	Demonstrates a good understanding of how data gathering technologies can assist with obtaining information on which to base the budgets for the new restaurant. The discussion is mostly clear, detailed and referenced to the scenario.	7 – 8

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TASK 1 (continued)			
Sub-task (c): **Describe** the operation of ZBB and **discuss** how it should be used to set the labour budget for staff serving food to diners in the pop-up restaurant.			
Trait			
ZBB	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the operation of ZBB and how it should be used to set the labour budget for the pop-up restaurant. The discussion lacks clarity, detail and reference to the scenario.	1 – 3
	Level 2	Demonstrates a reasonable understanding of the operation of ZBB and how it should be used to set the labour budget for the pop-up restaurant. The discussion lacks some clarity, detail and/or reference to the scenario.	4 – 6
	Level 3	Demonstrates a good understanding of the operation of ZBB and how it should be used to set the labour budget for the pop-up restaurant. The discussion is mostly clear, detailed and referenced to the scenario.	7 – 9

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TASK 2

TASK 2			
Sub-task (a): **Interpret** the payoff table and statistical information in Table 1.			
Trait			
Pay off table	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of the payoff table and statistical information. Interpretation of the information in Table 1 lacks clarity, detail and technical accuracy.	1 – 2
	Level 2	Demonstrates a reasonable technical understanding of the payoff table and statistical information. Interpretation of the information in Table 1 lacks some clarity, detail and/or technical accuracy.	3 – 5
	Level 3	Demonstrates a good technical understanding of the payoff table and statistical information. Interpretation of the information in Table 1 is mostly clear, detailed and technically accurate.	6 – 7
Sub-task (b): **Justify** which campaign would be chosen by a risk neutral, a risk seeking and a risk averse decision maker.			
Trait			
Risk attitude	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Provides some justification for which campaigns would be chosen. The justification lacks clarity, detail and reference to the information given.	1 – 2
	Level 2	Provides a reasonable justification for which campaigns would be chosen. The justification lacks some clarity, detail and/or reference to the information given.	3 – 4
	Level 3	Provides a good justification for which campaigns would be chosen. The justification is mostly clear, detailed and referenced to the information given.	5 – 6

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TASK 2 (continued)			
Sub-task (c): **Discuss** the difficulties of managing the inventory of Aurellim Leaf at the Seaville restaurant including the suitability of using the EOQ model.			
Trait			
Inventory management	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the difficulties of managing Aurellim Leaf. The discussion lacks clarity, detail and reference to the information given.	1 – 2
	Level 2	Demonstrates a reasonable understanding of the difficulties of managing Aurellim Leaf. The discussion lacks some clarity, detail and/or reference to the information given.	3 – 4
	Level 3	Demonstrates a good understanding of the difficulties of managing Aurellim Leaf. The discussion is mostly clear, detailed and referenced to the information given.	5 – 6
EOQ model	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the suitability of using the EOQ model to manage Aurellim Leaf. The discussion lacks clarity, detail and reference to the information given/scenario.	1 – 2
	Level 2	Demonstrates a reasonable understanding of the suitability of using the EOQ model to manage Aurellim Leaf. The discussion lacks some clarity, detail and/or reference to the information given/scenario.	3 – 4
	Level 3	Demonstrates a good understanding of the suitability of using the EOQ model to manage Aurellim Leaf. The discussion is mostly clear, detailed and referenced to the information given/scenario.	5 – 6

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TASK 3

TASK 3			
Sub-task (a): **Explain** the issues with the approach and computation of the price and usage variance calculations attempted by the Marketing Officer. Please also **explain** how ingredients price and usage variances should be calculated and **discuss** the records which should be kept to ensure that the variance analysis provides useful information.			
Trait			
Issues	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the issues with the calculations. The explanation lacks clarity, detail and reference to the information given.	1 – 2
	Level 2	Demonstrates a reasonable understanding of the issues with the calculations. The explanation lacks some clarity, detail and/or reference to the information given.	3 – 4
	Level 3	Demonstrates a good understanding of the issues with the calculations. The explanation is mostly clear, detailed and referenced to the information given.	5
Correct calculations	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of the correct calculations. The explanation lacks clarity and detail.	1 – 2
	Level 2	Demonstrates a reasonable technical understanding of the correct calculations. The explanation lacks some clarity and detail.	3 – 4
	Level 3	Demonstrates a good technical understanding of the correct calculations. The explanation is mostly clear and detailed.	5
Record keeping	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the records which should be kept. The discussion lacks clarity, detail and reference to the scenario.	1 – 2
	Level 2	Demonstrates a reasonable understanding of the records which should be kept. The explanation lacks some clarity, detail and/or reference to the scenario.	3 – 4
	Level 3	Demonstrates a good understanding of the records which should be kept. The explanation is mostly clear, detailed and referenced to the scenario.	5

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TASK 3 (continued)			
Sub-task (b): **Recommend** two KPIs to monitor sustainability and two KPIs to monitor inventory management. For each KPI, please **justify** why it is appropriate and **explain** how it would be measured.			
Trait			
Sustainability	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Recommends at least one suitable KPI. The justification and measurement lack clarity, detail and application to the scenario.	1 – 2
	Level 2	Recommends at least one suitable KPI. The justification and measurement lack some clarity, detail and/or application to the scenario.	3 – 4
	Level 3	Recommends two suitable KPIs. The justification and measurement are mostly clear, detailed and applied to the scenario.	5
Inventory management	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Recommends at least one suitable KPI. The justification and measurement lack clarity, detail and application to the scenario.	1 – 2
	Level 2	Recommends at least one suitable KPI. The justification and measurement lack some clarity, detail and/or application to the scenario	3 – 4
	Level 3	Recommends two suitable KPIs. The justification and measurement are mostly clear, detailed and applied to the scenario.	5

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TASK 4

TASK 4			
Sub-task (a): **Discuss** the type and nature of the costs which will be incurred in developing, implementing and running the app if we did this internally.			
Trait			
App costs	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the type and nature of cost incurred in developing, implementing and running the app. The discussion lacks clarity, detail and reference to the scenario.	1 – 2
	Level 2	Demonstrates a reasonable understanding of the type and nature of cost incurred in developing, implementing and running the app. The discussion lacks some clarity, detail and reference to the scenario.	3 – 5
	Level 3	Demonstrates a good understanding of the type and nature of cost incurred in developing, implementing and running the app. The discussion is mostly clear, detailed and referenced to the scenario.	6 – 7
Sub-task (b): **Discuss** the problems we could face when determining the total cost of the app and the issues to consider when apportioning the cost of the app to individual restaurants.			
Trait			
Difficulties	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the problems of determining the total cost of the app and apportioning it to individual restaurants. The discussion lacks clarity, detail and reference to the scenario.	1 – 2
	Level 2	Demonstrates a reasonable understanding of the problems of determining the total cost of the app and apportioning it to individual restaurants. The discussion lacks some clarity, detail and reference to the scenario.	3 – 4
	Level 3	Demonstrates a good understanding of the problems of determining the total cost of the app and apportioning it to individual restaurants. The discussion is mostly clear, detailed and referenced to the scenario.	5 – 6

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TASK 4 (continued)			
Sub-task (c): **Discuss** the non-financial factors that the SMT should consider when deciding whether to pay for the ZeAp 12-month maintenance contract or to train our own IT staff to do the maintenance internally.			
Trait			
Non-financial factors	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the non-financial factors to be considered. The discussion lacks clarity, detail and/or reference to the information given.	1 – 2
	Level 2	Demonstrates a reasonable understanding of the non-financial factors to be considered. The discussion lacks some clarity, detail and/or reference to the information given.	3 – 4
	Level 3	Demonstrates a good understanding of the non-financial factors to be considered. The discussion is mostly clear, detailed and referenced to the information given.	5
Sub-task (d): **Apply** the rules in the relevant financial reporting standard to explain how the items in Table 1 should be reflected in SoPa's financial statements for the year ended 31 December 2026.			
Trait			
Leases	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of simplified lease requirements. The discussion lacks clarity, detail and reference to the information given.	1 – 2
	Level 2	Demonstrates a reasonable technical understanding of simplified lease requirements. The discussion lacks some clarity, detail and/or reference to the information given.	3 – 5
	Level 3	Demonstrates a good technical understanding of simplified lease requirements. The discussion is mostly clear, detailed and referenced to the information given.	6 – 7

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Operational Case Study Examination

May & August 2026 – VARIANT 1

MARKING GUIDANCE

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Variant 1

About this Marking Guidance

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- 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 mark 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 where 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.

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- 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.

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Summary of the core activities tested within each sub-task

Sub-task	Core activity		Sub-task weighting (% section time)
Task 1			
(a)	**E**	Analyse information to support short-term decision making.	**40%**
(b)	**E**	Analyse information to support short-term decision making.	**32%**
(c)	**E**	Analyse information to support short-term decision making.	**28%**
Task 2			
(a)	**B**	Discuss budget information for the purposes of planning and control.	**36%**
(b)	**B**	Discuss budget information for the purposes of planning and control.	**32%**
(c)	**D**	Apply relevant financial reporting standards and corporate governance, ethical and tax principles.	**32%**
Task 3			
(a)	**A**	Discuss costing information to support differing needs of the business.	**20%**
(b)	**A**	Discuss costing information to support differing needs of the business.	**32%**
(c)	**F**	Discuss the management of working capital.	**16%**
(d)	**F**	Discuss the management of working capital.	**32%**
Task 4			
(a)	**C**	Analyse financial and non-financial information to communicate insights about organisational performance.	**76%**
(b)	**C**	Analyse financial and non-financial information to communicate insights about organisational performance.	**24%**

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TASK 1

TASK 1			
Sub-task (a): **Interpret** Chart 1 to explain what it tells us about budgeted profit, fixed cost, average variable cost per unit, break-even position and margin of safety for the in-house and outsource options.			
Trait			
Chart 1	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of Chart 1. The interpretation lacks clarity, detail and reference to the information given.	1 – 3
	Level 2	Demonstrates reasonable technical understanding of Chart 1. The interpretation lacks some clarity, detail and/or reference to the information given.	4 – 7
	Level 3	Demonstrates good technical understanding of Chart 1. The interpretation is mostly clear, detailed and referenced to the information given.	8 – 10
Sub-task (b): **Discuss** the benefits and limitations of this break-even analysis.			
Trait			
Benefits and limitations	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Provides some consideration of the benefits and/or limitations. The discussion lacks clarity, detail, balance and application to the scenario.	1 – 3
	Level 2	Provides reasonable consideration of the benefits and/or limitations. The discussion lacks some clarity, detail, balance and/or application to the scenario.	4 – 6
	Level 3	Provides good consideration of the benefits and limitations. The discussion is mostly clear, detailed, balanced and applied to the scenario.	7 – 8
Sub-task (c): **Discuss** how weighted benefit scoring would be applied to assist with the decision whether production should be in-house or outsourced.			
Trait			
Weighted benefit scoring	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of how to apply weighted benefit scoring. The discussion lacks clarity, detail and application to the scenario.	1 – 2
	Level 2	Demonstrates reasonable technical understanding of how to apply weighted benefit scoring. The discussion lacks some clarity, detail and/or application to the scenario.	3 – 5
	Level 3	Demonstrates good technical understanding of how to apply weighted benefit scoring. The discussion is mostly clear, detailed and applied to the scenario.	6 – 7

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TASK 2

TASK 2			
Sub-task (a): **Discuss** why preparing production budgets for the SoPa@home Production Facility will help Rob with respect to planning, co-ordination and control.			
Trait			
Budgets	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Provides a limited discussion which lacks clarity, detail and application to the scenario.	1 – 3
	Level 2	Provides a reasonable discussion which lacks some clarity, detail and/or application to the scenario.	4 – 6
	Level 3	Provides a good discussion which is mostly clear, detailed and applied to the scenario. All three elements are considered.	7 – 9
Sub-task (b): **Discuss** how to construct the production budget, the raw materials usage budget and the raw materials purchases budget for the period until December 2026. Please support your discussion with reference to the information in Table 1.			
Trait			
Production budgets	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of how to construct the budgets. The discussion lacks clarity, detail and application to the scenario.	1 – 3
	Level 2	Demonstrates reasonable technical understanding of how to construct the budgets. The discussion lacks some clarity, detail and/or application to the scenario.	4 – 6
	Level 3	Demonstrates good technical understanding of how to construct the budgets. The discussion is mostly clear, detailed and applied to the scenario.	7 – 8

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TASK 2 (continued)			
Sub-task (c): **Apply** the provisions of the relevant financial reporting standard to explain how the SoPa@home finished goods inventory will be valued in our financial statements.			
Trait			
Inventory valuation	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of how to value the inventory. The discussion lacks clarity, detail and reference to the information given.	1 – 3
	Level 2	Demonstrates reasonable technical understanding of how to value the inventory. The discussion lacks some clarity, detail and/or reference to the information given.	4 – 6
	Level 3	Demonstrates good technical understanding of how to value the inventory. The discussion is mostly clear, detailed and referenced to the information given.	7 – 8

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TASK 3

TASK 3			
Sub-task (a): **Recommend**, with appropriate justification, suitable bases for absorption rates for each production process in Schedule 1, assuming absorption costing is used.			
Trait			
Absorption bases	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Provides recommendations but the justifications lack clarity, detail and application to the scenario.	1 – 2
	Level 2	Provides recommendations but the justifications lack some clarity, detail and/or application to the scenario.	3 – 4
	Level 3	Provides recommendations and the justifications are mostly clear, detailed and applied to the scenario.	5
Sub-task (b): **Evaluate** the suitability of using ABC for the new SoPa@home Production Facility.			
Trait			
ABC	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Provides a limited evaluation of the suitability of ABC. The evaluation lacks clarity, detail and reference to the information given/application to the scenario.	1 – 3
	Level 2	Provides a reasonable evaluation of the suitability of ABC. The evaluation lacks some clarity, detail and reference to the information given/application to the scenario.	4 – 6
	Level 3	Provides a good evaluation of the suitability of ABC. The evaluation is mostly clear, detailed and referenced to the information given/applied to the scenario.	7 – 8

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TASK 3 (continued)			
Sub-task (c): **Explain** what the EOQ represents and the information that we will need to establish in order to calculate it.			
Trait			
EOQ	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of the EOQ model. The explanation lacks clarity and detail.	1
	Level 2	Demonstrates reasonable technical understanding of the EOQ model. The explanation lacks some clarity and/or detail.	2 – 3
	Level 3	Demonstrates good technical understanding of the EOQ model. The explanation is mostly clear and detailed.	4
Sub-task (d): **Recommend**, with appropriate justification, whether the EOQ model is suitable for determining our ordering policy for glass jars.			
Trait			
Suitability	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Provides some attempt at a recommendation. The justification lacks clarity, detail and application to the scenario.	1 – 3
	Level 2	Provides a reasonable attempt at a recommendation. The justification lacks some clarity, detail and/or application to the scenario.	4 – 6
	Level 3	Provides a good attempt at a recommendation. The justification is mostly clear, detailed and applied to the scenario.	7 – 8

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TASK 4

TASK 4			
Sub-task (a): **Interpret** what each of the variances in Table 1 indicate about production performance in the SoPa@home Production Facility in November. Please make reference to both the information above and the KPI dashboard in Table 2 in your interpretation.			
Trait			
Raw materials	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of what the variances indicate. The interpretation lacks clarity, detail and reference to the information given and the KPI dashboard.	1 – 2
	Level 2	Demonstrates reasonable technical understanding of what the variances indicate. The interpretation lacks some clarity, detail and/or reference to the information given and the KPI dashboard.	3 – 4
	Level 3	Demonstrates good technical understanding of what the variances indicate. The interpretation is mostly clear, detailed and referenced to the information given and the KPI dashboard.	5 – 6
Direct labour	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of what the variances indicate. The interpretation lacks clarity, detail and reference to the information given and the KPI dashboard.	1 – 2
	Level 2	Demonstrates reasonable technical understanding of what the variances indicate. The interpretation lacks some clarity, detail and/or reference to the information given and the KPI dashboard.	3 – 5
	Level 3	Demonstrates good technical understanding of what the variances indicate. The interpretation is mostly clear, detailed and referenced to the information given and the KPI dashboard.	6 – 7
Variable OH	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of what the variances indicate. The interpretation lacks clarity, detail and reference to the information given and the KPI dashboard.	1 – 2
	Level 2	Demonstrates reasonable technical understanding of what the variances indicate. The interpretation lacks some clarity, detail and/or reference to the information given and the KPI dashboard.	3 – 4
	Level 3	Demonstrates good technical understanding of what the variances indicate. The interpretation is mostly clear, detailed and referenced to the information given and the KPI dashboard.	5 – 6

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TASK 4 (continued)			
Sub-task (b): **Recommend**, with appropriate justification, two suitable KPIs relating to sustainability that could be added to the KPI dashboard for the SoPa@home Production Facility.			
Trait			
KPIs	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Recommendations at least one suitable KPI. The justification lacks clarity, detail and application to the scenario.	1 – 2
	Level 2	Recommendations at least one suitable KPI. The justification lacks some clarity, detail and/or application to the scenario.	3 – 4
	Level 3	Recommendations two suitable KPIs. The justification is mostly clear, detailed and applied to the scenario.	5 – 6

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Operational Case Study Examination

May & August 2026 – VARIANT 2

MARKING GUIDANCE

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Variant 2

About this Marking Guidance

This Marking Guidance has been prepared for variant 2 of the CGMA Operational Case Study for exams from May & August 2026.

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 not to 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 mark 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 where 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)
Task 1			
(a)	**B**	Discuss budget information for the purposes of planning and control	**28%**
(b)	**B**	Discuss budget information for the purposes of planning and control	**24%**
(c)	**C**	Analyse financial and non-financial information to communicate insights about organisational performance	**48%**
Task 2			
(a)	**E**	Analyse information to support short-term decision making	**52%**
(b)	**E**	Analyse information to support short-term decision making	**48%**
Task 3			
(a)	**D**	Apply relevant financial reporting standards and corporate governance, ethical and tax principles	**48%**
(b)	**F**	Discuss the management of working capital	**52%**
Task 4			
(a)	**B**	Discuss budget information for the purposes of planning and control	**28%**
(b)	**C**	Analyse financial and non-financial information to communicate insights about organisational performance	**24%**
(c)	**A**	Discuss costing information to support differing needs of the business	**48%**

TASK 1

TASK 1			
Sub-task (a): **Review** Graph 1 and **assess** the suitability of using time series analysis to produce a forecast of future sales from it.			
Trait			
Time series	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the information in Graph 1 and the suitability of time series analysis. The review and assessment lacks clarity, detail and reference to the information given.	1 – 2
	Level 2	Demonstrates reasonable understanding of the information in Graph 1 and the suitability of time series analysis. The review and assessment lack some clarity, detail and/or reference to the information given.	3 – 5
	Level 3	Demonstrates good understanding of the information in Graph 1 and the suitability of time series analysis. The review and assessment are mostly clear, detailed and referenced to the information given.	6 – 7
Sub-task (b): **Discuss** how the use of AI and big data could help to produce better forecasts.			
Trait			
Forecasts	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of how AI and big data could help to produce better forecasts. The discussion lacks clarity, detail and reference to the scenario.	1 – 2
	Level 2	Demonstrates reasonable understanding of how AI and big data could help to produce better forecasts. The discussion lacks some clarity, detail and/or reference to the scenario.	3 – 4
	Level 3	Demonstrates good understanding of how AI and big data could help to produce better forecasts. The discussion is mostly clear, detailed and referenced to the scenario.	5 – 6

TASK 1 (continued)			
Sub-task (c): **Recommend** two KPIs to assess the performance of individual servers and two KPIs to assess the performance of restaurant managers. For each KPI, please **explain** how the KPI would be measured and **justify** why it would be appropriate.			
Trait			
Individual server	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Recommends at least one suitable KPI. The justification and measurement lack clarity, detail and application to the scenario.	1 – 2
	Level 2	Recommends at least one suitable KPI. The justification and measurement lack some clarity, detail and/or application to the scenario	3 – 4
	Level 3	Recommends two suitable KPIs. The justification and measurement are mostly clear, detailed and applied to the scenario.	5 – 6
Restaurant manager	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Recommends at least one suitable KPI. The justification and measurement lack clarity, detail and application to the scenario.	1 – 2
	Level 2	Recommends at least one suitable KPI. The justification and measurement lack some clarity, detail and/or application to the scenario	3 – 4
	Level 3	Recommends two suitable KPIs. The justification and measurement are mostly clear, detailed and applied to the scenario.	5 – 6

TASK 2

TASK 2			
Sub-task (a): **Analyse** the information in Table 1 and **explain** how the decision about restaurant capacity would be made using maximax, maximin and minimax regret decision criteria.			
Trait			
Table 1	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of the information in Table 1. The analysis lacks clarity, detail and technical accuracy.	1 – 2
	Level 2	Demonstrates reasonable technical understanding of the information in Table 1. The analysis lacks some clarity, detail and/or technical accuracy.	3 – 5
	Level 3	Demonstrates good technical understanding of the information in Table 1. The analysis is mostly clear, detailed and technically accurate.	6 – 7
Decision	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of how the information in Table 1 can be used to decide restaurant capacity. The discussion lacks clarity, detail and reference to the information.	1 – 2
	Level 2	Demonstrates reasonable technical understanding of how the information in Table 1 can be used to decide restaurant capacity. The discussion lacks some clarity, detail and/or reference to the information.	3 – 4
	Level 3	Demonstrates good technical understanding of how the information in Table 1 can be used to decide restaurant capacity. The discussion is mostly clear, detailed and referenced to the information.	5 – 6

TASK 2 (continued)			
Sub-task (b): **Discuss** the impacts on the decision-making process of obtaining estimated probabilities for the level of staff we could potentially recruit and the relevance of three risk profiles of decision makers.			
Trait			
Probabilities	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the impact estimating probabilities will have on decision making. The discussion lacks clarity, detail and reference to the information given.	1 – 2
	Level 2	Demonstrates reasonable understanding of the impact estimating probabilities will have on decision making. The discussion lacks some clarity, detail and/or reference to the information given	3 – 4
	Level 3	Demonstrates good understanding of the impact estimating probabilities will have on decision making. The discussion is mostly clear, detailed and referenced to the information given.	5 – 6
Risk profiles	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the impact of different risk profiles on the decision process. The discussion lacks clarity, detail and reference to the information given.	1 – 2
	Level 2	Demonstrates reasonable understanding of the impact of different risk profiles on the decision process. The discussion lacks some clarity, detail and/or reference to the information given.	3 – 4
	Level 3	Demonstrates good understanding of the impact of different risk profiles on the decision process. The discussion is mostly clear, detailed and referenced to the information given.	5 – 6

TASK 3

TASK 3			
Sub-task (a): **Apply** the provisions of the relevant financial reporting standards to determine how, using the information in Table 1, the lease liability and right-of-use asset for the RMAD system should be initially recorded and subsequently measured in our financial statements for the year ending 31 December 2027.			
Trait			
Initially recorded	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of the initial recording of the lease liability and right-of-use asset. The answer lacks clarity, detail and reference to the information given.	1 – 2
	Level 2	Demonstrates reasonable technical understanding of the initial recording of the lease liability and right-of-use asset. The answer lacks some clarity, detail and/or reference to the information given.	3 – 4
	Level 3	Demonstrates good technical understanding of the initial recording of the lease liability and right-of-use asset. The answer is mostly clear, detailed and referenced to the information given.	5 – 6
Subsequently measured	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of the subsequent measurement of the lease liability and right-of-use asset. The answer lacks clarity, detail and reference to the information given.	1 – 2
	Level 2	Demonstrates reasonable technical understanding of the subsequent measurement of the lease liability and right-of-use asset. The answer lacks some clarity, detail and/or reference to the information given.	3 – 4
	Level 3	Demonstrates good technical understanding of the subsequent measurement of the lease liability and right-of-use asset. The answer is mostly clear, detailed and referenced to the information given.	5 – 6

TASK 3 (continued)			
Sub-task (b): **Discuss** the potential benefits and drawbacks for SoPa of moving to the proposed working capital policy.			
Trait			
Working capital policy	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the benefits and drawbacks of moving to the proposed working capital policy. The discussion lacks clarity, detail and reference to the information given/scenario.	1 – 4
	Level 2	Demonstrates reasonable understanding of the benefits and drawbacks of moving to the proposed working capital policy. The discussion lacks some clarity, detail and reference to the information given/scenario.	5 – 9
	Level 3	Demonstrates good understanding of the benefits and drawbacks of moving to the proposed working capital policy. The discussion is mostly clear, detailed and referenced to the information given/scenario.	10 – 13

TASK 4

TASK 4			
Sub-task (a): **Discuss** possible impacts on the budgets that replacing human staff with the RMAD system may have.			
Trait			
Budgets	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the impact on budgets of replacing human bar staff will the RMAD system. The discussion lacks clarity, detail and reference to the information given/scenario.	1 – 2
	Level 2	Demonstrates reasonable understanding of the impact on budgets of replacing human bar staff will the RMAD system. The discussion lacks some clarity, detail and/or reference to the information given/scenario.	3 – 5
	Level 3	Demonstrates good understanding of the impact on budgets of replacing human bar staff will the RMAD system. The discussion is mostly clear, detailed and referenced to the information given/scenario.	6 – 7
Sub-task (b): **Discuss** the impact of the information in Schedules 1 and 2 for reviewing sales and service performance.			
Trait			
Sales and service performance	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the impact of the information when reviewing sales and service performance. The discussion lacks clarity, detail and reference to the information given/scenario.	1 – 2
	Level 2	Demonstrates reasonable understanding of the impact of the information when reviewing sales and service performance. The discussion lacks some clarity, detail and/or reference to the information given/scenario.	3 – 4
	Level 3	Demonstrates good understanding of the impact of the information when reviewing sales and service performance. The discussion is mostly clear, detailed and referenced to the information given/scenario.	5 – 6

TASK 4 (continued)			
Sub-task (c): **Explain,** using the information in Schedules 2 and 3, how the RMAD system will impact on the formulation and use of standard costs of drinks sold in the restaurant.			
Trait			
Costing	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the impact of the information in Schedules 2 and 3 on the formulation and use of the standard costs of drinks sold in the restaurant. The discussion lacks clarity, detail and reference to the information given/scenario.	1 – 4
	Level 2	Demonstrates reasonable understanding of the impact of the information in Schedules 2 and 3 on the formulation and use of the standard costs of drinks sold in the restaurant. The discussion lacks some clarity, detail and/or reference to the information given/scenario.	5 – 8
	Level 3	Demonstrates good understanding of the impact of information in Schedules 2 and 3 on the formulation and use of the standard costs of drinks sold in the restaurant. The discussion is mostly clear, detailed and referenced to the information given/scenario.	9 – 12



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Operational Case Study Examination

May & August 2026 – VARIANT 3

MARKING GUIDANCE

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Variant 3

About this Marking Guidance

This Marking Guidance has been prepared for variant 3 of the CGMA Operational Case Study for exams from May & August 2026.

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 not to 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 mark 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 where 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.

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- 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.

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Summary of the core activities tested within each sub-task

Sub-task	Core activity		Sub-task weighting (% section time)
Task 1			
(a)	**B**	Discuss budget information for the purposes of planning and control.	**36%**
(b)	**B**	Discuss budget information for the purposes of planning and control.	**32%**
(c)	**D**	Apply relevant financial reporting standards and corporate governance, ethical and tax principles.	**32%**
Task 2			
(a)	**E**	Analyse information to support short-term decision making.	**24%**
(b)	**E**	Analyse information to support short-term decision making.	**24%**
(c)	**F**	Discuss the management or working capital.	**36%**
(d)	**F**	Discuss the management or working capital.	**16%**
Task 3			
(a)	**C**	Analyse financial and non-financial information to communicate insights about organisational performance.	**56%**
(b)	**C**	Analyse financial and non-financial information to communicate insights about organisational performance.	**44%**
Task 4			
(a)	**A**	Discuss costing information to support differing needs of the business.	**40%**
(b)	**A**	Discuss costing information to support differing needs of the business.	**28%**
(b)	**E**	Analyse information to support short-term decision making.	**32%**

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TASK 1

TASK 1			
Sub-task (a): **Discuss** how a flexible budgeting approach can be applied to the Northtown restaurant budget for the period to 31 December 2026, with reference to the information in Table 1.			
Trait			
Flexible budgeting	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of how to apply a flexible budgeting approach. The discussion lacks clarity, detail and reference to the information given and the scenario.	1 – 3
	Level 2	Demonstrates a reasonable technical understanding of how to apply a flexible budgeting approach. The discussion lacks some clarity, detail and/or reference to the information given and the scenario.	4 – 6
	Level 3	Demonstrates a good technical understanding of how to apply a flexible budgeting approach. The discussion is mostly clear, detailed and referenced to the information given and the scenario.	7 – 9
Sub-task (b): **Discuss** the benefits of using big data analytics and AI for forecasting sales revenue in our restaurants.			
Trait			
Forecasting	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of the benefits of using big data analytics and AI for forecasting sales revenue. The discussion lacks clarity, detail and application to the scenario.	1 – 3
	Level 2	Demonstrates a reasonable technical understanding of the benefits of using big data analytics and AI for forecasting sales revenue. The discussion lacks some clarity, detail and/or application to the scenario.	4 – 6
	Level 3	Demonstrates a good technical understanding of the benefits of using big data analytics and AI for forecasting sales revenue. The discussion is mostly clear, detailed and applied to the scenario.	7 – 8

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TASK 1 (continued)			
Sub-task (c): **Apply** the appropriate financial reporting standard to determine, with justification, how the expenditure in Table 2 will be recognised and then initially and subsequently measured in our financial statements for the year ending 31 December 2026.			
Trait			
IAS 16	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of how to apply the appropriate financial reporting standard. The justification lacks clarity, detail and reference to the information given.	1 – 3
	Level 2	Demonstrates a reasonable technical understanding of how to apply the appropriate financial reporting standard. The justification lacks some clarity, detail and/or reference to the information given.	4 – 6
	Level 3	Demonstrates a good technical understanding of how to apply the appropriate financial reporting standard. The justification is mostly clear, detailed and referenced to the information given.	7 – 8

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TASK 2

TASK 2			
Sub-task (a): **Explain** what Chart 1 shows and **analyse** the chart to determine how the cost structures differ between Proctors and Blakes for the supply of fresh fish.			
Trait			
Chart 1	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Provides some explanation and analysis of Chart 1. The explanation and analysis lack technical accuracy, clarity, detail and reference to the information given.	1 – 2
	Level 2	Provides a reasonable explanation and analysis of Chart 1. The explanation and analysis lack some technical accuracy, clarity, detail and/or reference to the information given.	3 – 4
	Level 3	Provides a good explanation and analysis of Chart 1. The explanation and analysis are mostly technically accurate, clear, detailed and referenced to the information given.	5 – 6
Sub-task (b): **Determine** which supplier would be chosen based on the expected value of purchase volume identified under Table 1. Please also **discuss** two limitations of making this decision on that basis.			
Trait			
Expected value	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of the limitations of using expected value for this decision. The discussion lacks clarity, detail and reference to the information given. The correct decision may be stated but is unlikely to be justified.	1 – 2
	Level 2	Demonstrates a reasonable technical understanding of the limitations of using expected value for this decision. The discussion lacks some clarity, detail and/or reference to the information given. The correct decision is likely to be stated but may not be justified.	3 – 4
	Level 3	Demonstrates a good technical understanding of the limitations of using expected value for this decision. The discussion is mostly clear, detailed and referenced to the information given. The correct decision is stated and justified.	5 – 6

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TASK 2 (continued)			
Sub-task (c): **Compare and contrast** the working capital ratios (shown in Table 2) for LarderStore against the industry averages and also for CaterWise against the industry averages, providing possible reasons why the ratios may differ to the industry averages.			
Trait			
Ratios	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Provides some comparison of the working capital ratios of each supplier to the industry averages. The comparison lacks clarity, detail and reference to the information given and scenario	1 – 3
	Level 2	Provides a reasonable comparison of the working capital ratios of each supplier to the industry averages. The comparison lacks some clarity, detail and/or reference to the information given and scenario.	4 – 6
	Level 3	Provides a good comparison of the working capital ratios of each supplier to the industry averages. The comparison is mostly clear, detailed and referenced to the information given and scenario.	7 – 9
Sub-task (d): **Recommend**, with appropriate justification, which of the potential suppliers would be most suitable as our supplier.			
Trait			
Recommend-ation	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Provides a recommendation, but there is a limited attempt to justify with reference to the information provided.	1
	Level 2	Provides a recommendation and there is some attempt to justify with reference to the information provided.	2 – 3
	Level 3	Provides a recommendation and there is a good attempt to justify with reference to the information provided.	4

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TASK 3

TASK 3			
Sub-task (a): **Interpret** the variances in Table 1 using the notes provided.			
Trait			
Sales	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of the variances. The interpretation lacks clarity, detail and reference to the information given and the scenario.	1 – 2
	Level 2	Demonstrates a reasonable technical understanding of the variances. The interpretation lacks some clarity, detail and/or reference to the information given and the scenario.	3 – 4
	Level 3	Demonstrates a good technical understanding of the variances. The interpretation is mostly clear, detailed and referenced to the information given and the scenario.	5 – 6
Ingredients and labour	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of the variances. The interpretation lacks clarity, detail and reference to the information given and the scenario.	1 – 3
	Level 2	Demonstrates a reasonable technical understanding of the variances. The interpretation lacks some clarity, detail and/or reference to the information given and the scenario.	4 – 6
	Level 3	Demonstrates a good technical understanding of the variances. The interpretation is mostly clear, detailed and referenced to the information given and the scenario.	7 – 8
Sub-task (b): **Justify** why each of the KPIs in the dashboard in Table 2 is appropriate for assessing the performance of the restaurant and, for each KPI shown, **discuss** how it supports your interpretation of the variances in Table 1.			
Trait			
KPIs	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Provides some justification for the KPIs. The discussion of the KPIs lacks clarity, detail and reference to the information given and the scenario.	1 – 4
	Level 2	Provides a reasonable justification for the KPIs. The discussion of the KPIs lacks some clarity, detail and/or reference to the information given and the scenario.	5 – 8
	Level 3	Provides a good justification for the KPIs. The discussion of the KPIs is mostly clear, detailed and referenced to the information given and the scenario.	9 – 11

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TASK 4

TASK 4			
Sub-task (a): **Discuss** how costs will be categorised in a cost of quality report, giving an example relevant to the Northtown restaurant for each category of cost.			
Trait			
Cost of quality	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of how costs will be categorised in a cost of quality report. The discussion lacks clarity, detail and the examples given are unlikely to be appropriate or drawn from the information given.	1 – 3
	Level 2	Demonstrates a reasonable understanding of how costs will be categorised in a cost of quality report. The discussion lacks some clarity, detail and the examples given may not be appropriate or drawn from the information given.	4 – 7
	Level 3	Demonstrates a good understanding of how costs will be categorised in a cost of quality report. The discussion is mostly clear, detailed and the examples given are mostly appropriate and drawn from the information given.	8 – 10
Sub-task (b): **Discuss** the benefits to the business of producing a cost of quality report for each of our restaurants.			
Trait			
Benefits	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the benefits of producing a cost of quality report. The discussion lacks clarity, detail and reference to the scenario.	1 – 2
	Level 2	Demonstrates a reasonable understanding of the benefits of producing a cost of quality report. The discussion lacks some clarity, detail and/or reference to the scenario.	3 – 5
	Level 3	Demonstrates good understanding of the benefits of producing a cost of quality report. The discussion is mostly clear, detailed and referenced to the scenario.	6 – 7

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TASK 4 (continued)			
Sub-task (c): **Justify**, for each cost in Table 1, whether it will be relevant or irrelevant to the decision whether to support the Street Project.			
Trait			
Relevant costs	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of relevant costs. Consideration of the costs in Table 1 lacks clarity, detail and technical accuracy.	1 – 3
	Level 2	Demonstrates a reasonable technical understanding of relevant costs. Consideration of the costs in Table 1 lacks some clarity, detail and/or technical accuracy.	4 – 6
	Level 3	Demonstrates a good technical understanding of relevant costs. Consideration of the costs in Table 1 is mostly clear, detailed and technically accurate.	7 – 8

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Operational Case Study Examination

May & August 2026 – VARIANT 5

MARKING GUIDANCE

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Variant 5

About this Marking Guidance

This Marking Guidance has been prepared for variant 5 of the CGMA Operational Case Study for exams from May & August 2026.

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 not to 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 mark 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 where 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.

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- 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.

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Summary of the core activities tested within each sub-task

Sub-task	Core activity		Sub-task weighting (% section time)
Task 1			
(a)	**A**	Discuss costing information to support differing needs of the business.	**48%**
(b)	**D**	Apply relevant financial reporting standards and corporate governance, ethical and tax principles.	**24%**
(c)	**D**	Apply relevant financial reporting standards and corporate governance, ethical and tax principles.	**28%**
Task 2			
(a)	**E**	Analyse information to support short-term decision making.	**24%**
(b)	**E**	Analyse information to support short-term decision making.	**24%**
(c)	**F**	Discuss the management or working capital.	**52%**
Task 3			
(a)	**C**	Analyse financial and non-financial information to communicate insights about organisational performance.	**64%**
(b)	**C**	Analyse financial and non-financial information to communicate insights about organisational performance.	**36%**
Task 4			
(a)	**E**	Analyse information to support short-term decision making.	**32%**
(b)	**B**	Discuss budget information for the purposes of planning and control.	**32%**
(c)	**B**	Discuss budget information for the purposes of planning and control.	**36%**

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TASK 1

TASK 1			
Sub-task (a): **Discuss**, with reference to Tables 1 and 2, how ABC should be implemented at the vertical farm for costing labour resources. Please also **discuss** the potential benefits of doing this.			
Trait			
ABC	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of how to implement ABC. The discussion lacks clarity, detail and reference to the scenario/information given.	1 – 2
	Level 2	Demonstrates a reasonable understanding of how to implement ABC. The discussion lacks some clarity, detail and/or reference to the scenario/information given.	3 – 4
	Level 3	Demonstrates a good understanding of how to implement ABC. The discussion is mostly clear, detailed and referenced to the scenario/information given.	5 – 6
Benefits	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the benefits. The discussion lacks clarity, detail and reference to the scenario/information given.	1 – 2
	Level 2	Demonstrates a reasonable understanding of the benefits. The discussion lacks some clarity, detail and/or reference to the scenario/information given.	3 – 4
	Level 3	Demonstrates a good understanding of the benefits. The discussion is mostly clear, detailed and referenced to the scenario/information given.	5 – 6

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TASK 1 (continued)			
Sub-task (b): **Apply** the provisions of the relevant financial reporting standards to justify how the expenditure in Table 3 should be recognised and initially measured in our financial statements for the year ending 31 December 2026.			
Trait			
IAS 16	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of the recognition and initial recording of the expenditure on the growing pods. The justification lacks clarity, detail and reference to the information given.	1 – 2
	Level 2	Demonstrates a reasonable technical understanding of the recognition and initial recording of the expenditure on the growing pods. The justification lacks some clarity, detail and/or reference to the information given.	3 – 4
	Level 3	Demonstrates a good technical understanding of the recognition and initial recording of the expenditure on the growing pods. The justification is mostly clear, detailed and referenced to the information given.	5 – 6
Sub-task (c): **Discuss** the effect on taxable profit of the change in tax depreciation allowance for the new growing pods.			
Trait			
Tax depreciation allowance	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of the effect on taxable profit. The discussion lacks clarity, detail and reference to the information given/scenario.	1 – 2
	Level 2	Demonstrates a reasonable technical understanding of the effect on taxable profit. The discussion lacks some clarity, detail and/or reference to the information given/ scenario.	3 – 5
	Level 3	Demonstrates a good technical understanding of the effect on taxable profit. The discussion is mostly clear, detailed and referenced to the information given/ scenario.	6 – 7

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TASK 2

TASK 2			
Sub-task (a): **Interpret** the payoff table and statistical information in Table 1.			
Trait			
Table and statistics	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the payoff table and statistical information in Table 1. The interpretation lacks clarity, detail and reference to the information given.	1 – 2
	Level 2	Demonstrates a reasonable understanding of the payoff table and statistical information in Table 1. The interpretation lacks some clarity, detail and reference to the information given.	3 – 4
	Level 3	Demonstrates a good understanding of the payoff table and statistical information in Table 1. The interpretation is mostly clear, detailed and referenced to the information given.	5 – 6
Sub-task (b): **Justify** which supplier would be chosen by a risk neutral, risk seeking and risk averse decision maker.			
Trait			
Risk attitude	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of risk attitudes. The justification lacks clarity, detail and reference to the information given.	1 – 2
	Level 2	Demonstrates a reasonable technical understanding of risk attitudes. The justification lacks some clarity, detail and/or reference to the information given.	3 – 4
	Level 3	Demonstrates a good technical understanding risk attitudes. The justification is mostly clear, detailed and referenced to the information given.	5 – 6

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TASK 2 (continued)			
Sub-task (c): **Discuss** each of the three possible sourced of short-term finance in Table 2 and **recommend** which of these would be the most appropriate to provide the additional working capital and funding required for the vertical farm project.			
Trait			
Working capital financing	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the different financing options. The discussion lacks clarity, detail and reference to the information given/scenario. No recommendation is given	1 – 4
	Level 2	Demonstrates a reasonable understanding of the different financing options. The discussion lacks some clarity, detail and/or reference to the information given/scenario. A recommendation is attempted.	5 – 9
	Level 3	Demonstrates a good understanding of the different financing options. The discussion is mostly clear, detailed and referenced to the information given/scenario. A recommendation is justified.	10 – 13

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TASK 3

TASK 3			
Sub-task (a): For each of the six variances in Schedule 1, **explain** how it is calculated, **interpret** what it means and **explain** any limitations. Please also **discuss** how the events raised by the supervisor will have contributed to the variances.			
Trait			
Variances	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of how the variances are calculated and what they mean. The explanation lacks clarity, detail and reference to the information given/scenario and there is likely to be no reference to any limitations.	1 – 4
	Level 2	Demonstrates a reasonable technical understanding of how the variances are calculated and what they mean. The explanation lacks some clarity, detail and/or reference to the information given/scenario. There may not be any reference to limitations.	5 – 7
	Level 3	Demonstrates a good technical understanding of how the variances are calculated and what they mean. The explanation is mostly clear, detailed and referenced to the information given/scenario. There is some reference to limitations.	8 – 10
Impact of events	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of the impact of events on the variances provided. The discussion lacks clarity, detail and reference to the information given and the scenario.	1 – 2
	Level 2	Demonstrates a reasonable technical understanding of the impact of events on the variances provided. The discussion lacks some clarity, detail and/or reference to the information given and the scenario.	3 – 4
	Level 3	Demonstrates a good technical understanding of the impact of events on the variances provided. The discussion is mostly clear, detailed and referenced to the information given and the scenario.	5 – 6

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TASK 3 (continued)			
Sub-task (b): **Recommend** three KPIs to be used to assess the performance of farm workers at any of the stages of the growing cycle. For each KPI, please **explain** how the KPI would be measured and **justify** why it would be appropriate.			
Trait			
KPIs	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Recommends at least one suitable KPI. The justification and measurement lack clarity, detail and application to the scenario.	1 – 3
	Level 2	Recommends at least one suitable KPI. The justification and measurement lack some clarity, detail and/or application to the scenario	4 – 6
	Level 3	Recommends three suitable KPIs. The justification and measurement are mostly clear, detailed and applied to the scenario.	7 – 9

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TASK 4

TASK 4			
Sub-task (a): **Justify** whether each of the costs in Table 1 are relevant or irrelevant to the financial evaluation of the supermarket contract			
Trait			
Relevant costs	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of relevant costs for decision making. Some of the costs have been correctly identified as relevant or irrelevant, although the justification of why this is the case may be missing.	1 – 3
	Level 2	Demonstrates a reasonable understanding of relevant costs for decision making. Most of the costs are likely to have been correctly identified as relevant or irrelevant, although the justification of why this is the case may sometimes be missing.	4 – 6
	Level 3	Demonstrates a good understanding of relevant costs for decision making. Most if not all the costs are likely to have been correctly identified as relevant or irrelevant. For the most part, the justification of why this is the case is valid.	7 – 8
Sub-task (b): **Discuss** how technology and different sources of data could help to produce forecasts of external demand for our salad crops.			
Trait			
Technology and data in forecasting	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of how technology and different sources of data can help to produce forecasts. The discussion lacks clarity, detail and reference to the scenario.	1 – 3
	Level 2	Demonstrates a reasonable understanding of how technology and different sources of data can help to produce forecasts. The discussion lacks some clarity, detail and/or reference to the scenario.	4 – 6
	Level 3	Demonstrates a good understanding of how technology and different sources of data can help to produce forecasts. The discussion is mostly clear, detailed and referenced to the scenario.	7 – 8

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TASK 4 (continued)			
Sub-task (c): **Discuss** the factors to consider in relation to the cash budget of expanding production to sell our salad crops to external customers.			
Trait			
Cash budget	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the factors to consider. The discussion lacks clarity, detail and reference to the information given/ scenario.	1 – 3
	Level 2	Demonstrates a reasonable understanding of the factors to consider. The discussion lacks some clarity, detail and/or reference to the scenario.	4 – 6
	Level 3	Demonstrates a good understanding of the factors to consider. The discussion is mostly clear, detailed and referenced to the scenario.	7 – 9

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Operational Case Study Examination

May & August 2026 – VARIANT 6

MARKING GUIDANCE

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Variant 6

About this Marking Guidance

This Marking Guidance has been prepared for variant 6 of the CGMA Operational Case Study for exams from May & August 2026.

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 not to 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 mark 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 where 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.

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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.

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Summary of the core activities tested within each sub-task

Sub-task	Core activity		Sub-task weighting (% section time)
Task 1			
(a)	**E**	Analyse information to support short-term decision making.	**20%**
(b)	**E**	Analyse information to support short-term decision making.	**20%**
(c)	**E**	Analyse information to support short-term decision making.	**32%**
(d)	**D**	Apply relevant financial reporting standards and corporate governance, ethical and tax principles.	**28%**
Task 2			
(a)	**B**	Discuss budget information for the purposes of planning and control.	**36%**
(b)	**B**	Discuss budget information for the purposes of planning and control.	**32%**
(c)	**F**	Discuss the management or working capital.	**32%**
Task 3			
(a)	**A**	Discuss costing information to support differing needs of the business.	**64%**
(b)	**C**	Analyse financial and non-financial information to communicate insights about organisational performance.	**36%**
Task 4			
(a)	**C**	Analyse financial and non-financial information to communicate insights about organisational performance.	**40%**
(b)	**C**	Analyse financial and non-financial information to communicate insights about organisational performance.	**20%**
(c)	**F**	Discuss the management or working capital.	**40%**

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TASK 1

TASK 1			
Sub-task (a): **Discuss** what the decision tree in Schedule 1 shows us.			
Trait			
Decision tree	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Provides a limited discussion of the decision tree. The discussion lacks technical accuracy, clarity, detail and reference to the decision tree.	1 – 2
	Level 2	Provides a reasonable discussion of the decision tree. The discussion lacks some technical accuracy, clarity, detail and/or reference to the decision tree.	3 – 4
	Level 3	Provides a good discussion of the decision tree. The discussion is technically accurate, clear, detailed and referenced to the decision tree.	5
Sub-task (b): **Apply** a risk neutral approach to decision making to explain how to use the decision tree to determine which combination of options should be chosen.			
Trait			
Decision	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of how to use the decision tree when applying a risk neutral approach. The explanation lacks clarity, detail and reference to the decision tree.	1 – 2
	Level 2	Demonstrates a reasonable technical understanding of how to use the decision tree when applying a risk neutral approach. The explanation lacks some clarity, detail and/or reference to the decision tree.	3 – 4
	Level 3	Demonstrates a good technical understanding of how to use the decision tree when applying a risk neutral approach. The explanation is mostly clear, detailed and referenced to the decision tree.	5

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TASK 1 (continued)			
Sub-task (c): **Discuss** two limitations of using this approach and two other factors that should be considered before the decision is finalised.			
Trait			
Limitations	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Provides at least one relevant limitation. The discussion lacks technical accuracy, clarity, detail and reference to the information given.	1
	Level 2	Provides at least one relevant limitation. The discussion lacks some technical accuracy, clarity, detail and/or reference to the information given.	2 – 3
	Level 3	Provides two relevant limitations. The discussion is mostly technically accurate, clear, detailed and referenced to the information given.	4
Other factors	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Provides at least one other relevant factor. The discussion lacks technical accuracy, clarity, detail and reference to the information given.	1
	Level 2	Provides at least one other relevant factor. The discussion lacks some technical accuracy, clarity, detail and/or reference to the information given.	2 – 3
	Level 3	Provides two relevant other factors. The discussion is mostly technically accurate, clear, detailed and referenced to the information given.	4
Sub-task (d): **Apply** the provisions of the relevant financial reporting standard to justify how the lease liability for the lease detailed in Table 1 will be initially recorded and then subsequently measured in our financial statements for the year ending 31 December 2026.			
Trait			
Lease	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of how to initially and subsequently measure the lease liability. The justification lacks clarity, detail and reference to the information given.	1 – 2
	Level 2	Demonstrates a reasonable technical understanding of how to initially and subsequently measure the lease liability. The justification lacks some clarity, detail and/or reference to the information given.	3 – 5
	Level 3	Demonstrates a good technical understanding of how to initially and subsequently measure the lease liability. The justification is mostly clear, detailed and referenced to the information given.	6 – 7

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TASK 2

TASK 2			
Sub-task (a): **Analyse** Table 1 and **discuss** the impact of each of Tobias Smit's suggestions (reduce selling price, giving away free sides or a targeted marketing campaign) on budgeted revenue, variable cost, contribution and profit for the delivery service.			
Trait			
What-if	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Provides some analysis of Table 1. The discussion lacks technical accuracy, clarity, detail and reference to the information given.	1 – 3
	Level 2	Provides a reasonable analysis of Table 1. The discussion lacks some technical accuracy, clarity, detail and/or reference to the information given.	4 – 6
	Level 3	Provides a good analysis of Table 1. The discussion is mostly technically accurate, clear, detailed and referenced to the information given.	7 – 9
Sub-task (b): **Discuss** the appropriateness of the assumptions in Table 2.			
Trait			
Assumptions	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the appropriateness of the assumptions. The discussion lacks clarity, detail and reference to the information given.	1 – 3
	Level 2	Demonstrates a reasonable understanding of the appropriateness of the assumptions. The discussion lacks some clarity, detail and/or reference to the information given.	4 – 6
	Level 3	Demonstrates a good technical understanding of the appropriateness of the assumptions. The discussion is mostly clear, detailed and referenced to the information given.	7 – 8

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TASK 2 (continued)			
Sub-task (c): **Discuss** how this bulk purchase discount will affect our ordering policy and inventory level compared to our planned approach. Please also discuss one financial and one non-financial factor that will need to be considered when deciding whether to use the discount.			
Trait			
Bulk discount	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the affect and factors to consider. The discussion lacks clarity, detail and reference to the information given.	1 – 3
	Level 2	Demonstrates a reasonable understanding of the affect and factors to consider. The discussion lacks some clarity, detail and/or reference to the information given.	4 – 6
	Level 3	Demonstrates a good understanding of the affect and factors to consider. The discussion is mostly clear, detailed and referenced to the information given.	7 – 8

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TASK 3

TASK 3			
Sub-task (a): **Discuss** the distinction between environmental non-conformance and environmental conformance costs and the different categories of each of these. Please support your discussion with examples, for each category, of environmental costs that we have incurred based on the information in Table 1.			
Trait			
Non-conformance	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of environmental non-conformance costs (internal and external failure). The discussion lacks clarity, detail and reference to the information given.	1 – 3
	Level 2	Demonstrates a reasonable technical understanding of environmental non-conformance costs (internal and external failure). The discussion lacks some clarity, detail and/or reference to the information given.	4 – 6
	Level 3	Demonstrates a good technical understanding of environmental non-conformance costs (internal and external failure). The discussion is mostly clear, detailed and referenced to the information given.	7 – 8
Conformance	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of environmental conformance costs (prevention and appraisal). The discussion lacks clarity, detail and reference to the information given.	1 – 3
	Level 2	Demonstrates a reasonable technical understanding of environmental conformance costs (prevention and appraisal). The discussion lacks some clarity, detail and/or reference to the information given.	4 – 6
	Level 3	Demonstrates a good technical understanding of environmental conformance costs (prevention and appraisal). The discussion is mostly clear, detailed and referenced to the information given.	7 – 8

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TASK 3 (continued)			
Sub-task (b): **Recommend** three KPIs which would be relevant for assessing the performance of individual delivery drivers. Please explain how each KPI would be measured and justify why it would be appropriate.			
Trait			
KPIs	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Recommends at least one suitable KPI. The explanation of measurement and justification of appropriateness lack clarity, detail and reference to the scenario.	1 – 3
	Level 2	Recommends at least two suitable KPIs. The explanation of measurement and justification of appropriateness lack some clarity, detail and/or reference to the scenario.	4 – 6
	Level 3	Recommends three suitable KPIs. The explanation of measurement and justification of appropriateness is mostly clear, detailed and referenced to the scenario.	7 – 9

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TASK 4

TASK 4			
Sub-task (a): **Interpret** the meaning of the sales mix contribution variances based on the individual units method (shown in Table 1) and the sales mix contribution variances based on the weighted average method (also shown in Table 1). Please also provide possible reasons why the mix has changed.			
Trait			
Variances	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Provides a limited interpretation of the variances. The interpretation lacks technical accuracy, clarity, detail and reference to the information.	1 – 3
	Level 2	Provides a reasonable interpretation of the variances. The interpretation lacks some technical accuracy, clarity, detail and/or reference to the information.	4 – 7
	Level 3	Provides a good interpretation of the variances. The interpretation is technically accurate, clear, detailed and referenced to the information.	8 – 10
Sub-task (b): **Discuss** the benefits of each method of calculating the mix variances.			
Trait			
Benefits	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the benefits. The discussion lacks clarity, detail and reference to the information given.	1 – 2
	Level 2	Demonstrates a reasonable understanding of the benefits. The discussion lacks some clarity, detail and/or reference to the information given.	3 – 4
	Level 3	Demonstrates a good understanding of the benefits. The discussion is mostly clear, detailed and referenced to the information given.	5

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TASK 4 (continued)			
Sub-task (c): **Compare and contrast** the three forms of investment suggested by Sofia and **recommend,** with appropriate justification, which would be most suitable in this instance.			
Trait			
Investment	**Level**	**Descriptor**	**Marks**
		No rewardable material	0
	Level 1	Demonstrates some understanding of the potential investments. Comparison of the investments and a recommendation are likely to be missing. The answer lacks clarity, detail and reference to the information given.	1 – 3
	Level 2	Demonstrates a reasonable understanding of the potential investments. Comparison of the investments and the recommendation may be limited. The answer lacks some clarity, detail and reference to the information given.	4 – 7
	Level 3	Demonstrates a good understanding of the potential investments. Comparison of the investments and a recommendation are present. The answer is mostly clear, detailed and referenced to the information given.	8 – 10

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Operational Case Study Examination

May & August 2026

EXAMINER REPORT

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General expectations about the Operational Case Study examination

Structure

Every OCS examination consists of four tasks, each requiring 45 minutes of time and worth 25 marks in the marking guidance. Each task will give you new information about the company (either in the display screen or as an exhibit) and present you with between two and four sub-tasks to complete.

Within a task, each sub-task will show a percentage weighting, which represents the percentage of the total time available for the task that should be allocated to answer that sub-task. This percentage weighting equates to the marks that are available in the marking guidance for that sub-task. For example, if the sub-task is shown as 48%, that equates to 21.6 minutes of time (out of the total task time of 45 minutes) and equates to 48% of the marks available for that task, so 12 marks (which is 48% of 25).

Blueprint

Each OCS examination will cover all six core activities in line with OCS blueprint weightings. These are as follows:

Core activity	Blueprint weighting
A: Discuss costing information to support differing needs of the business	12 – 18%
B: Discuss budget information for the purposes of planning and control	17 – 25%
C: Analyse financial and non-financial information to communicate insights about organisational performance	17 – 25%
D: Apply relevant financial reporting standards and corporate governance, ethical and tax principles	7 – 13%
E: Analyse information to support short-term decision making	17 – 25%
F: Discuss the management of working capital	12 – 18%

For each core activity, there will be one or two topics covered in a single OCS examination. For example, for core activity B, topics covered might include zero based budgeting and what-if analysis. For core activity C, topics covered might include sales variances and key performance indicators for sustainability in production. For a single topic covered, there may be more than one sub-task.

Marking

Within the marking guidance, each sub-task will be broken into one or more traits for the purposes of marking. Each trait is marked using a levels-based approach, with the marks

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available evenly allocated across level 1, level 2 and level 3. If there is no rewardable material in your answer, you will score 0.

For OCS, there are four key elements that determine whether your answer for a trait is judged as level 1, 2 or 3 by the marker. These are summarised below:

Element	Level 1	Level 2	Level 3
Technical understanding	There are technical inaccuracies and/or gaps in your answer. You demonstrate some technical understanding of the topic area tested.	There are likely to be some technical inaccuracies and/or gaps in your answer. You demonstrate reasonable technical understanding of the topic area tested.	There are limited technical inaccuracies and/or gaps in your answer. You demonstrate good technical understanding of the topic area tested.
Communication	Your answer lacks clarity and detail.	Your answer lacks some clarity and/or detail.	Your answer is mostly clear and detailed.
Use of the information given	To support your answer, there is no, or very limited, reference to, or use of, the information given in the case study.	To support your answer, there is some reference to, or use of, the information given in the case study.	To support your answer, there is reference to, or use of, the information given in the case study.
Application to the scenario and context	There is no, or very limited, consideration of the organisation and/or sub-task context to provide application to the scenario in your answer.	There is some consideration of the organisation and/or sub-task context to provide application to the scenario in your answer.	There is consideration of the organisation and/or sub-task context to provide application to the scenario in your answer.

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General comments on the Operational Case Study May & August 2026

The company

SoPa operates a chain of restaurants in the country of Zeeland, which is in Europe. The company was founded and is still owned and managed by husband and wife Paolo and Sofia Perez. The restaurants serve food, which is inspired by Latin American street food, elevated to restaurant standard. The currency of Zeeland is Z$.

The company was founded in 2016 when the first restaurant was opened in the capital city, Tombor. The restaurant was a huge success, mostly attributable to the hard work of both Paolo (a trained chef) and Sofia in creating a dining experience that embodied high-quality food and beverages, in a modern and relaxed setting, at an affordable price.

The second restaurant was opened in 2018 and, by 2023, there were another four restaurants in Tombor. In 2023, Paolo and Sofia decided to expand beyond the capital city and opened three restaurants in other major Zeeland cities. There are currently nine restaurants operating.

In the last financial year to 31 December 2025, the company had revenue of Z$41.7 million, a gross profit margin of 32.6% and an operating profit margin of 9.4%. It employed just over 300 people across its restaurants and head office. The company is still 100% owned by Paolo and Sofia.

Overview of the variants

Six variants were available and focused on the following:

- Variant 1: Launch of a range of SoPa-branded dips for retail sale.
- Variant 2: Staff issues and increasing automation.
- Variant 3: A new restaurant in a new city in Zeeland.
- Variant 4: A pop-up restaurant in a new country.
- Variant 5: Set up and operation of a vertical farm.
- Variant 6: Launch of a home delivery service, with food prepared in a ghost kitchen.

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Candidate performance in May and August 2026

Candidate performance in May and August 2026 varied and is summarised as follows:

Low scoring answers	There were a significant number of poor, low scoring answers (more so for May than August), where candidates consistently scored at level 1 for most sub-tasks. In most cases, candidates had attempted to answer all sub-tasks, but seemed wholly unprepared for the exam. An answer was typically low scoring because it: • Lacked demonstration of technical understanding, which meant that any use of the information or any attempt at application to the scenario was not relevant. • Lacked reference to the information given or application to the scenario, which meant that where technical understanding was demonstrated, this was very generic. • Did not adhere to the verb used in the sub-task. So, identifying or stating points rather than discussing, analysing or justifying. • Lacked clarity and detail.
High scoring answers	Pleasingly, at the other extreme there were also some high scoring answers (this was consistent across May and August) where candidates consistently scored at higher level 2 or level 3. An answer was typically high scoring because it: • Demonstrated good technical understanding within the context of the information given and the scenario. • Adhered to the verb used for the sub-task. So, analysis, interpretation, justification and discussion rather than bland generic explanation or identification. • Was well-structured, clear and detailed in the context of the scenario.
Mid scoring answers	As is usually the case, most answers were in the mid-range, where either candidate performance varied across the exam (some sub-tasks were higher scoring than others) or candidates scored consistently at lower level 2. An answer was typically mid scoring because it: • Demonstrated gaps in technical understanding for specific topics or only basic technical understanding across the sub-tasks. • Attempted to refer to the information given and application to the scenario, although this was often limited. • Made some attempt to adhere to the verb used for the sub-task, but not consistently. • Lacked some clarity and detail.

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Specific topic areas where candidates demonstrated poor technical understanding included sales mix and quantity variances, fixed overhead capacity and efficiency variances, what-if analysis and activity based costing. It was pleasing to see that, for the most part, candidates demonstrated good technical understanding of new topics for this session (cost of quality, environmental cost of quality and weighted benefit scoring).

Many candidates made at least a reasonable attempt to adhere to the verb in the sub-task. At OCS, discussion requires an answer which has depth and is applied to the scenario and many candidates coped well with this. Justification requires an answer which has depth and fully explains why a recommendation is being made or why an accounting treatment is in line with a financial reporting standards or why a KPI is appropriate. Many candidates made a reasonable attempt at justification.

Interpretation and analysis require answers which add value beyond just restating the information given. So, for example, interpreting that an adverse sales price variance means that items were sold at a lower selling price than standard and that this was because of an unplanned discount. Or, analysing from a what-if analysis that a reduction in selling price, all other things being equal, means that contribution margin is reduced and that contribution in absolute terms falls because the increase in volumes sold does not compensate for the reduced margin. Candidates were typically less able to analyse and interpret than to discuss and justify.

With respect to the core activities, for this session candidate performance was typically best for B (budgeting), D (financial reporting), E (decision making) and F (working capital). The less competent core activities appeared to be A (costing) and C (performance evaluation), but this often depended on the topic area that the task was based on. Many answers were clearly laid out, with headings and sub-headings, and timing did not seem to be an issue for most candidates.

To sum up, as has been noted many times before, the difference between a fail/bare pass and a good pass is often a candidate's ability to apply their technical understanding to the scenario and to incorporate this application into their answers consistently. Candidates should also pay attention to the verb, their clarity of explanation and ensure that they have addressed all parts of the sub-task.

The same general advice to candidates applies to this session as much as to all the previous sessions: answer the sub-task set (not what you wish had been set based on your pre-prepared answer), answer all parts of the sub-task and demonstrate technical understanding within the context of the business and the sub-task, referring as much as possible to the information given to you.

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Lessons for future candidates

Key to achieving a score at level 2 and above is to ensure that you:

Demonstrate technical understanding	It is not enough to rely on remembering technical material from the OTQ exams or from your FLP studies, because the chances are you won't remember. You need to revise technical material: if you don't have the knowledge, you can't demonstrate technical understanding.
Reference the information given and apply to the scenario	Simply reproducing rote-learned answers or pure knowledge of a topic area will score very few, if any, marks. Answers always need to be in the context of the scenario and make reference to the information given to you. All unseen content in the exam is there for a reason.
Adhere to the verb in a clear and detailed way	As mentioned above, discussion is about depth and context. Justification is about fully explaining why you are making your point. Writing comments such as, "this improves decision making", "this graph is essential" or "planning is enhanced" is not enough …candidates must explain "how" and ''why'' this is the case. Analysis and interpretation are about adding value to the information given. This could be from comparing different options or considering the impact of a change.

To help you achieve this, you need to:

Revise technical material and study the pre-seen	Revise technical material as been made above. Studying the pre-seen material in depth ensures that you are familiar with the business, which will help you to apply your answers to the scenario in the exam. Similarly, an awareness of the industry that the business is in will help you to think of the wider issues that might impact on decisions that you could be asked to comment on.
Practise previous OCS exam tasks	Practising past tasks and then checking against the published answers will help you to understand what the examiner is looking for.
On the day	Take time to plan your answer so that you can apply your knowledge to the specifics of the case. I suggest that for certain tasks you plan your answers in the answer screen itself. For example, if you are asked for the potential benefits and problems of activity based costing, I suggest that you first note down headings for benefits and problems. Under each heading, list your benefits and problems; these will become your sub-headings. Then you can write a short paragraph under each sub-heading. This will allow you time to think about all of the points that you want to make and will help to give your answer a clear format. Ultimately, it should save you time. Please take care with how your answer looks. Some answers are very difficult to read because of poor spelling and grammar. Whilst this examination is not a test of English, it is important that answers are presented well so that markers can see that you have demonstrated clear understanding of the issues.

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Variant 1

Variant 1 focused on the launch of SoPa@home, a range of SoPa-branded dips for retail. The range is to be sold through third-party retailers.

TASK 1					
The Senior Management Team (SMT) is considering whether to set up a small production facility for SoPa@home and produce in-house or whether to outsource production. A profit/volume chart has been produced showing the break-even position for both the in-house and outsource options, leading to sub-tasks (a) and (b). To help make the decision weighted benefit scoring is being considered leading to sub-task (c).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Interpret** Chart 1 to explain what it tells us about budgeted profit, fixed cost, average variable cost per unit, break-even position and margin of safety for the in-house and outsource options.	40%	**E:** Analyse information to support short-term decision making	Provided a clear and detailed interpretation of Chart 1 that demonstrated technical understanding. It was expected that this would include identification of budgeted profit, fixed cost and break-even point for each option, as well as explanation of how to determine the variable cost per unit and the margin of safety (calculations were not expected). Good answers also provided some analysis of the information by comparing the options and providing reasons why the various elements were different.	Provided a basic and vague description of Chart 1, rather than an interpretation or analysis. Technical understanding of the chart was limited. Such answers often identified some of the elements such as fixed costs and break-even point but failed to provide any added value by comparing the options.

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TASK 1 (continued)					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(b)	**Discuss** the benefits and limitations of this break-even analysis.	32%	**E:** Analyse information to support short-term decision making	Provided valid benefits and limitations that were discussed in the context of Chart 1 and the scenario. For the marks available, three or four different benefits/limitations were expected to be considered, with at least one of each. Good answers did this with reference to Chart 1 and the scenario.	Provided benefits and limitations that were general rather than applied to Chart 1 and the scenario. Poor answers tended to be brief, vague and made little or no reference to Chart 1 and the scenario.
(c)	**Discuss** how weighted benefit scoring would be applied to assist with the decision whether production should be in-house or outsourced.	28%	**E:** Analyse information to support short-term decision making	Gave a technically accurate, clear and detailed discussion that made reference to the decision in the scenario. Good answers discussed the process of weighted benefit scoring and provided examples of criteria and weightings that might apply in this particular scenario.	Demonstrated a lack of technical understanding of weighted benefit scoring. Such answers often focused on non-financial factors relevant to decision making, but usually these were quite generic and not linked to the scenario. The process of applying weighted benefit scoring was usually missing.

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TASK 2					
It has been decided to set up a Production Facility for SoPa@home. Budgets need to be prepared leading to sub-tasks (a) and (b). Production will be for inventory rather than for order resulting in finished goods inventory and leading to sub-task (c).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Discuss** why preparing production budgets for the SoPa@home Production Facility will help Rob with respect to planning, co-ordination and control.	36%	**B:** Discuss budget information for the purposes of planning and control.	Discussed, clearly and in detail, the purposes of budgeting. Focused on the new SoPa@home Production Manager and how budgets would help him to plan, co-ordinate and control in the new facility.	Provided a generic explanation of the purposes of budgeting with little reference to the scenario or the SoPa@home Production Manager. Focused on co-ordination with external stakeholders rather than considering internal co-ordination.
(b)	**Discuss** how to construct the production budget, the raw materials usage budget and the raw materials purchases budget for the period until December 2026. Please support your discussion with reference to the information in Table 1.	32%	**B:** Discuss budget information for the purposes of planning and control	Explained, with technical accuracy and clarity, how the production, raw materials usage and raw material purchases budgets would be constructed. Such answers made this into a discussion by commenting on, for example, factors to consider when determining inventory levels, as well as referring to the information given in the cost card.	Demonstrated a lack of technical understanding of how to construct the budgets, giving brief and vague responses. Such answers usually failed to consider inventory movements at all. Many such answers simply restated the information in the cost card, without any attempt to add any value or to answer the sub-task.
(c)	**Apply** the provisions of the relevant financial reporting standard to explain how SoPa@home finished goods inventory will be valued in our financial statements.	32%	**D:** Apply relevant financial reporting standards and corporate governance , ethical and tax principles	Demonstrated technical understanding that inventory is valued at the lower of cost and net realisable value and provided explanation of how these are determined. Applied this understanding by commenting on the suggestions given about cost and inventory with a shelf-live of 1 month.	Demonstrated only a limited understanding of either the measurement rule or how cost and net realisable value would be determined. Such answers were often brief, lacking detail, clarity and application to the scenario.

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TASK 3					
The Senior Management Team is considering whether to use absorption costing or activity based costing (ABC) in the SoPa@home Production Facility, leading to sub-tasks (a) and (b). In addition, a manager has suggested the use of the Economic Order Quantity (EOQ) model to determine the ordering policy for glass jars. This leads to sub-tasks (c) and (d).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Recommend**, with appropriate justification, suitable bases for absorption rates for each production process in Schedule 1, assuming absorption costing is used.	20%	**A:** Discuss costing information to support differing needs of the business	Provided three sensible recommendations (one for each process of weighing, mixing and packaging) that were justified in the context of the information in Schedule 1.	Either: Stated sensible absorption bases but did not justify why these were appropriate based on Schedule 1. Or: Provided vague recommendations with some attempt to justify.
(b)	**Evaluate** the suitability of using ABC for the new SoPa@home Production Facility.	32%	**A:** Discuss costing information to support differing needs of the business	Demonstrated technical understanding of when ABC is suitable (complexity in production, wide range of different products, high proportion of overheads). The evaluation was clear, detailed and made reference to the scenario for SoPa@home production.	Either: Failed to answer this specific sub-task and instead discussed how ABC could be applied based on the information in Schedule 1. Or: Demonstrated some technical understanding of when ABC is suitable,but failed to evaluate it in the context of the scenario.
(c)	**Explain** what the EOQ represents and the information that we will need to establish in order to calculate it.	16%	**F:** Discuss the management of working capital	Explained, with technical accuracy, what the EOQ meant and defined D, Co and Ch.	Demonstrated a lack of technical understanding, sometimes not commenting at all.

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TASK 3 (continued)					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(d)	**Recommend**, with appropriate justification, whether the EOQ model is suitable for determining our ordering policy for glass jars.	32%	**F:** Discuss the management of working capital	Recognised that the suitability of the EOQ model is dependent on the assumptions that underpin the model. Such answers discussed a range of assumptions and whether these held in the context of buying glass jars for SoPa@home. Such answers also gave a clear recommendation that reflected the uncertainty surrounding many of the assumptions.	Failed to consider the assumptions of the model and instead gave vague answers that typically focused only on the even production of jars. Such answers tended to be brief, and whilst a recommendation was usually given, this was not justified.

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TASK 4					
A few months later, production variances and KPIs have been calculated for the SoPa@home Production Facility leading to sub-task (a). The Finance Director is keen to expand the KPI dashboard to cover sustainability. This leads to sub-task (b).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Interpret** what each of the variances in Table 1 indicate about production performance in the SoPa@home Production Facility in November. Please make reference to both the information above and the KPI dashboard in Table 2 in your interpretation.	76%	**C:** Analyse financial & non-financial information to communicate insights about organisational performance	Interpreted the variances by clearly explaining what each of the adverse or favourable variances meant. For example, the adverse raw material price variance meant that we paid more per kg for raw materials than we should have based on the standard. Provided valid reasons for variances that drew on the information in the email and made reference to the KPI dashboard. Furthermore, good answers considered what the variances indicated about performance overall.	Focused on how to calculate each variance rather than explain the meaning, or failed to clearly articulate meaning. For example, stating that the raw material price variance meant that raw materials cost more is not clearly interpreting meaning because this could relate to the cost per kg or the amount used. Provided some reasons, but these weren't drawn from the information in the email. Such answers typically failed to reference the KPI dashboard and also failed to consider performance overall.
(b)	**Recommend,** with appropriate justification, two suitable KPIs relating to sustainability that could be added to the KPI dashboard for the SoPa@home Production Facility.	24%	**C:** Analyse financial & non-financial information to communicate insights about organisational performance	Recommended two SMART KPIs linked to sustainability and suitable for adding to the dashboard. The KPIs were both clearly justified in the context of the scenario.	Gave recommendations for KPIs which were not SMART and/or not suitable. Alternatively, some answers simply repeated the KPIs on wastage already included in the dashboard. Any justification was usually vague and not related to the context or the scenario.

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Summary of Variant 1 blueprint coverage

The percentages of the total marks available in the variant for each topic covered and core activity are shown in the following table:

Sub-task	Topic	Core activity						Total
		A: Costing	B: Budgeting	C: Perform-ance	D: Reporting	E: Decision making	F: Working capital	
Task 1:								
(a)&(b)	Profit/volume charts					18%		**18%**
(c)	Weighted benefit scoring					7%		**7%**
Task 2:								
(a)	Purposes of budgeting		9%					**9%**
(b)	Production budgets		8%					**8%**
(c)	IAS 2				8%			**8%**
Task 3:								
(a)	Absorption costing	5%						**5%**
(b)	ABC	8%						**8%**
(c)&(d)	EOQ						12%	**12%**
Task 4:								
(a)	Production variances			19%				**19%**
(b)	KPIs for sustainability			6%				**6%**
Variant totals		**13%**	**17%**	**25%**	**8%**	**25%**	**12%**	**100%**
Blueprint weightings		***12 – 18%***	***17 – 25%***	***17 – 25%***	***7 – 13%***	***17 – 25%***	***12 – 18%***	

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Variant 2

Variant 2 focused on increasing competition and issues around the recruitment and retention of staff, leading to investment in automation.

TASK 1					
Due to a number of new restaurants in Tombor, customer demand at SoPa restaurants has been more volatile than normal. The Senior Management Team (SMT) is keen to develop more robust sales forecasts leading to sub-tasks (a) and (b). There have been more poor reviews from customers recently about customer service, leading to sub-task (c).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Review** Graph 1 and **assess** the suitability of using time series analysis to produce a forecast of future sales from it.	28%	**B:** Discuss budget information for the purposes of planning and control	Reviewed Graph 1 to provide a clear and detailed interpretation of sales trends, including recognition of the recent increasing volatility. Such answers also assessed that time series was of limited usefulness given this recent volatility.	Provided vague comments about time series in a general sense, rather than an interpretation of the information in Graph 1. Where candidates did pick up on the increasing volatility in sales, poor answers were usually limited to that observation about the information and concluded that time series would be useful despite the volatility.
(b)	**Discuss** how the use of AI and big data could help to produce better forecasts.	24%	**B:** Discuss budget information for the purposes of planning and control	Discussed with clarity and depth reasons why big data and AI would be helpful for producing better forecasts (including, for example, access to a greater volume of data and the data being in real time), giving examples of types of data that would be useful related to the restaurant industry.	Identified generic benefits of using big data and AI without linking this to production of better forecasts and/or the restaurant industry.

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TASK 1 (continued)					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(c)	**Recommend** two KPIs to assess the performance of individual servers and two KPIs to assess the performance of restaurant managers. For each KPI, please **explain** how the KPI would be measured and **justify** why it would be appropriate.	48%	**C:** Analyse financial & non-financial information to communicate insights about organisational performance	Recommended three or four SMART KPIs linked to monitoring the performance of servers and restaurant managers. The KPIs were justified in the context of the scenario and the explanation of measurement was clear.	Gave recommendations for KPIs which were not SMART and/or not suitable to monitor the performance of servers and restaurant managers. Any justification was usually vague and not related to the context or the scenario. Explanation of measurement was often missing or lacked clarity.

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TASK 2					
It is increasingly difficult to recruit and retain staff for the restaurants. A decision needs to be made about what capacity to operate one of the restaurants at, given the uncertainty around the level of staff recruitment. This leads to sub-task (a). A recruitment agent has stated that it would be possible to estimate the probability associated with level of staff recruitment, leading to sub-task (b).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Analyse** the information in Table 1 and explain how the decision about restaurant capacity would be made using maximax, maximin and minimax regret decision criteria.	52%	**E:** Analyse information to support short-term decision making	Provided an analysis of the payoff table which added value to the information. For example, recognising that at low recruitment, only 50% capacity could be serviced because of staff numbers. Clearly explained how to apply maximax and maximin decision approaches to the information in Table 1 and how a minimax regret approach could be applied by constructing a regret table.	Restated the information in Table 1, rather than providing an analysis. Attempted to explain the three decision approaches, but this was usually vague and incomplete.
(b)	**Discuss** the impacts on the decision-making process of obtaining estimated probabilities for the level of staff we could potentially recruit and the relevance of three risk profiles of decision makers.	48%	**E:** Analyse information to support short-term decision making	Discussed how expected value, standard deviation and coefficient of variation could be established if probabilities were available. Such answers clearly demonstrated understanding of how risk neutral, risk averse and risk seeking decision makers would decide in these circumstances.	Failed to consider how probabilities change the decision process, other than some vague comments about expected value. Limited or inaccurate recognition of how risk neutral, risk averse and risk seeking decision makers would make a decision. Many answers incorrectly stated that a risk-averse decision maker would use a minimax approach.

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TASK 3					
SoPa is still unable to recruit sufficient staff resulting in poor reviews and volatile sales. A robotic mixologist and automated drink delivery (RMAD) system is to be leased, leading to sub-task (a). Due to sales volatility, the SMT is concerned about the cost of financing working capital and is considering taking a more aggressive approach for this, leading to sub-task (b).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Apply** the provisions of the relevant financial reporting standards to determine how, using the information in Table 1, the lease liability and right-of-use asset for the RMAD system should be initially recorded and subsequently measured in our financial statements for the year ending 31 December 2027.	48%	**D:** Apply relevant financial reporting standards and corporate governance, ethical and tax principles	Demonstrated technical understanding of the rules in IFRS 16. Applied these rules to accurately and fully justify how the lease liability and right-of-use asset would be initially recorded and subsequently measured. There was good reference to the information in Table 1.	Demonstrated some understanding of the rules in IFRS 16. When applying the rules, such answers made simple statements, such as that the lease liability would be initially measured at present value, without explaining how this would be done. In addition, such answers also failed to justify treatment (for example, stating that the right-of-use asset would be depreciated over 3 years without justifying why). There was limited reference to the information given.
(b)	**Discuss** the potential benefits and drawbacks for SoPa of moving to the proposed working capital policy.	52%	**F:** Discuss the management of working capital	Focused on the financing of the investment in working capital. Such answers recognised that switching to more short-term finance would reduce cost based on current interest rates and be more flexible (benefits) but would increase risk in terms of interest rate risk and renewal risk (drawbacks). These answers were clear, detailed and made reference to the information given.	Misinterpreted the sub-task and focused on the management of working capital (so commented on inventory and receivables management) rather than the financing of working capital. Other poor answers treated this as a task about choosing investments rather than financing. Such answers scored few or no marks.

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TASK 4					
The new RMAD system is now operational. Various forms of data are available from the system leading to sub-tasks (a), (b) and (c).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Discuss** possible impacts on the budgets that replacing human staff with the RMAD system may have.	28%	**B:** Discuss budget information for the purposes of planning and control	Discussed a range of impacts (including, for example, decrease in direct labour cost at the expense of an increase in overhead costs, less material waste to budget for and improved efficiency). Such answers were clear, and the points made were related to the scenario.	Provided a brief response, with a limited number of impacts, that were not related to the scenario.
(b)	**Discuss** the impact of the information in Schedules 1 and 2 for reviewing sales and service performance.	24%	**C:** Analyse financial & non-financial information to communicate insights about organisational performance	Discussed a range of impacts (including, for example, real time information about delivery time and sales mix). Such answers were clear, and the points made were related to the scenario.	Provided a brief response, with a limited number of impacts, that were not related to the scenario.
(c)	**Explain**, using the information in Schedules 2 and 3, how the RMAD system will impact on the formulation and use of standard costs of drinks sold in the restaurant.	48%	**A:** Discuss costing information to support differing needs of the business	Provided a range of impacts on both the formulation and the use of standard costs for drinks (including, for example, that standards would be more accurate and that future variances would be reduced). Such answers were clear, and the points made were related to the scenario.	Provided a brief response, with a limited number of impacts, that were not related to the scenario.

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Summary of Variant 2 blueprint coverage

The percentages of the total marks available in the variant for each topic covered and core activity are shown in the following table:

Sub-task	Topic	Core activity						Total
		A: Costing	B: Budgeting	C: Perform-ance	D: Reporting	E: Decision making	F: Working capital	
Task 1:								
(a)	Time series		7%					**7%**
(b)	Big data and AI		6%					**6%**
(c)	KPIs for restaurant			12%				**12%**
Task 2:								
(a)	Decision making with uncertainty					13%		**13%**
(b)	Decision making with probabilities					12%		**12%**
Task 3:								
(a)	IFRS 16				12%			**12%**
(d)	Financing working capital						13%	**13%**
Task 4:								
(a)	Budgets		7%					**7%**
(b)	Sales performance			6%				**6%**
(c)	Standard costs	12%						**12%**
Variant totals		**12%**	**20%**	**18%**	**12%**	**25%**	**13%**	**100%**
Blueprint weightings		***12-18%***	***17-25%***	***17-25%***	***7-13%***	***17-25%***	***12-18%***	

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Variant 3

Variant 3 focused on the opening and operation of a new SoPa restaurant in Northtown, a major city in the part of Zeeland where the company does not currently operate.

TASK 1

A budget for the new Northtown restaurant has been prepared based on the same assumptions used for SoPa's other restaurants. There is considerable uncertainty regarding the level of occupancy rate, leading to sub-task (a). The sales forecasting approach for the following year is being considered, leading to sub-task (b). Finally, the ovens for the new restaurant have recently been purchased, leading to sub-task (c).

Sub-task		% time	Core activity	A good answer for this sub-task:	A poor answer for this sub-task:
(a)	**Discuss** how a flexible budgeting approach can be applied to the Northtown restaurant budget for the period to 31 December 2026 with reference to the information in Table 1.	36%	**B:** Discuss budget information for the purposes of planning and control	Demonstrated understanding that a flexible budgeting approach would result in a series of budgets at different occupancy levels and provided detailed discussion, using the information in Table 1, of how this would be applied. Such answers added value to the discussion by, for example, considering that there might be steps up or down for fixed costs and that sales mix may be different at different occupancy levels. Good answers were clear, detailed and made good use of the information.	Demonstrated limited understanding of a flexible budgeting approach in this context. Such answers often commented at length about flexing the budget for control purposes and variance analysis, rather than creating a series of budgets to deal with the uncertainty. Or: Demonstrated understanding that a flexible budgeting approach would result in a series of budgets at different occupancy levels but then failed to consider the different elements of the budget or use the information given.
(b)	**Discuss** the benefits of using big data analytics and AI for forecasting sales revenue in our restaurants.	32%	**B:** Discuss budget information for the purposes of planning and control	Discussed with clarity and depth the benefits of using big data analytics and AI for forecasting (including, for example, more sophisticated restaurant specific forecasts and the ability for dynamic forecasts), giving examples of types of data that would be useful related to the restaurant industry.	Identified generic benefits of using big analytics data and AI without linking this to sales forecasting and/or the restaurant industry.

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TASK 1 (continued)					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(c)	**Apply** the appropriate financial reporting standard to determine, with justification, how the expenditure in Table 2 will be recognised and then initially and subsequently measured in our financial statements for the year ending 31 December 2026.	32%	**D:** Apply relevant financial reporting standards and corporate governance, ethical and tax principles	Demonstrated technical understanding of the rules in IAS 16 for recognition, initial and subsequent measurement. Applied these rules to accurately and fully explain why an asset will be recognised, justify which expenditures will be included or not included in the initial measurement of the asset and justify how the asset will be subsequently depreciated. There was good reference to the information in Table 2.	Demonstrated understanding of some of the rules in IAS 16. However, when applying these rules, such answers usually stated the impact (for example, commenting that a tangible asset was created or that the installation fee could be capitalised) but did not justify why this was the case (for example, because there would be future economic benefit or because the installation fee was necessary and directly attributable to getting the asset ready for its intended use). There was limited reference to the information in Table 2.

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TASK 2					
Two potential suppliers of fresh fish are being considered for the new Northtown restaurant. Each has a different pricing structure, leading to sub-tasks (a) and (b). In addition, two suppliers of dry ingredients are also being considered, leading to consideration of their working capital positions and sub-tasks (c) and (d).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Explain** what Chart 1 shows and **analyse** the chart to determine how the cost structures differ between Proctors and Blakes for the supply of fresh fish.	24%	**E:** Analyse information to support short-term decision making	Provided an analysis of how the cost structures differed (for example, Proctors has a minimum order quantity and Blakes offers a bulk purchase discount) and clearly explained what the chart showed (for example, that Proctors would be the cheapest supplier between 3,500 and 9,000 kilograms). Such answers referred to the information in Chart 1 throughout.	Provided a basic explanation of what Chart 1 showed (often limited to 'the chart shows the cost of each supplier at different volumes'). Provided very little analysis of the chart or made vague comments about discounts. Such answers were usually brief and made little reference to the information in the chart.
(b)	**Determine** which supplier would be chosen based on the expected value of purchase volume identified under Table 1. Please also **discuss** two limitations of making this decision on that basis.	24%	**E:** Analyse information to support short-term decision making	Determined that Proctors should be chosen at the expected value of purchase volume with reference to the information in Chart 1. Discussed clearly and with reference to the scenario, two relevant limitations of using an expected value approach to this decision.	Failed to use the expected value of purchase volume when determining the supplier to choose. Identified limitations of using an expected value approach to this decision, rather than discussed. Such answers tended to give textbook-style points.

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TASK 2 (continued)					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(c)	**Compare and contrast** the working capital ratios (shown in Table 2) for LarderStore against the industry averages and also for CaterWise against the industry averages, providing possible reasons why the ratios may differ to the industry averages.	36%	**F:** Discuss the management of working capital	Compared and contrasted the working capital ratios of each supplier against the industry averages and provided sensible reasons why the ratios were different. Such answers focused on the ratios and used the other information given in Table 2 to support their reasons for the differences in the ratios.	Provided a comment against each of the measures shown in Table 2, but often this was limited to 'one was higher or lower than the other'. Such answers provided limited comparison against the industry averages and gave few reasons for differences.
(d)	**Recommend**, with appropriate justification, which of the potential suppliers would be most suitable as our supplier.	16%	**F:** Discuss the management of working capital	Provided a recommendation that was fully justified based on the analysis in sub-task (c) and the scenario.	Provided a recommendation but failed to justify this based on the analysis in sub-task (c) and the scenario.

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TASK 3					
The new restaurant has been operating for just over 3 months. Variances have been calculated and a KPI dashboard prepared to show the performance of the new restaurant to date, leading to sub-tasks (a) and (b).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Interpret** the variances in Table 1 using the notes provided.	56%	**C:** Analyse financial & non-financial information to communicate insights about organisational performance	Interpreted the variances by clearly explaining what each of the adverse or favourable variances meant (for example, the adverse sales price variance meant that menu items were on average sold at a lower price than standard prices) and providing reasons for the variances (for example, the sales price variance was due to the additional unplanned discounts on desserts and beverages).	Failed to interpret the variances, either by focusing on how to calculate each variance, failing to clearly and accurately articulate the meaning of the variance or failing to give sensible reasons drawn from the scenario. A common issue when attempting to explain meaning was a lack of specificity. For example, poor answers often stated that the ingredients price variance was because we paid more, without specifying whether this was per kilogram or because we purchased more.
(b)	**Justify** why each of the KPIs in the dashboard in Table 2 is appropriate for assessing the performance of the restaurant and, for each KPI shown, **discuss** how it supports your interpretation of the variances in Table 1.	44%	**C:** Analyse financial & non-financial information to communicate insights about organisational performance	Justified why each of the KPIs was appropriate with reference to the scenario. Discussed how the KPIs supported the variance analysis by interpreting what the KPIs indicated about performance and discussing which variances this related to.	Provided vague comments about the KPI measures that did not justify why they were appropriate. Attempted some interpretation of what the KPIs indicated about performance, but often this was limited to 'the KPI has improved or worsened over the period'. Little attempt to link this to the variance analysis.

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TASK 4					
There have been some poor reviews about the quality of some of the food items and the service at the new Northtown restaurant. Additional measures have been introduced to combat these issues, leading to sub-tasks (a) and (b). A homeless charity has approached the company to provide food for its Street Project, leading to sub-task (c).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Discuss** how costs will be categorised in a cost of quality report, giving an example relevant to the Northtown restaurant for each category of cost.	40%	**A:** Discuss costing information to support differing needs of the business	Demonstrated understanding of how to report quality costs as non-conformance (internal and external failure) and conformance (prevention and appraisal). Analysed the information in the scenario to identify an example of each type of quality cost and provide justification for why this was the case in the context of the information given and the restaurant scenario.	Demonstrated some understanding of how to report quality costs. For such answers, any examples given were generic or drawn from the scenario but applied to the wrong category of cost. There was limited justification for each example.
(b)	**Discuss** the benefits to the business of producing a cost of quality report for each of our restaurants.	28%	**A:** Discuss costing information to support differing needs of the business	Provided two or three benefits of producing a cost of quality report (for example, transparency, staff motivation, assessing progress), with reference to the restaurant scenario.	Provided a textbook list of benefits without reference to the scenario. Such answers tended to be brief.
(c)	**Justify**, for each cost in Table 1, whether it will be relevant or irrelevant to the decision whether to support the Street Project.	32%	**E:** Analyse information to support short-term decision making	Justified, for each of the items in Table 1, the relevant and irrelevant costs, based on the information given.	Identified some of the relevant and irrelevant costs based on the information given, but failed to justify why this was the case.

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Summary of Variant 3 blueprint coverage

The percentages of total marks available in the variant for each topic covered and core activity are shown in the following table:

Sub-task	Topic	Core activity						Total
		A: Costing	B: Budgeting	C: Perform-ance	D: Reporting	E: Decision making	F: Working capital	
Task 1:								
(a)	Flexible budgeting		9%					**9%**
(b)	Big data and AI		8%					**8%**
(c)	IAS 16				8%			**8%**
Task 2:								
(a)&(b)	Decision making with risk					12%		**12%**
(c)&(d)	Working capital ratios						13%	**13%**
Task 3:								
(a)	Restaurant variances			14%				**14%**
(b)	Interpretation of KPIs			11%				**11%**
Task 4:								
(a)&(b)	Cost of quality	17%						**17%**
(c)	Relevant costing					8%		**8%**
Variant totals		**17%**	**17%**	**25%**	**8%**	**20%**	**13%**	**100%**
Blueprint weightings		***12 – 18%***	***17 – 25%***	***17 – 25%***	***7 – 13%***	***17 – 25%***	***12 – 18%***	

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Variant 4

Variant 4 focused on the setting up of a pop-up restaurant in Seaville, a tourist town in the neighbouring country of Neeland.

TASK 1					
The team is about to start budgeting for the pop-up restaurant. Notes are provided about Zeeland and Seaville in Neeland leading to tasks (a) and (b). The SMT decides to use a zero based budgeting (ZBB) approach leading to task (c).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Discuss** the difficulties the team may encounter related to setting objectives and identifying the principal budget factor when starting the budget setting process for the pop-up restaurant in Seaville.	32%	**B:** Discuss budget information for the purposes of planning and control	Demonstrated understanding of both budgetary objectives and the principal budget factor and discussed how both would be hard to determine because of the challenges of setting up a pop-up in a location with demographic and cultural differences compared to Zeeland. Discussed how a range of differences between Seaville and Zeeland posed difficulties for setting objectives and identifying a principal budget factor for the new restaurant.	Repeated information given in Schedule 1 with very little added value or reference to either setting objectives or the principal budget factor. Or Provided a generic explanation of the meaning and/or purpose of budget objectives and the principal budget factor but with no application to the scenario or reference to the information given.

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TASK 1 (continued)					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(b)	**Discuss** how data gathering technologies can help us obtain information on which to base the budgets for the new restaurant	32%	**B:** Discuss budget information for the purposes of planning and control	Discussed how specific data gathering technologies could be used to obtain types of information that would be helpful to set an initial budget for the restaurant. Justified why the information sourced would be useful to help set the budget for the restaurant.	Listed rather than discussed generic types of information with no reference to data gathering technologies at all. Or Focused on information that would be useful in managing the restaurant business on an ongoing basis as opposed to setting the initial budget.
(c)	**Describe** the operation of ZBB and **discuss** how it should be used to set the labour budget for staff serving food to diners in the pop-up restaurant.	36%	**B:** Discuss budget information for the purposes of planning and control	Described most stages of the ZBB approach (setting objectives, creating decision packages, evaluating costs and benefits and ranking) and how each would be applied to establishing a budget for servers in the restaurant. Discussed incremental and mutually exclusive decision packages with appropriate examples based on the scenario.	Demonstrated a lack of technical understanding of the ZBB process (for example, simply stating that it involved starting from scratch and/or that budget items must be justified). Or Described the process of budgeting for wider labour costs with no reference to ZBB or specifically to servers in the restaurant. Or Discussed the advantages and disadvantages of ZBB and so did not answer the sub-task.

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TASK 2					
The marketing team is looking to promote the new restaurant to generate customer interest. A payoff table and some statistical information have been prepared, leading to tasks (a) and (b). The new restaurant will use Aurellim Leaf which is an ingredient unique to dishes on the menu and must be imported. There are concerns about managing and ordering this leaf and the use of EOQ has been suggested, leading to task (c).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Interpret** the payoff table and statistical information in Table 1.	28%	**E:** Analyse information to support short-term decision making	Interpreted the payoff table whilst adding value (for example, by making comparisons between the contributions generated by the three campaigns). Demonstrated good technical understanding of the three statistical measures by defining them in the context of the information provided (for example, defining expected value and commenting on the campaign that provided the highest/lowest).	Provided limited or no added value when referring to the payoff table (merely repeated the information given). Or did not comment on the payoff table at all. Demonstrated very little technical understanding of the three statistical measures and did not use the information in the question to provide context.
(b)	**Justify** which campaign would be chosen by a risk neutral, a risk seeking and a risk averse decision maker.	24%	**E:** Analyse information to support short-term decision making	Provided a clear justification of both the decision rule and the campaign that would be chosen with reference to the scenario (for example, a risk neutral decision maker would base the decision on expected value and would choose the social media campaign as this has the highest EV of Z$79,000).	Justified the wrong campaign for most decision rules or chose the correct campaign but for the incorrect reason. Or Stated the correct decision but failed to justify this in light of the decision approaches. Or Referred to the rules of decision making under conditions of uncertainty and not risk (minimax regret, maximin).

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TASK 2 (continued)					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(c)	**Discuss** the difficulties of managing the inventory of Aurellim Leaf at the Seaville restaurant including the suitability of using the EOQ model.	48%	**F:** Discuss the management of working capital	Discussed two or three difficulties of managing the inventory of Aurellim Leaf by referring to the features provided in Table 2. For each, discussed how it posed a difficulty to managing inventory. Stated at least three underlying assumptions of the EOQ model and for each discussed the reason it was not realistic with reference to the scenario and the information given.	Repeated information from Table 2 with no added value. Provided very little, if anything, on why each feature of the leaf and its storage requirements provided a difficulty to managing inventory. Provided generic information about how to calculate the EOQ but did not focus on its assumptions. Or Stated a few assumptions of the model but with no reference as to whether these were realistic in relation to the scenario and information given.

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TASK 3					
There have been videos of waste bins full of food behind the pop-up restaurant and negative online posts about food waste and sustainability. Some variances have been prepared on the cost and usage of ingredients. However, there are issues in the way they have been calculated leading to tasks (a) and (b). Tobias Smit, Marketing Director, wants to introduce KPIs to monitor sustainability and inventory management in relation to the Seaville restaurant leading to task (c).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Explain** the issues with the approach and computation of the price and usage variance calculations attempted by the Marketing Officer. Please also **explain** how ingredients price and usage variances should be calculated and **discuss** the records which should be kept to ensure that the variance analysis provides useful information.	60%	**C:** Analyse financial & non-financial information to communicate insights about organisational performance	Provided a reasonable critique of the calculations. Referred at least to the fact that the price variance should include actual and not budgeted covers and that the usage variance should focus on ingredients, not covers. Explained clearly and accurately how to calculate the ingredients price and ingredients usage variances. Discussed, with justification, two or three types of records that would be required, covering both variances.	Demonstrated no technical understanding of how the calculations in Email 1 were incorrect or was very vague about why this was so. Provided limited explanation of the correct calculations. For example, often only stating 'the price variance compares budgeted price versus actual price' and the usage variance 'budgeted usage versus actual usage.' Provided very little if anything, about records required or suggested information required to calculate the variances, not records.

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TASK 3 (continued)					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(b)	**Recommend** two KPIs to monitor sustainability and two KPIs to monitor inventory management. For each KPI, please **justify** why it is appropriate and **explain** how it would be measured.	40%	**C:** Analyse financial & non-financial information to communicate insights about organisational performance	Recommended two KPIs for each of sustainability and inventory management. For each KPI, provided a clear justification of why it was appropriate by explaining how it linked to sustainability or inventory management. Explained clearly how each KPI would be measured.	Recommended actions in regard to sustainability and/or inventory measurement as opposed to KPIs. Or Provided limited or no justification of why a measure was appropriate and any attempt to explain measurement lacked clarity and specificity.

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TASK 4

The pop-up restaurant closed on 31 Jan 2027 as expected. The SMT wants to reduce waste and improve inventory systems across all SoPa restaurants by developing a food management app. This leads to tasks (a) and (b). The SMT is deciding whether to purchase an optional 12-month maintenance contract from an external provider or train internal staff to provide maintenance and app updates leading to task (c). There are some leased items in the pop-up restaurant and Tobias Smit would like to know how these will be accounted for in the financial statements for the year ended December 2026 leading to task (d).

Sub-task		% time	Core activity	A good answer for this sub-task:	A poor answer for this sub-task:
(a)	**Discuss** the type and nature of the costs which will be incurred in developing, implementing and running the app if we did this internally.	28%	**A:** Discuss costing information to support differing needs of the business	Discussed a range of costs relating to developing, implementing and running the app. Discussed the nature of the cost (that is, if the cost was direct or indirect, up-front or ongoing) and its behaviour (that is, if the cost was fixed, variable, or semi-variable) for most of the costs.	Listed generic costs of an app which did not cover all stages of developing, implementing and running the app. Made no reference to the nature and behaviour of costs or made incorrect references to the nature and/or behaviour of costs.
(b)	**Discuss** the problems we could face when determining the total cost of the app and the issues to consider when apportioning the cost of the app to individual restaurants.	24%	**A:** Discuss costing information to support differing needs of the business	Discussed at least one problem in detail about the difficulties of determining the total costs of the app that was applied to the scenario. Discussed at least one problem in detail about apportioning the cost of the app to the restaurants that was applied to the scenario and demonstrated technical knowledge of cost apportionment.	Provided generic comments about determining the cost per download as opposed to establishing the total cost. Often made reference to customers as opposed to internal users. Provided recommendations as to how to apportion the cost to restaurants as opposed to discussing the difficulties of doing so.

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TASK 4 (continued)					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(c)	**Discuss** the non-financial factors that the SMT should consider when deciding whether to pay for the ZeAp 12-month maintenance contract or to train our own staff to do the maintenance internally.	20%	**E:** Analyse information to support short-term decision making	Discussed, clearly and in depth, at least two non-financial factors that related to the scenario.	Listed non-financial factors as opposed to discussing them. Or Listed or discussed financial factors, not non-financial factors.
(d)	**Apply** the rules in the relevant financial reporting standard to explain how the items in Table 1 should be reflected in SoPa's financial statements for the year ended 31 December 2026.	28%	**D:** Apply relevant financial reporting standards and corporate governance , ethical and tax principles	Demonstrated technical understanding of the rules in IFRS16 for short-life and small value assets. Applied these to accurately and fully explain how to treat both items in the financial statements, taking into consideration payments made in the financial year.	Failed to recognise that the items qualified for an exemption to the normal rules of IFRS16. Discussed (often at length) the 'normal' treatment of leased items. Or Demonstrated some technical understanding of the rules in IFRS16 for short-life and small value assets but failed to apply these to the items.

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Summary of Variant 4 blueprint coverage

The percentages of marks available in the variant for each topic covered and core activity are shown in the following table:

Sub-task	Topic	Core activity						Total
		A: Costing	B: Budgeting	C: Perform-ance	D: Reporting	E: Decision making	F: Working capital	
Task 1:								
(a)	Budget objectives		8%					**8%**
(b)	Data gathering technologies for budgeting		8%					**8%**
(c)	Zero based budgeting		9%					**9%**
Task 2:								
(a)&(b)	Decision making with risk					13%		**13%**
(c)	Inventory management and EOQ						12%	**12%**
Task 3:								
(a)	Variances			15%				**15%**
(b)	KPIs			10%				**10%**
Task 4:								
(a)&(b)	Costing of digital object	13%						**13%**
(c)	Non-financial factors					5%		**5%**
(d)	IFRS 16				7%			**7%**
Variant totals		**13%**	**25%**	**25%**	**7%**	**18%**	**12%**	**100%**
Blueprint weightings		***12 – 18%***	***17 – 25%***	***17 – 25%***	***7 – 13%***	***17 – 25%***	***12 – 18%***	

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Variant 5

Variant 5 focused on a number of issues arising from the SMT's decision to invest in growing pods to develop a vertical farm.

TASK 1					
The vertical farm will employee six staff and a supervisor on fixed hours contracts. Given the difference in the operation of the vertical farm to the main business, the use of activity based costing (ABC) is suggested leading to sub-task (a). The growing pods have been purchased and the SMT wants to understand how the expenditure will affect the financial statements and the amount of tax payable leading to sub-tasks (b) and (c).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Discuss,** with reference to Tables 1 and 2, how ABC should be implemented at the vertical farm for costing labour resources. Please also **discuss t**he potential benefits of doing this.	48%	**A:** Discuss costing information to support differing needs of the business	Demonstrated sound technical understanding of the ABC process (identifying activities and cost pools, determining cost drivers, calculating driver rates and applying these rates to products). Such answers draw on the information in Table 1 to suggest cost drivers and discuss the implications of the information in Table 2 for the different resource requirements of the three crops. Provided a clear and detailed discussion of the benefits of using ABC, including, for example, more accurate product costs and better planning for labour resources.	Demonstrated limited technical understanding of the ABC process, often instead making vague comments about the activities in Table 1 in an attempt to use the information. Some poor answers commented on the difference between absorption costing and marginal costing and so did not answer the sub-task. Provided brief and generic points with very limited application to the scenario. Poor answers were often limited to a statement that 'ABC would lead to more accurate costs' without any discussion of why this would be the case.

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TASK 1 (continued)					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(b)	**Apply** the provisions of relevant financial reporting standards to justify how the expenditure in Table 3 should be recognised and initially measured in our financial statements for the year ending 31 December 2026.	24%	**D:** Apply relevant financial reporting standards and corporate governance, ethical and tax principles	Demonstrated technical understanding of the rules in IAS 16 for recognition and initial measurement. Applied these rules to accurately and fully explain why an asset will be recognised and to justify which expenditures will be included or not included in the initial measurement of the asset. There was good reference to the information in Table 3.	Demonstrated understanding of some of the rules in IAS 16. However, when applying these rules, such answers usually stated the impact (for example, commenting that a tangible asset was created or that the safety certificate fee could be capitalised) but did not justify why this was the case (for example, because there would be future economic benefit or because the safety certification was necessary and directly attributable to getting the asset ready for its intended use). There was limited reference to the information in Table 3.
(c)	**Discuss** the effect on taxable profit of the change in tax depreciation allowance for the new growing pods.	28%	**D:** Apply relevant financial reporting standards and corporate governance, ethical and tax principles	Demonstrated technical understanding of how taxable profit is calculated and how a change in the allowance would impact this. Such candidates clearly discussed the reduction in taxable profit in the first 3 years, and especially in the first year. However, only a few answers commented on the reversal of this in the final year.	Demonstrated limited technical understanding of how taxable profit is calculated. A common feature of poor answers was a focus on only the first year allowance of 50% or very brief and vague comments about tax.

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TASK 2					
The Restaurant Operations Director is requiring advice on which of three nutrient fluid suppliers to use. This leads to sub-tasks (a) and (b). Additional short-term finance is needed as a result of the expansion with the vertical farm leading the sub-task (c).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Interpret** the pay-off table and statistical information in Table 1.	24%	**E:** Analyse information to support short-term decision making	Interpreted the payoff table whilst adding value (for example, by making comparisons between the contributions generated by the three suppliers). Demonstrated good technical understanding of the three statistical measures by defining clearly and accurately (for example, defining coefficient of variation as the risk per Z$1 of expected value).	Provided limited or no added value when referring to the payoff table (merely repeated the information given). Or did not comment on the payoff table at all. Demonstrated very little technical understanding of the three statistical measures and did not use the information in the question to provide context.
(b)	**Justify** which supplier would be chosen by a risk neutral, risk seeking and risk averse decision maker.	24%	**E:** Analyse information to support short-term decision making	Provided a clear justification of both the decision rule and the campaign that would be chosen with reference to the scenario (for example, a risk neutral decision maker would base the decision on expected value and would choose the social media campaign as this has the highest EV of Z$79,000).	Justified the wrong campaign for most decision rules or chose the correct campaign but for the incorrect reason. Or Stated the correct decision but failed to justify this in light of the decision approaches. Or Referred to the rules of decision making under conditions of uncertainty and not risk (minimax regret, maximin).

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TASK 2 (continued)					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(c)	**Discuss** each of the three possible sources of short-term finance in Table 2 and **recommend** which of these would be the most appropriate to provide the additional working capital and funding required for the vertical farm project.	52%	**F:** Discuss the management of working capital	Discussed, with clarity and depth, each of the three possible sources of short-term finance in terms of key features and whether or not they would be suitable to fund the development of the vertical farm project. A good answer then went on to make an appropriate, well-justified recommendation.	Provided a vague and limited discussion of each source of finance, with little reference to the information in Table 2. Recommendations were often unjustified and/or unrealistic (for example, recommending the use of accounts payable because it was cheap, despite the fact that this would only provide partial funding).

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TASK 3					
The vertical farm has now been running for over 3 months, and the SMT now wants to review its performance. This leads to sub-tasks (a) and (b).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	For each of the six variances in Schedule 1, **explain** how it is calculated, **interpret** what it means and **explain** any limitations. Please also **discuss** how the events raised by the supervisor will have contributed to the variances.	64%	**C:** Analyse financial & non-financial information to communicate insights about organisational performance	Explained with technical accuracy how the six variances provided were calculated. Provided a clear and complete interpretation of what each of the adverse and favourable variances meant. Provided some limitations of the variances calculated. Accurately connected the four events in Schedule 1 to the correct variances.	Demonstrated poor technical understanding of how the variances were calculated. Many poor answers were only able to explain how the fixed overhead expenditure variance was calculated. A common feature of answers was failing to recognise that the budget would be flexed for variable overhead. Provided vague comments about the meaning of the variances (especially for fixed overhead volume, capacity and efficiency). Such answers failed to be specific, often just saying that an adverse variance meant more than budget. Provided no limitations. Connected the four events to the wrong variance. The most common error was to say that the bought in electricity was the cause of the fixed overhead expenditure variance.

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TASK 3 (continued)					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(b)	**Recommend** three KPIs to be used to assess the performance of the vertical farm workers at any of the stages of the growing cycle. For each KPI, please **explain** how the KPI would be measured and **justify** why it would be appropriate.	36%	**C:** Analyse financial & non-financial information to communicate insights about organisational performance	Recommended three SMART KPIs linked to monitoring the performance of farm workers. The KPIs were justified in the context of the scenario and the explanation of measurement was clear.	Gave recommendations for KPIs which were not SMART and/or not suitable to monitor the performance of farm workers. Any justification was usually vague and not related to the context or the scenario. Explanation of measurement was often missing or lacked clarity. Poor answers often recommended inappropriate KPIs, for example labour turnover or absenteeism or the quality of seeds purchased from suppliers, which were more of a management issue and not under the control of the farm workers.

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TASK 4					
The vertical farm has now been in operation for 6 months and there is an opportunity for SoPa to supply a specialist herb to a supermarket on a temporary contract. This leads on to three issues and sub-tasks (a), (b) and (c).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Justify** whether each of the costs in Table 1 are relevant or irrelevant to the financial evaluation of the supermarket contract.	32%	**E:** Analyse information to support short-term decision making	Demonstrated technical understanding of relevant costing principles and applied these to correctly identify most of the different cost items as either relevant or irrelevant. Also provided a clear justification of why the cost was either relevant or irrelevant.	Demonstrated technical understanding of relevant costing principles in a general sense but then failed to apply these correctly to the cost items. Where costs were correctly identified as relevant or irrelevant, this was usually not justified. In particular, poor answers demonstrated a lack of technical knowledge in the treatment of labour costs. A number of answers suggested the relevant cost for labour would be either Z$65,000 or Z$95,000. Poor answers also demonstrated a lot of uncertainty over how to treat the growing pod.
(b)	**Discuss** how technology and different sources of data could help to produce forecasts of external demand for our salad crops.	32%	**B:** Discuss budget information for the purposes of planning and control	Demonstrated an understanding of a range of technologies **and** sources of data and linked this to helping to produce accurate sales forecasts for SoPa's salad crops.	Demonstrated limited understanding by providing only one or two possible sources of data and ignoring the technology aspect. Poor answers also often just provided generic answers without linking them to the scenario of sales forecasts to sell more to external customers. For example, poor answers often said past data could be used which failed to recognise that this was a new initiative for SoPa.

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TASK 4 (continued)					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(c)	**Discuss** the factors to consider in relation to the cash budget of expanding production to sell our salad crops to external customers.	36%	**B:** Discuss budget information for the purposes of planning and control	Provided a range of issues to consider in terms of cash inflows and outflows, within the context of expanding the business. Such answers focused on factors such as the timing of sales revenues, the need for increased capital and operating expenditures, working capital management and the need for contingencies because of the uncertainty over sales demand. Good answers were clear and detailed.	Failed to cover a wide enough range of factors or issues affecting the cash budget. Such answers tended to focus on just one factor (usually the management of receivables).

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Summary of Variant 5 blueprint coverage

The percentages of marks available in the variant for each topic covered and core activity are shown in the following table:

Sub-task	Topic	Core activity						Total
		A: Costing	B: Budgeting	C: Perform-ance	D: Reporting	E: Decision making	F: Working capital	
Task 1:								
(a)	ABC	12%						**12%**
(b)	IAS 16				6%			**6%**
(c)	Tax depreciation				7%			**7%**
Task 2:								
(a)	Pay-off table					6%		**6%**
(b)	Decision making					6%		**6%**
(c)	Short-term finance						13%	**13%**
Task 3:								
(a)	Variances			16%				**16%**
(b)	Recommend KPIs			9%				**9%**
Task 4:								
(a)	Relevant costs					8%		**%8**
(b)	Technology and sources of data		8%					**8%**
(c)	Cash budget		9%					**9%**
Variant totals		**12%**	**17%**	**25%**	**13%**	**20%**	**13%**	**100%**
Blueprint weightings		***12 – 18%***	***17 – 25%***	***17 – 25%***	***7 – 13%***	***17 – 25%***	***12 – 18%***	

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Variant 6

Variant 6 focused on the setting up and operation of a home delivery service, with food prepared in a ghost kitchen.

TASK 1					
A third-party delivery app is to be used for the new delivery service and there is a choice of two different apps. In addition, a decision needs to be made whether the company uses its own delivery drivers or those of the app provider. A decision tree is prepared leading to sub-tasks (a), (b) and (c). A new walk-in fridge unit has been leased for the new ghost kitchen leading to sub-task (d).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Discuss** what the decision tree in Schedule 1 shows us.	20%	**E:** Analyse information to support short-term decision making.	Provided a clear, detailed and technically accurate description of the tree. In addition, made this a discussion by making reference to information in the tree and adding value to the analysis by providing some commentary on the differences in the possible outcomes.	Provided a vague description of the tree that lacked technical accuracy. Such answers typically commented generally about decision squares and outcome circles but often failed to even articulate what the decisions were. There was no added value and limited reference to the information in the tree.
(b)	**Apply** a risk neutral approach to decision making to explain how to use the decision tree to determine which combination of options should be chosen.	20%	**E:** Analyse information to support short-term decision making.	Demonstrated technical understanding of how to use the tree by considering the highest expected value for each decision point in turn, starting on the right of the tree. Such answers clearly demonstrated that they understood that fixed costs needed to be deducted.	Demonstrated some technical understanding that the decision should be based on expected value but then applied this in total rather than at each decision point. Fixed costs were often ignored or sometimes added to contribution. Very poor answers failed to even recognise that it would be based on expected value and instead made vague comments about best outcomes or added the three outcomes together to establish the best result.

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TASK 1 (continued)					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(c)	**Discuss** two limitations of using this approach and two other factors that should be considered before the decision is finalised	32%	**E:** Analyse information to support short-term decision making.	Discussed two valid limitations of using either expected values of a decision tree approach. The discussion was detailed, clear and referenced the information given.	Identified briefly one or two valid limitations, but failed to turn this into a discussion by linking this to the information given. Points made tended to be generic.
(d)	**Apply** the provisions of the relevant financial reporting standard to **justify** how the lease liability for the lease detailed in Table 1 will be initially recorded and then subsequently measured in our financial statements for the year ending 31 December 2026.	28%	**D:** Apply relevant financial reporting standards and corporate governance, ethical and tax principles.	Demonstrated technical understanding of the rules in IFRS 16. Applied these rules to accurately and fully justify how the lease liability would be initially recorded and subsequently measured. There was good reference to the information in Table 1.	Demonstrated some understanding of the rules in IFRS 16. When applying the rules, such answers made simple statements, such as that the lease liability would be initially measured at present value, without explaining how this would be done. In addition, such answers also failed to justify treatment (for example, stating that there would be a finance cost, but not explaining how this would be calculated or the impact that this would have). There was limited reference to the information given. Some poor answers wasted time commenting on the right-of-use asset, even though it was clear that this was not required.

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TASK 2					
A budget for the new delivery service has been prepared and a director has suggested three ways of increasing sales volume compared to this budget. A what if analysis is prepared leading to sub-tasks (a) and (b). The supplier of recyclable take-away packaging has been selected and is offering a bulk discount leading to sub-task (c).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Analyse** Table 1 and **discuss** the impact of each of Tobias Smit's suggestions (reduce selling price, giving away free sides or a targeted marketing campaign) on budgeted revenue, variable cost, contribution and profit for the delivery service.	36%	**B:** Discuss budget information for the purposes of planning and control.	Provided an analysis of Table 1. Such answers discussed each suggestion in turn and provided an analysis by commenting, for example, on the impact of each suggestion on contribution margin, the size of the volume increase (20%) and the impact of the percentage change in profit being greater than contribution because of the absolute size of the figures.	Provided a brief description of Table 1, mostly just restating the information and the percentage movements. Any attempts to analyse were vague and inaccurate.
(b)	**Discuss** the appropriateness of the assumptions in Table 2.	32%	**B:** Discuss budget information for the purposes of planning and control.	Provided a clear discussion of the appropriateness of each assumption, with detailed reference to the three suggestions modelled in the what-if analysis.	Provided a description of the assumptions but failed to consider their appropriateness with reference to the three suggestions. Where appropriateness was considered, this was linked to the budget generally rather than the suggestions.

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TASK 2 (continued)					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(c)	**Discuss** how this bulk purchase discount will affect our ordering policy and inventory level compared to our planned approach. Please also **discuss** one financial and one non-financial factor that will need to be considered when deciding whether to use the discount.	32%	**F:** Discuss the management or working capital.	Demonstrated technical understanding of how the bulk purchase discount would increase average inventory levels, increase holding costs, but reduce ordering costs because of the reduction in the number of orders. Discussions were clear and referenced the information given. Discussed two relevant factors that were discussed in the context of the scenario.	Demonstrated limited technical understanding of the impact of the bulk purchase discount. Such answers made vague statements, such as inventory will be higher, but then did not link this to holding costs or to the number of orders. Identified one or two factors with no reference to the context of the scenario.

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TASK 3					
The new delivery service has been operating for 2 weeks, and the company is using its own team of delivery drivers. The service has been set up to work as sustainably as possible and it has been suggested that environmental costs are reported using the quality framework, leading to sub-task (a). There have been some issues with food not being delivered hot and late deliveries, leading to sub-task (b).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Discuss** the distinction between environmental non-conformance and environmental conformance costs and the different categories of each of these. Please support your discussion with examples, for each category, of environmental costs that we have incurred based on the information in Table 1.	64%	**A:** Discuss costing information to support differing needs of the business.	Provided a clear and detailed discussion of all categories of environmental quality costs and gave suitable examples of each which were drawn from the information in Table 1 and were justified. Such answers demonstrated a clear understanding of the distinction between non-conformance and conformance costs.	Provided vague and brief points and either didn't articulate all four categories of cost and/or failed to give appropriate examples drawn from the scenario and/or failed to justify why a particular cost would be included in a certain category. Such answers often confused conformance and non-conformance costs and struggled to articulate these in an environmental context.
(b)	**Recommend** three KPIs which would be relevant for assessing the performance of individual delivery drivers. Please **explain** how each KPI would be measured and **justify** why it would be appropriate.	36%	**C:** Analyse financial and non-financial information to communicate insights about organisational performance.	Recommended three SMART KPIs linked to monitoring the performance of delivery drivers. The KPIs were justified in the context of the scenario, and the explanation of measurement was clear.	Recommended KPIs which were not SMART and/or not suitable to monitor the performance of delivery drivers. Any justification was usually vague and not related to the context or the scenario. Explanation of measurement was often missing or lacked clarity. Poor answers often gave KPIs about operation of the kitchen rather than delivery drivers.

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TASK 4					
The SMT has asked for a report on the performance of the delivery service in October leading to sub-tasks (a) and (b). Sales have been higher than anticipated and so there is surplus cash in the business that needs to be invested. Three forms of investment have been suggested, leading to sub-task (c).					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(a)	**Interpret** the meaning of the sales mix contribution variances based on the individual units method (shown in Table 1) and the sales mix contribution variances based on the weighted average method (also shown in Table 1). Please also provide possible reasons why the mix has changed.	40%	**C:** Analyse financial and non-financial information to communicate insights about organisational performance.	Interpretated the variances by clearly explaining what each of the adverse or favourable variances meant. For example, the adverse variance for Tostada using the individual units method was adverse meaning that proportionately less of this starter was sold compared to the budgeted mix and it was favourable for the weighted average method because we sold proportionately less of a starter with a contribution lower than average. Provided reasons for the change in mix which were based on the information given.	Failed to interpret the variances, usually because of a lack of technical understanding of how mix variances are calculated. Such answers usually stated that an adverse variance meant that we had sold less and a favourable variance meant that we had sold more, not recognising that mix variances are a comparison of budgeted mix for actual total volume and actual mix at actual total volume. Failed to provide reasons for the change in mix.
(b)	**Discuss** the benefits of each method of calculating the mix variances.	20%	**C:** Analyse financial and non-financial information to communicate insights about organisational performance.	Discussed clearly at least one benefit of each method in the context of the scenario.	Provided vague comments that demonstrated a lack of technical understanding. A common answer was stating that weighted average was easier to understand and calculate.

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TASK 4 (continued)					
Sub-task		**% time**	**Core activity**	**A good answer for this sub-task:**	**A poor answer for this sub-task:**
(c)	**Compare and contrast** the three forms of investment suggested by Sofia and **recommend,** with appropriate justification, which would be most suitable in this instance.	40%	**F:** Discuss the management or working capital.	Provided a clear and detailed comparison of the three suggestions with respect to risk, liquidity and return. Provided a well-justified recommendation.	Provided some comparison of the three suggestions, but this lacked detail and reference to either risk, liquidity or return. Some poor answers demonstrated a lack of technical understanding of each type of investment (for example, stating that a money market deposit was traded or failing to recognise that Treasury bills are a form of government borrowing). Provided a recommendation but this lacked justification or was not sensible (for example, stating that the stock market should be invested in).

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Summary of Variant 6 blueprint coverage

The percentages of marks available in the variant for each topic covered and core activity are shown in the following table:

Sub-task	Topic	Core activity						Total
		A: Costing	B: Budgeting	C: Perform-ance	D: Reporting	E: Decision making	F: Working capital	
Task 1:								
(a),(b) &(c)	Decision tree					18%		**18%**
(d)	IFRS 16				7%			**7%**
Task 2:								
(a)&(b)	What-if		17%					**17%**
(c)	Bulk purchase discount						8%	**8%**
Task 3:								
(a)	Environmental cost of quality	16%						**16%**
(b)	KPIs			9%				**9%**
Task 4:								
(a)&(b)	Sales mix variances			15%				**15%**
(c)	Short-term investment						10%	**10%**
Variant totals		**16%**	**17%**	**24%**	**7%**	**18%**	**18%**	**100%**
Blueprint weightings		***12 – 18%***	***17 – 25%***	***17 – 25%***	***7 – 13%***	***17 – 25%***	***12 – 18%***	

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