



Exam and question tutorial operational case study

2019 CIMA Professional Qualification

Exam tutorial

The case study exam tutorial allows you to gain familiarity with the technology used to deliver the exam. It is also available 15 minutes prior to starting your test and can be accessed [here](#).

Question tutorial

The operational case study question tutorial provides you with an opportunity to practice a full-length case study exam using computer based assessment. We have prepared two sample case study exams based on the 2019 CIMA Professional Qualification. This document contains all the supporting material you will need before and after you have completed the tutorial case study.

Before the tutorial

Pre-seen material which applies to both variants can be accessed [here](#).

Take the tutorial

The question tutorial can be accessed [here](#).

To access an exam you will need to create an account and then select the exam. There is no charge. Exams can be taken immediately or within 1 month.

After the tutorial

Review model answers and marking schemes:

- Model answer for variant 1 can be accessed [here](#)
- Marking scheme for variant 1 can be accessed [here](#)
- Model answer for variant 2 can be accessed [here](#)
- Marking scheme for variant 2 can be accessed [here](#)



Operational Case Study Examination
2019 syllabus prototype – pre-seen materials



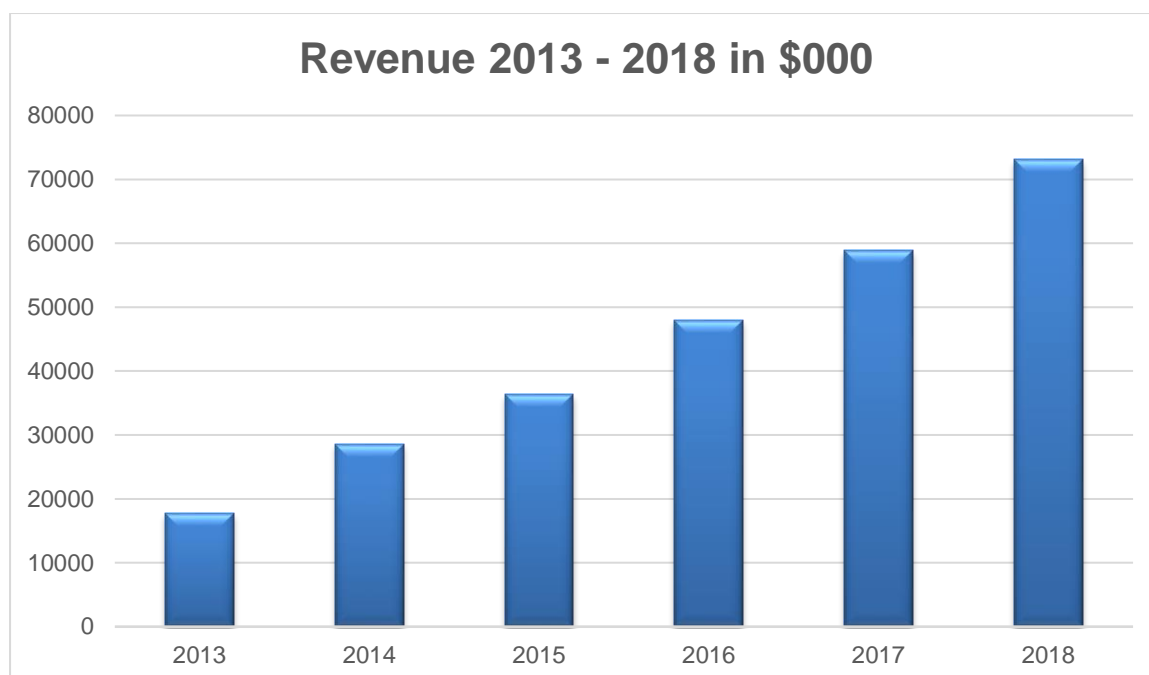
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1. Extract from job description

You are a Finance Officer for GymFit. Your main role is to support Steven Potter, the Finance Manager. Your tasks include the production of the annual budget, producing the monthly management accounts and providing information to management as required. You also assist with the preparation of the financial statements and deal with any queries regarding financial reporting.

2. Company Information

GymFit, is a fast growing, leading provider of low-cost gyms and one of the pioneers of the low-cost gym model, which is based on relatively low gym membership fees and a ‘no-frills’ service concept. It now has 102 gyms with 486,000 members based in major towns and cities throughout Celtland, Europe. The company was founded in 2005 using finance from venture capitalist, Land Ventures. It is currently listed in the Celtland stock exchange and uses the C\$ as its home currency.



The company has grown rapidly from sales revenue of C\$17.8 million in 2013 to C\$73.1 million in 2018. The number of gyms it operates has also increased during the same period from 26 gyms to 102. The rapid increase in the number of gyms has been through a mixture of organic growth and acquisition of existing gym groups. The company is now the 2nd largest operator of low-cost gyms in Celtland.

GymFit’s business model offers 24/7 gym operating hours and a no-contract membership i.e. there is no fixed membership period. The high specification gym equipment used is eco-friendly. In order to offer low membership fees, their model is based on a no-frills concept, meaning that facilities are restricted to the gym equipment, there are no wet facilities e.g. saunas or pools, and no café or bars that you would expect to find in a traditional health club.

The low-cost model used by GymFit is dependent on advanced technology. Prospective GymFit members can join using a simple online process that can be completed in minutes. Members can also manage their accounts, view class timetables and book classes online.

The use of technology results in an efficient staffing model with, for example, no need for dedicated in-gym sales and marketing teams.

Membership

GymFit membership is on a no-contract basis i.e. it does not involve a fixed membership period and members are free to cancel their membership at any time without penalty. There are three types of membership: solo gym membership, where the member is able to access only one chosen gym; two gym membership, where the member can access two chosen gyms and bundle membership where the member can access gyms nationwide. These types of membership require payment of a monthly fee. In addition, it is possible to access gym facilities on a daily basis by purchasing a day pass. Membership fees vary depending mainly on the location of the gym. Occasional marketing campaigns are run offering discounted membership to all new members. Student members also receive a discount.

Each member is provided with a unique personal identification number (PIN) code which is used to provide electronic access to the gym and its facilities.

Members have access to high quality fitness equipment, work-out areas and some free fitness classes. Other classes such as Pilates, yoga and dance fit are available on payment of an additional fee. All new members are offered a free induction session and these are provided by the fitness instructors. The member can also, on payment of an additional fee, arrange for individual coaching from a fitness instructor. These additional fees are paid directly to the instructors and are a private arrangement between the gym member and the instructor. Other facilities offered include showers, changing areas, lockers and vending machines.

The People

Staff

The average number of employees, during 2018, was 254. A typical gym has two employees, a manager and an assistant manager, who manage the running of the gym. The remaining staff are employed at head office in various functions including IT, HR, Finance and Marketing. These employees are complemented by a number of freelance fitness instructors who are hired on a zero-hours contract where the instructors are not guaranteed to be offered work in any one week. The fitness instructors are paid a relatively low hourly rate but are able to supplement their income with fees from individual coaching sessions.

All fitness instructors are trained fitness experts. Their main role is to assist members with using the equipment, run induction sessions for new members, lead some group classes, and provide general exercise and fitness advice. They are also expected to carry out simple preventative maintenance and testing the equipment. They can generally resolve most of the simple problems arising with the equipment, anything they cannot deal with is referred to the contracted maintenance company. In addition to this, they also refill vending and water machines and, where possible, attend additional training sessions related to equipment use, fitness or health and safety.

Gym managers are empowered to independently run their own sites, including the setting of membership fees, with bonus targets linked to gym performance. Other employees are given competitive remuneration including a defined contribution pension scheme and the opportunity to share in the company's success through share incentive plans.

The need for reception staff is eliminated due to the use of the electronic entry system and the online membership and class booking system, other staffing needs such as cleaning, security and non-routine machine maintenance are outsourced which means that gym staff (managers and fitness instructors) are free to concentrate on the core activities of the gym.

The Senior Management Team

The company's senior management team bring to the company a wide range of previous experience mainly in the leisure and retail industries. The team is relatively young, highly enthusiastic and engenders a 'can do' culture throughout the organisation.

The details of the company's executive directors are given below:



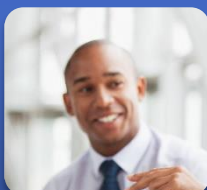
Bertram Durand (42) Chief Executive Officer (CEO)
Bertram was appointed as CEO in 2014 and brings to the company extensive experience in the leisure and fitness industry.



Nicola Collette (45) Chief Financial Officer (CFO)
Nicola was appointed as Chief Financial Officer in 2015. She is a professionally qualified accountant. She has been with the company since it started operations in 2005 and was responsible for the company's flotation on the Celtland stock exchange.



Jessica Treewood (38) Marketing Director
Jessica has been with the company since 2014. She holds a BA in Marketing from Celtland University. She previously worked as Marketing Director for a competitor company in the fitness club sector.



Ethan Henson (38) Operations Director
Ethan was appointed Operations Director in 2016. He has responsibility for the running of the gyms and the HR function. He was previously a fitness trainer and has worked his way up through the ranks of the company to become Operations Director.



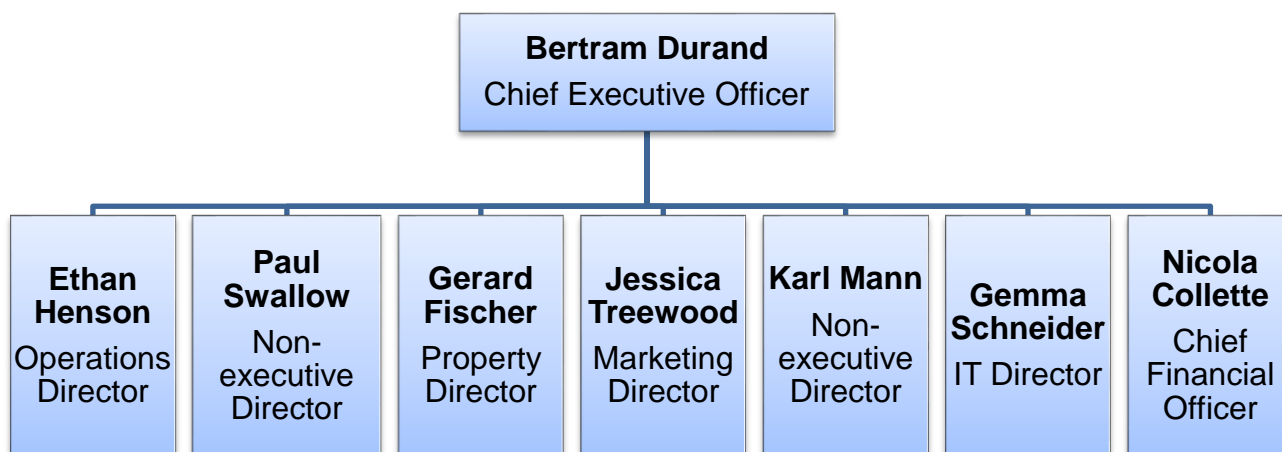
Gerard Fischer (46) Property Director
Gerard joined the company in 2011 as Property Director. He is responsible for the company's portfolio of properties. He is a qualified civil engineer and has vast experience in property management mainly gained in the hotel industry.



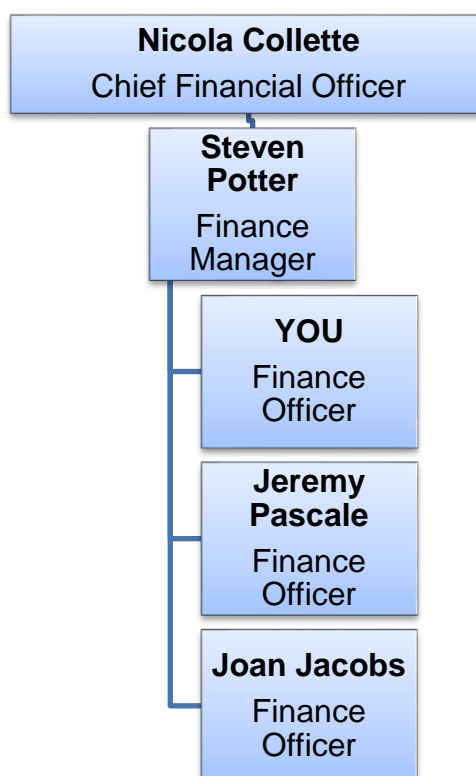
Gemma Schneider (36) IT Director
Gemma joined the company in 2010 as an IT technician and was appointed IT Director in 2017. She holds a MSc in Information Technology. She is keen to further develop GymFit's IT systems with the assistance of her team of innovative and highly qualified staff.

ORGANISATION CHARTS

Executive and non-executive directors

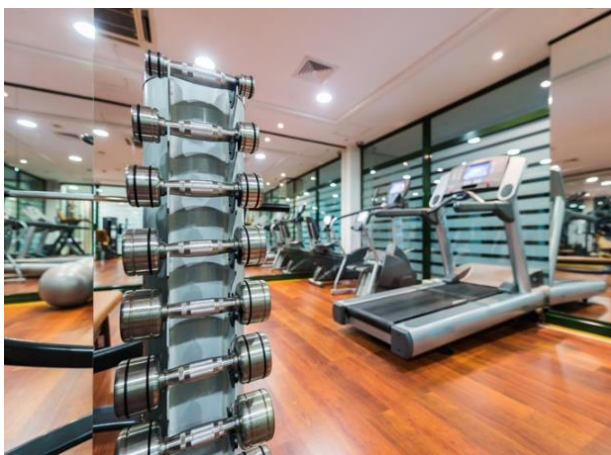


Finance Department



Company Operations

The Gyms



Each gym has more than 150 items of high specification equipment and free weights for members to use. The fitness equipment is eco-friendly with around 70% of the machines using no electricity and are powered by the user instead. Each gym offers a range of cardio machines including running, cycling and step machines and weight machines of various types to help flex every muscle in the body.

The low-impact workout areas give members an opportunity to warm-up or stretch out. Equipment available includes exercise balls and yoga mats.

Each gym contains studios for use by the fitness instructors when leading fitness classes including yoga, Pilates and Dancefit. There are also showers and changing facilities available and vending machines selling bottled drinks and other fitness related items such as sweat bands, protein powder and health bars.

Information Technology (IT)

The IT department runs and manages the company's website and is responsible for website development. The company's operations are driven by technology and the IT department is constantly looking for new ways to utilise IT to improve the member proposition and to achieve cost efficiencies.

GymFit offers a simple online joining process that requires a valid email address and other personal data. Membership and class fees can be paid by credit card, debit card and direct debit and members can manage their accounts, view class timetables and book classes using computer, tablet or mobile. GymFit maintains a customer database which can be used to communicate with members.

Gyms are open 24/7 but only staffed for around 16 hours of the day. The gyms have automated access control and CCTV which is monitored on a 24-hour basis and is enhanced by the use of 'panic buttons' throughout the gym. It is the use of this technology which enables 24/7 operation of the gyms whilst keeping costs low.

The use of technology also results in an efficient staffing model, with no need for dedicated in-gym sales and marketing teams. The staffing model means managers are freed from many traditional health club tasks and can focus on running successful gyms and serving the needs of members.

The extensive use of information technology brings other considerations in terms of system failure, data security and privacy. GymFit's membership system, data processing, account payments, gym access, customer safety and customer marketing, are all dependent on the IT systems. The systems hold a significant amount of confidential customer data including email

address, home address and bank details. A breach of data security would constitute a significant risk to the company's reputation and brand.

Marketing

The marketing team's main activities are market research; the promotion and advertising of new and existing gyms; raising brand awareness and advising on pricing strategies. The Marketing team works closely with the IT and Properties department. Marketing efforts are directed at both existing members, to try to ensure member retention, and the recruitment of new members.

The marketing team uses the website to provide members with details of classes being operated each week and any other news or member offers. The customer database is also used to communicate electronically with members using email and SMS.

Regular marketing campaigns ensure that the awareness of the brand is high. A recent campaign featuring a leading Olympic athlete, Johnny Wren, resulted in a 2% increase in member numbers.

Finance

The financial information system produces monthly management accounts and both half-yearly and annual statutory accounts. It also generates daily and weekly sales revenue and membership number information for management to monitor actual results against budgets.

The Finance team also carries out ad-hoc projects including investment appraisal and investigations, along with ongoing decision support. Some areas, including all internal audit work, are delivered by external experts.

Budgets are produced annually using incremental budgeting for sales and cost items. All budgets are broken down into monthly periods, with the exception of the sales budget which is broken down into weekly periods.

Properties

The company has significant experience of developing and managing properties and has been able to use that expertise and its close relationships with suppliers to reduce its fit-out and property management costs.



Growth of the company is dependent on being able to find suitable properties for the new gyms. The company has plans to develop between 15 and 20 properties per year. The majority of properties are leased, for periods of up to 15 years, whilst a small number are owned by the company.

Properties need to be large enough to accommodate the fitness equipment and offer studio space for exercise classes. The ideal property is between 1,000 and 2,000 square metres, over a maximum of two floors. Properties need to be either located within a dense population catchment area to ensure sufficient potential local members or in highly visible locations with easy car parking facilities or access to major transport hubs.

Company Strategy

The company's long-term objective is to deliver long-term profitable growth through improvements in operating efficiency, offering a strong member proposition and by focusing on its people.

It plans to achieve growth through the selective acquisition of existing gym groups, and the lease and fit-out of new properties. The company has a rigorous approach to site selection, with flexible fit-out arrangements allowing the use of a wide variety of building types. It aims to reduce gym fit-out costs through the use of a competitive tender process, negotiating improved terms with suppliers and value engineering the fit-out specification to avoid unnecessary cost.

It plans to achieve improvement to operating efficiency through economies of scale, use of data and technology and also by managing its cost base. The outsourcing of support functions will also enable cost reduction and allow the company to focus on core operations.

In order to continually improve the member proposition, the company will pursue innovative low cost ways to differentiate itself from its competitors. Improvement of member satisfaction, reflected in strong member satisfaction ratings, is a key aim which is dependent on having knowledgeable, well-trained staff. The company strongly believes that attracting, motivating and training people of the highest calibre is key to the company's continued success.

3. The Health and Fitness Industry in Celtland

Celtland health and fitness gym sector is a rapidly growing sector of the health and fitness industry. It has estimated sales revenue of C\$7 billion in 2018, an increase of 6.3% on 2017. There are now over 9.7 million people in Celtland who are members of a gym.

This sector experienced modest growth until 2011 thereafter the growth in the market accelerated rapidly, mainly driven by the low-cost segment. Prior to 2011 the market comprised of two main segments: public gyms funded by local government and private gyms funded and operated by commercial enterprises. The rapid increase in low-cost gyms since 2011 has fragmented the market by creating a third segment, low-cost (or budget) gyms, representing 12% of total private gym numbers in 2018.

Gyms are differentiated by a number of factors, including price and contract terms, quality, scope of services and facilities, as well as whether they are part of a larger network.

These can be broadly grouped into:

- Low-cost (or budget) gyms: these are private gyms and differentiate themselves by offering access to gym facilities for a lower price, normally below (depending on the location sometimes well below) C\$20 per month. To contain costs, these gyms generally do not offer access to 'wet facilities' (e.g., saunas, steam room, pools), operate large venues (above 1,000 square metres) and can generally be joined online. Also, they will normally transparently advertise their prices online and offer monthly rolling contracts as an option.
- Mid-range and premium gyms: these are also private gyms but are more (or much more) expensive than low-cost gyms. They may, however, offer access to better facilities (e.g. wet facilities or a higher quality environment). These gyms can vary considerably in size, from very small facilities to very large ones. Some gyms will offer monthly rolling contracts and advertise their prices transparently online, others only offer longer-term contracts (e.g. minimum six months or one year) and sometimes require customers to contact the gym to obtain a quote.
- Public gyms: are owned and/or operated by, or on behalf of, local government. The quality of the facilities offered by public gyms can vary considerably. In many instances, public gyms also offer access to wet facilities, including a pool. Their pricing policy also varies considerably. Some business models in the operation of public gyms are similar to those in the categories above.

Recent government initiatives in Celtland, such as the 'GetupGo' campaign, have increased consumers awareness of the negative impact of an inactive lifestyle. The Society of Medical Practitioners have made physical activity one of its top priorities hailing physical activity as the best cure for lifestyle related diseases.

Societal trends have also brought active lifestyles more prominence through the use of Facebook, Instagram and Twitter. These trends have mainly influenced the younger generations who are consequently more health conscious than their predecessors.

Membership profile and customer demand

There are a number of determinants of gym membership with the most important being age; income and educational level.

Previous research studies have shown that the highest percentage of gym members are in the 18-35 age group however the fastest growing sector is the 36-55 age group. Income is a major determinant with households earning \$75,000 or more per annum being more likely to have gym membership. However, within the high earners segment (\$75,000 and above) educational level was a significant factor with around 25% of those with degree level education having gym membership compared to less than 12% of those who did not go to University or College.

The overall penetration rate in Celtland is 14.3% but demand will be influenced by the members' proximity to the gym with most gym members being within 12 minutes driving time of the gym. Proximity to good road or rail network will be a contributing factor. The extent of competition in the specific areas will also be an important factor in estimating potential demand.

Competitive Situation

Within the low-cost gym sector in Celtland there are four major players including GymFit. GymFit is the second largest operator in the sector in terms of number of gyms. The largest operator Gym4All has grown mainly through the acquisition of other smaller gym groups. A number of smaller gym groups, typically operating between ten and thirty gyms, still remain.

The rising star in the Celtland market is Fit4Life which has ruthlessly marketed itself as a lifelong alternative to the other low-cost gyms. Fit4Life offers members a lifelong membership fee which will not increase provided the customer remains a member. Its rapid growth has also been driven by its use of specialised fitness apps which have been developed using data analytics. These apps provide members with tailored personal training advice and programmes which they can access at home.

Future Outlook

Growth in the Celtland health and fitness gym market is strong and steady and is expected to continue for the next few years driven by technology changes and government initiatives to improve health and fitness.

The Celtland health and fitness gym market is relatively immature compared to similar markets in Europe. Norway, Sweden and the Netherlands all have mature markets with penetration rates of 19.4%, 16.7% and 16.4% respectively. These penetration rates indicate that there is potential for a strong increase in overall member numbers compared to Celtland's current penetration rate of 14.3%.

Whilst membership numbers are growing, operators still face the challenge of member retention. Technology can minimise cancellations by making the gym experience more enjoyable and rewarding, but operators must work to provide a service that members can't get from exercising alone or by going elsewhere.

The increasing presence of virtual reality (VR), immersive experiences and video-on-demand (VOD) is one way health and fitness clubs can achieve member retention. These technologies allow gym operators to provide content in multiple locations at once, while freeing up instructors. From a member perspective, VOD fitness can be accessed anywhere and at any

time thus eliminating the need to be at a gym at a certain time, or at all. Apps and online channels also offer operators a way to help member's access VOD fitness classes at home or away.

4. Extract from GymFit's 2018 Consolidated Financial Statements

Statement of Profit or Loss for the year ended 31 December	2018 C\$000	2017 C\$000
Revenue	73,102	58,831
Operating expenses		
Gym operating costs	(20,389)	(16,384)
Lease costs	(13,840)	(10,800)
Staff costs	(10,561)	(7,955)
Head office costs	(7,280)	(5,840)
Depreciation	(11,523)	(10,154)
Amortisation	(940)	(1,154)
Total operating expenses	(64,533)	(52,287)
Operating profit	8,569	6,544
Finance Income	12	12
Finance costs	(612)	(633)
Profit before tax	7,969	5,923
Taxation	(1,616)	(990)
Profit / (loss) for the year	6,353	4,933

Statement of Financial Position
as at 31 December

	2018 C\$000	2017 C\$000
<u>Non-current assets</u>		
Intangible assets	49,653	48,974
Tangible assets	107,150	69,352
Investment	200	200
	157,003	118,526
<u>Current assets</u>		
Inventories	158	127
Trade receivables	7,229	4,651
Cash and cash equivalents	366	3,858
	7,753	8,636
<u>Total Assets</u>	164,756	127,162
<u>Equity and Liabilities</u>		
Share capital	48	48
Share premium	79,027	79,027
Retained earnings	17,632	12,357
Total equity	96,707	91,432
<u>Non-current liabilities</u>		
Borrowings	32,071	8,325
	32,071	8,325
<u>Current liabilities</u>		
Trade payables	35,320	27,298
Bank loans and overdraft	0	0
Current tax liabilities	658	107
	35,978	27,405
<u>Total Equity and Liabilities</u>	164,756	127,162

Statement of Cash Flows for the year ended 31 December

	2018 C\$000	2017 C\$000
Cash flows from operating activities		
Profit / (loss) before tax	7,969	5,923
Depreciation	11,523	10,154
Amortisation	940	1,154
Net finance costs	600	621
(Increase) / decrease in inventory	(31)	(30)
(Increase) / decrease in trade and other receivables	(2,578)	(128)
Increase / (decrease) in trade and other payables	8,022	6,862
Cash generated from operations	26,445	24,556
Interest paid	(612)	(633)
Tax paid	(1,065)	(882)
Net cash generated from operating activities	24,768	23,041
Cash flows from investing activities		
Purchase of tangible assets	(49,321)	(21,374)
Purchase of intangibles	(1,619)	(818)
Interest received	12	12
Net cash used in investing activities	(50,928)	(22,180)
Cash flows from financing activities		
Increase / (repayment) of long-term borrowings	23,746	966
Dividend paid	(1,078)	(257)
Net cash from/ (used in) financing activities	22,668	709
Net increase / (decrease) in cash and cash equivalents	(3,492)	1,570
Cash and cash equivalents at beginning of the year	3,858	2,288
Cash and cash equivalents at the end of the year	366	3,858

5. Budget information 2019

Membership Fee Budget 2019				
		City	Town	Total
Number of gyms		30	86	116
Average number of members per gym	Full-fee	3,660	3,107	3,250
	Student	1,396	1,199	1,250
	Total	5,056	4,306	4,500
Average membership fee per month (C\$)	Full-fee	21.96	12.14	15.00
	Student	17.59	9.73	12.00
Total membership fees per year (C\$000)	Full-fee	28,934	38,926	67,860
	Student	8,840	12,040	20,880
	Total	37,774	50,966	88,740

Sales Budget 2019			
Number of gyms	116		
Average number of members per gym	4,500		
Total sales revenue (C\$000)	92,394		
	Per member C\$	Number of members per gym	Total C\$000
Average membership fees	170.00	4,500	88,740
Classes	5.28	4,500	2,756
Vending machine income	1.45	4,500	757
Day passes			141
Total sales revenue			92,394

Operating Profit Budget 2019				
	Total		Per gym	
	\$000	\$000	\$000	\$000
Sales revenue		92,394		796
Operating expenses				
Gym operating costs	(23,920)		(206)	
Lease costs	(16,991)		(146)	
Staff costs	(11,822)		(102)	
Head office costs	(8,221)		(71)	
Depreciation	(14,616)		(126)	
Amortisation	(1,040)		(9)	
		(76,610)		(660)
Operating profit		15,784		136

GymFit Key Statistics				
	Budget 2019	Actual 2018	Actual 2017	Actual 2016
Total number of gyms	116	102	71	59
New gym openings	14	31	12	15
*Number of mature gyms	71	59	44	32
Total number of members	548,100	485,600	358,400	300,800
Average number of members	522,000	422,586	344,066	283,908
Average number of members per gym	4,500	4,143	4,846	4,812
Total sales revenue (C\$000)	92,394	73,101	58,831	47,983
Sales revenue per member per year	\$177	\$173	\$171	\$169
Total number of operational employees	225	198	138	114

*Mature gyms are those gyms which have been operating for more than 2 years.

6. The Tax Regime in Celtland

Corporate Profits:

- The corporate tax rate applicable to taxable profits is 20%.
- The sales tax rate is 20%.
- 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;
 - entertaining expenditure;
 - donations to political parties; and
 - Taxes paid to other public bodies.
- Tax depreciation allowances are available on items of plant and machinery (including vehicles used for business purposes) at a rate of 25% per year on a reducing balance basis.
- Tax losses can be carried forward to offset against future taxable profits from the same business.

Fitness Monthly

16 January 2019 No. 78

C\$4.70

Is data analytics the future for the fitness industry?

Georgio Duccatti - Business Correspondent

We live in a world driven by technology. The fitness industry is no exception, as the opportunity to use technology and data promises a step change in the gym experience. We are beginning to see collaborations between brands that have created connectivity between a wide variety of fitness equipment, devices, wearable technology and healthcare apps.

These collaborations offer us a much broader view of fitness, health and preferences. The resulting data has the power to fundamentally change our behaviour. It is no surprise then that the market for connected gym equipment is growing at an incredible rate, estimated at over 40% per year.



Imagine tracking changes in important body statistics, working through an automated training programme that has been designed based on your likes, dislikes, goals and progress.

The gym benefits too. By understanding your profile and preferences, the gym can align their offer, for example adapting classes and facilities. This increases member loyalty and reduces churn.

The amount of data that could be created is huge, along with the possibilities. It is still relatively early days but the size of the opportunity is clear.

Fitness Monthly

6 February 2019 No. 78

C\$4.70

The battle to beat inactivity – are we winning?

Georgio Duccatti - Business Correspondent

According to a recent report by the Celtland Heart Disease Research Foundation the answer is a resounding 'No'.

The report suggests that more than 20 million people in Celtand are physically inactive and the charity warns that inactivity increases the risk of heart disease.

The Celtland government recently announced its GetupGo initiative to try to encourage both adults and children to exercise on a regular basis.

GetupGo heralds a new approach which shifts the balance of investment, for the first time, to focus more on encouraging inactive and under-represented groups to become more active. It is believed that this is where the greatest individual, community and economic gains can be made



The government is encouraging community group, health care providers, employers and local authorities to take action to support the initiative.

Private sector companies in the health and fitness sector are also being encouraged to target new members from these under-represented groups.

So, if you're not already a member of a gym then maybe it's time to 'get up and go' down to your local gym. You might be pleasantly surprised at the offers available!!

OPERATIONAL CASE STUDY PROTOTYPE ANSWERS

Variant 1

These answers have been provided by CIMA for information purposes only. The answers created are indicative of a response that could be given by a good candidate. They are not to be considered exhaustive, and other appropriate relevant responses would receive credit.

CIMA will not accept challenges to these answers on the basis of academic judgement.

Task 1

Digital sources and type of data

Digital sources are those that can be accessed by computers or other digital devices. Some of them are "born-digital," or originated in a digital form for example, pictures taken with a digital camera, web pages or twitter feeds, others were converted into digital files. Digital sources include e-books, e-journals, websites, blogs, online newspapers, online magazines and official government publications.

To determine the potential member numbers for each of the new gyms, we would need to establish the demographics of the local areas. This will involve accessing government statistics which will give us data on the size of the population within the local area. We know that the penetration rate for gym membership is 14.3% however that rate will vary depending on the demographics of the particular area. The government statistics will also provide us with further analysis of the population segmented by factors such as age; gender; income; disposable income; occupation and education level.

We can determine the profile of low-cost gym members from research reports which are available online. It is clear from previous research reports that the main determinants of gym membership are age; income and education level.

We can also access our membership database and, using data analytics, categorise our current membership. This will give us a better indication of the profile of the membership which is attracted by our current member proposition.

There will however be other factors that we would need to consider. Generally, gym members will live within 10 miles of the gym however a gym which is located close to an industrial area is likely to attract members from local businesses who will use the gym at lunchtime and after work. Access to good road or rail network may be an important factor in determining how far members may travel to access the gym. The proximity to a university may also be important in determining the mix of members between students and full fee members. The proximity of competitor gyms will also be a major factor in determining our member numbers. All of these factors can be

quantified by using data available via digital sources for example, government statistics or area maps.

Digital costing

Type of costs from operating Fit4Life apps

The cost of developing the apps whilst significant is not the only cost which needs to be considered. There are four main categories of costs associated with maintaining and operating apps post-development:

Functional services:

Functional services are those needed to execute the functionalities and features of the apps. While the apps developer will have provided a certain functionality, the apps will not work unless we subscribe to a service that will provide a delivery mechanism. This will allow functionality such as push notifications; social media and chat; SMS and email messaging.

Administrative services:

We will need an intuitive, powerful, accessible and user-friendly administration dashboard to enable us to effectively administer the apps. Administrative costs are the most difficult to anticipate as they will largely depend and differ based on each individual app. The administration dashboard will allow us to manage the content of the apps; manage the functional services detailed above; update the apps; manage user profiles; collect and analyse user behaviour; control access by users and enable data or user segmentation.

Infrastructure services:

These services include infrastructural components such as where the app is hosted, where data is stored and how the data is delivered. This will include the cost of servers (where the app is hosted); data storage; content delivery network (CDN) and images data.

IT support services:

Ongoing technical support is a critical component of any app deployment. We will need technical support to enable us to deal with iOS and Android updates; updates to application programming interfaces (APIs) and bug fixing. IT specific maintenance costs for infrastructure will also be required since servers, data storage, CDN and image data will all require some level of monitoring and maintenance.

Cost-benefit analysis

In order to carry out a cost-benefit analysis we will need to determine each of these costs and their frequency. Some of the cost will be paid regularly to suppliers such as the subscription costs associated with the apps' functionality. Other costs will require us to estimate the likelihood and extent of occurrence and the time involved with carrying out each task. For example, we will need to estimate how often we will need to carry out iOS and Android updates or updates to APIs. Once we have established the time involved in each of these tasks, we can then determine the number of additional IT staff that would be required.

Some of the costs will be incurred on features or updates that are common to all the apps and an appropriate method will need to be determined to share the costs between the apps.

It will be necessary to establish the total costs over the lifetime of the app and then compare this to the expected benefits in terms of increased revenue. Determining the lifetime of an app can be very difficult particularly when there are rapid changes in technology as there is at the present time.

Task 2

Limiting factor analysis

How to use the figures in the schedule to decide on the mix of additional fee classes

The figures provided by Ethan could be used to determine the combination of classes which would maximise profit. It appears that time during peak periods is our scarce resource. It would require 24 hours to satisfy the demand for classes but only 20 hours are available. Ethan's analysis has provided contribution per class and contribution per hour for the three classes. Fixed costs are not considered since these would remain the same no matter which combination of classes are offered. Contribution per hour should be used to determine the optimum combination of classes since hours are the scarce resource and therefore we need to maximise the contribution from each hour.

In order to make a decision, we would rank the classes in descending order of contribution per hour and allocate the time available to satisfy the demand for the class that provides the highest contribution per hour first. Any remaining hours would be allocated to the class with the second highest contribution per hour. If any hours still remain, these would be used to satisfy as much as possible of the demand for the remaining class.

Dance-Fit is the top ranked class with C\$65.00 contribution per hour and can be fully satisfied as only three hours of time are needed. Pilates has the second highest contribution per hour at C\$45.00 and is therefore our second ranked class. Demand for Pilates classes can also be fully satisfied as these only require a further six hours. Yoga has the lowest contribution per hour at C\$35.00 and therefore the remaining 12 hours would be used to run 8 Yoga classes.

Other factors to be considered

There are several other factors that could be considered which could potentially improve the decision. There are numerous assumptions and estimates contained in the analysis. It is possible, for example, that specialist teacher hours are also a constraint. There is an apparent assumption that there will be enough teacher availability but this may not be the case. It is also important to consider that demand is estimated and based on an average. Errors in the demand estimates could result in insufficient Dance-Fit or Pilates classes or even empty classes. It is also possible that some classes may not be full to capacity and this would change the contribution per hour. In addition, demand may vary for different locations and it would be better to make a decision based on the demand at each location.

We should also consider whether it is possible to increase capacity. There may be other larger studio spaces within each gym which could be used to reduce or remove the binding constraint. This could however potentially have consequences for the availability of places in the free classes. In addition, it may also be possible to change the length of the class. By reducing yoga to a one hour class, it may be possible to accommodate the vast majority of those who would like to take part in yoga.

We should also consider the impact of providing insufficient additional fee classes. This approach would leave insufficient provision for yoga, which could have significant implications for planned additional fee income in addition to customer satisfaction, retention and therefore membership income.

Financial accounting treatment of the surplus gym equipment

Equipment transferred to other gyms

The gym equipment is transferred to other gyms would remain on the statement of financial position under non-current assets and would continue to be depreciated in the normal way.

Equipment which we intend to sell

According to IFRS 5, non-current assets will be classified as 'assets held for sale' if their carrying amount will be recovered principally through a sales transaction rather than through continuing use.

In general, the following conditions must be met for an asset (or 'disposal group') to be classified as held for sale:

1. Management is committed to a plan to sell
2. The asset is available for immediate sale
3. An active programme to locate a buyer is initiated
4. The sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions)
5. The asset is being actively marketed for sale at a sales price reasonable in relation to its fair value
6. Actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn

We clearly intend to sell the equipment and if management puts in place plans to find a buyer including actively marketing the equipment at a reasonable price, then the equipment would be treated as "held for sale" and would be held at the lower of the carrying amount and the fair value less costs of disposal. Assets held for sale will be shown in the statement of financial position under current assets and will no longer be depreciated.

Equipment held in storage

The equipment which we have decided to store until a final decision should remain on the statement of financial position. According to IAS 16, relating to de-recognition, an asset should only be removed from the statement of financial position on disposal or when it is withdrawn from use and no future economic benefits are expected from the asset. In this case, the equipment which is held in storage may be used in the future to generate economic benefits. The equipment would also continue to be depreciated since according to IAS 16, depreciation begins when the asset is available for use and continues until the asset is derecognised, even if it is idle.

Task 3

Investment in RPA

Relevant costs

The depreciation costs and amortisation costs are not relevant costs as they are not cash flows. However, the purchase costs of the hardware and software and the development costs will be relevant costs.

The IT maintenance costs will be irrelevant as they relate to the cost of an existing employee who will be paid whether the investment in RPA goes ahead or not.

The licence fees will be a relevant cost as these are incremental costs.

The training costs are relevant costs as these are future, incremental cash flows. However, they are not likely to occur on an annual basis but on an ad-hoc basis as it is likely that further training will be required in the future for new employees and in the event of any changes to the software.

The savings on salaries and benefit for staff is relevant. It is not intended to make any of the existing staff redundant however by investing in RPA we avoid having to hire additional staff.

Other factors

The use of RPA will free accounting staff to concentrate on value-added processes which require analysis and evaluation including supporting business managers with decision making.

An automated process is available around the clock, and is able to scale up or down quickly, according to demand. The ability to manage demand due to business growth or cyclical volume peaks is easily achievable when RPA is implemented. This will enable us to meet peaks in demand by dedicating more resource to any process without recruitment, training requirements or overtime costs.

RPA eliminates human error and it also brings 24/7 operation with no downtime. Robots also never give their notice therefore there is savings in recruitment costs.

Beyond budgeting

Characteristics of beyond budgeting

Under a 'beyond budgeting' approach, rolling forecasts on a monthly or quarterly basis, are suggested as the main alternative to annual budgeting. Instead of evaluating performance against budget targets these are replaced with relative external performance measures which are based on a comparison of key performance indicators with competitors and similar units within the company.

Beyond budgeting supports decentralisation and employee empowerment. It also places greater emphasis on team-based rewards rather than individual rewards.

Benefits of adopting a beyond budgeting approach

One of the main problems with our current annual budgeting system is that it is rapidly out of date. We are operating under fast changing market conditions with competitors open new gyms on a regular basis and changes to technology impacting on customer preferences. The use of rolling forecasts would provide more accurate information that

reflects the latest estimates on economic trends and customer demand. This would enable our managers to determine strategies that adapt to the fast changing market conditions.

The use of relative performance measures will shift the focus from beating other managers for resource allocation to beating the competition by creating a climate based on competitive success. For example, we could use relative performance measures to compare the performance of the gym managers and/or staff across the company. The use of comparative measures will also ensure that our managers strive for continuous improvement rather than being content to meet budget targets.

Beyond budgeting will motivate our managers by giving clear responsibilities and challenges. Authority will be devolved to our operational managers who are closer to the action and so can react quickly. The managers will be empowered to deliver key ratios rather than to keep to strict budget limits. Our managers will have wider discretion in making decisions and can obtain resources without being dependent on resource allocation as part of the budget process. This will enable our managers to react quickly to seize any opportunities that arise as a result of the changing environment.

By making rewards team-based it will eliminate dysfunctional behaviour. The success of our company does not rely on one individual but in everyone working together to achieve the same goals. The success of the operation of each of the gyms is not solely reliant on the gym manager but on all the staff. As part of the process we can establish customer-orientated teams and create information systems which provide fast and open information throughout the organisation.

KPIs for gym staff

The following are suggested KPIs which we could use to measure the performance of our gym staff:

Number of new members

As most of our costs are fixed it is important to grow our membership to obtain economies of scale. The gym managers and staff are able to influence growth in new members through price promotion and by ensuring that feedback from existing members is positive.

Average membership fee

It is important to grow the number of members but profitable growth is fundamental. Price promotions and discount should be used by the gym managers with care to ensure profitable growth and also to avoid a price war with other local competitor gyms.

Number of member complaints

This is a measure of customer satisfaction and could be linked to the number of members leaving and therefore income. Measuring the number of complaints will ensure managers take care to manage those areas of the business that can result in complaints such as a lack of available staff or delays in mending broken equipment. Furthermore, when presented with issues, managers and staff will be more careful to ensure that these are resolved to the customer's satisfaction wherever possible.

Task 4

Variance analysis

Fee income price variance

The adverse fee income price variance relates solely to the full fee members since the fee for student members was in line with budget. This is at least partly due the decision to offer discounted membership fees as this was not reflected in the original budget. It will also be partly due to the discounting of the full fee by gym managers of the gyms that have been affected by the competitor company opening nearby gyms.

Fee income mix variance

The fee income mix variance measures the effect on fee income of the sales mix being different than budget. The variance is adverse which reflects the split between full fee members and student members. There is a higher percentage of student members than budgeted and as student members have a lower average fee the variance is adverse. It would be helpful to discover why the mix is different to budget. It may be that the mix assumed in the budget was inappropriate and if so, the budget for future period should be revised or the variance separated into its planning and operational elements. A further breakdown of membership numbers in each of the gyms would be useful.

Fee income quantity variance

The fee income quantity variance measures the effect on fee income of the total quantity being higher or lower than budget based on volumes at the budgeted mix. The total number of members per gym are below budget which will be partly as a result of the late opening of the new gyms and partly due to the competition from the competitor who may have attracted some of our existing and potential members to its gyms. The discounted fees which have been offered to full fee members both through the sales promotion and by the gym managers has failed to have the desired impact on full fee member numbers. The number of student members however is above budget despite the fact that fees were not discounted. This suggests that our budget estimates of student numbers were potentially inaccurate and that there may also be scope to increase the fee for student members. The student fee offered by GymFit may be lower than that offered by the competitor firm and this needs to be clarified.

Gym manager and staff's concerns

The gym staff's concerns are valid since it is unfair that the company's reward system is based on factors that they cannot control. The gyms staff would not have been able to influence the late opening of the gyms. It could be argued however that the gym managers were able to influence the impact of the competitor opening nearby gyms since they have the authority to adjust fee levels. However, we do not want to get into a price war with the competitor company and we need to take action to avoid this happening. We could stop the GymFit managers from using indiscriminate discounting and perhaps offer, for example, a price match guarantee to match the membership fee of any gyms within a 2 mile radius of our gyms. Other types of promotion should also be considered, for example, offering additional free classes.

In future reporting, it may be better to split the variances between their operational and planning elements. The operational variances would then reflect the position relating to factors that are within the control of the operational managers and would be a better basis for the reward system.

Cash flow management

Dealing with the cash flow deficit

There are a number of steps that we could take to plan for any cash deficit arising including:

- a) Approaching the bank to arrange additional short-term borrowings or to increase overdraft facilities.
- b) The statement of financial position as at 31st December 2018 shows investments of C\$200,000. Assuming we have not already done so, we could sell these although we would need to consider any penalties that may be imposed as a result of early withdrawal / sale;
- c) We could review the finance methods for our capital expenditure on gym equipment and /or the fit-out of new gyms. It may be possible to arrange different forms of finance or change / renegotiate the payments dates on the finance. For example, we may choose to lease the equipment rather than buy the equipment outright;
- d) We could also consider the timing of our dividend payment to shareholders;
- e) We could consider postponing revenue expenditure such as advertising expenditure. We should be careful however as whilst advertising expenditure tends to be classified as discretionary expenditure a reduction or delay in the expenditure may result in reduced member numbers at a later date;
- f) It may be possible to bring forward the planned disposal of non-current assets. If the asset is not required, we could sell the asset sooner or perhaps arrange with the purchaser to pay a deposit.

Why regular cash flow forecasting is important for GymFit

Regular cash flow forecasting would ensure that the forecasts are more accurate, reflecting for example, the latest expectations of the new gyms. Adoption of a rolling budget approach would be particularly suited to cash flow forecasts which needs to be reviewed regularly. It is important at GymFit not just to focus on profit but also to improve cash flow management. Our costs are mainly fixed therefore any changes to member numbers will have a major impact on profit but also on cash flow. A rolling approach to cash flow forecasting will offer better visibility of cash flows and help to identify deficits, thereby ensuring appropriate financing arrangements are put in place to avoid a shortage of funds. Visibility of cash will also allow GymFit managers to adjust the timing of planned expenditure to avoid any cash flow shortages. Where the cash flow forecasts are suggesting that there will be a surplus, GymFit managers can arrange to reinvest these funds to make further gains.

**About this marking scheme**

This marking scheme has been prepared for the CIMA 2019 professional qualification question tutorial.

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.

A marking scheme is a working document and will evolve during marking standardisation – this document, of course, has not been subject to that process. The marking scheme CIMA will publish after examinations will include any amendments which are discussed and agreed during marking standardisation.

General marking guidance as would be given to markers is given below to aid with understanding of how the scheme should be applied. It should also be noted that markers would also be subject to extensive training and standardisation activities and ongoing monitoring to ensure that judgements are being made correctly and consistently.

This document is provided to help students and learning partners understand the guiding principles behind the marking of case study examinations for the 2019 professional qualification. However, 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 marking 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 when 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 task

Sub-task	Core activity	Sub-task weighting (% section time)
Section 1		
(a)	B. Prepare budget information and assess its use for planning and control purposes.	48%
(b)	A. Prepare costing information for different purposes to meet the needs of management.	52%
Section 2		
(a)	E. Prepare information to support short-term decision-making.	52%
(b)	D. Apply relevant financial reporting standards and corporate governance, ethical and tax principles.	48%
Section 3		
(a)	E. Prepare information to support short-term decision-making.	36%
(b)	B. Prepare budget information and assess its use for planning and control purposes. C. Analyse performance using financial and non-financial information.	64%
Section 4		
(a)	C. Analyse performance using financial and non-financial information.	60%
(b)	F. Prepare information to manage working capital.	40%



SECTION 1

Sub task (a): Explain the type of digital sources that are available and the data that we could obtain from both internal and external sources in order to produce a forecast of the member numbers for the new gym.

Trait			
Type of sources	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies very few types of digital sources available and provides a limited or unclear explanation of each.	1
	Level 2	Identifies a number of digital sources and provides a reasonable explanation of each.	2
	Level 3	Identifies a wide range of digital sources and provides a good explanation of each.	3
Data required	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies very few types of useful data and gives a limited explanation of why they would be useful. Little application to the company / industry.	1-3
	Level 2	Identifies a few types of useful data and provides a reasonable explanation of why they would be useful. Some application to the company / industry.	4-6
	Level 3	Identifies a number of types of useful data and provides a good explanation of why they would be useful. Good application to the company / industry.	7-9

Sub task (b): Explain the type of costs which we would expect to incur from operating the Fit4Life apps and how we would use this cost information as part of a cost-benefit analysis.

Trait			
Type of costs	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies very few types of costs of operating the apps and gives a limited explanation of when and why the costs arise.	1-2
	Level 2	Identifies a few types of costs relating to the apps and provides a reasonable explanation of when and why the costs arise.	3-4
	Level 3	Identifies a number of types of costs relating to the apps and provides a good explanation of when and why the costs arise.	5-6
Cost benefit analysis	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Demonstrates little understanding of cost benefit analysis. Does not consider the need to differentiate between costs that arise at the development stage and the ongoing costs of operating the app.	1-2
	Level 2	Demonstrates some understanding of cost benefit analysis. No clear differentiation between costs that arise at the development stage and the ongoing costs of operating the app.	3-5



	Level 3	Demonstrates an in-depth understanding of cost benefit analysis and the need to differentiate between costs which arise in the development phase of the app and the ongoing costs of operating the app.	6-7
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SECTION 2

Sub task (a): Explain how the figures in the attached schedule could be used to determine how many of each type of additional fee classes we should offer in order to maximise profit. Please also explain the other factors that we should consider before scheduling the classes.

Trait ID			
Mix of classes	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains limiting factor analysis in a way that demonstrates little technical understanding.	1-2
	Level 2	Explains limiting factor analysis in a way that demonstrates reasonable technical understanding. The explanation of the allocation of resources is however vague and may be incorrect in some respects.	3-5
	Level 3	Explains limiting factor analysis in a way that demonstrates good technical understanding. Provides a clear and correct explanation of how the resources would be allocated.	6-7
Other factors	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies at least one other factor which may be only marginally relevant to the scenario and gives little or no explanation of why it should be considered.	1-2
	Level 2	Identifies more than one other factor, although each may be of fairly limited relevance, and gives some explanation of why they should be considered..	3-4
	Level 3	Identifies a number of other factors relevant to the scenario and provides a good explanation of why they are important.	5-6

Sub task (b): Advise, for each of the three categories, whether the equipment should be derecognised or remain on the statement of financial position and whether we should continue to depreciate it. Please justify your advice based on the requirements of IAS 16 Property, Plant and Equipment and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Trait ID			
Assets held for sale	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies that some of the assets may be 'held for sale' but provides no explanation of the criteria under IFRS 5.	1
	Level 2	Identifies two or three criteria to determine whether an asset is 'held for sale'.	2
	Level 3	Identifies four to six criteria to determine whether an asset is 'held for sale'.	3
Treatment	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Provides poor advice which does not clearly differentiate between the different category of assets and demonstrates little understanding of the treatment required for each category.	1-3



	Level 2	Provides reasonable advice which clearly differentiates between the different categories of assets and demonstrates some understanding of treatment required for each category.	4-6
	Level 3	Provides good advice which clearly differentiates between the different categories of assets and demonstrates a good understanding of treatment required for each category.	7-9



SECTION 3

Sub task (a): Explain which of the costs would be relevant to the decision. Please also explain any other factors which you think need to be considered before deciding whether to go ahead with RPA.

Trait ID			
Relevant costs	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains relevant costs in a way that demonstrates little technical understanding. Correctly explains the relevance of only one of the cost categories.	1
	Level 2	Explains relevant costs in a way that demonstrates some technical understanding. Correctly explains the relevance of 3-4 cost categories.	2-3
	Level 3	Explains relevant costs in a way which demonstrates good technical understanding. Correctly explains the relevance of 5-6 cost categories.	4-5
Other factors	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies one other factor which is only marginally relevant to the scenario and gives little or no explanation of why it should be considered.	1
	Level 2	Identifies one other factor with some relevance to the decision and gives some explanation of why it should be considered.	2-3
	Level 3	Identifies more than one other factor relevant to the decision and provides a good explanation of why they should be considered.	4

Sub task (b): Explain the main characteristics of beyond budgeting and the benefit of GymFit using beyond budgeting principles. Please also suggest three KPIs and explain why you think these would be appropriate to use to measure the operational performance of the gym staff.

Trait ID			
Beyond budgeting	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains beyond budgeting in a way which demonstrates a limited understanding of its main characteristics. Explains few of its benefits and does not relate these to GymFit.	1-2
	Level 2	Explains beyond budgeting in a way which demonstrates a reasonable understanding of its characteristics. Explains some of its benefits with some application to GymFit's situation.	3-5
	Level 3	Explains beyond budgeting in a way which demonstrates a good understanding of its characteristics. Considers a number of its benefits with good application to GymFit's situation.	6-8
KPIs	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies one relevant KPI which is only marginally relevant to the scenario and gives little or no explanation of why it is appropriate.	1-2



	Level 2	Identifies one or two relevant KPIs which are relevant to the business and gives some explanation of why they are appropriate.	3-5
	Level 3	Identifies three or more KPIs which are relevant to the business and provides a good explanation of why they are appropriate.	6-8



SECTION 4

Sub task (a): Explain the reasons why each of the variances may have arisen. Please also discuss the gym staff’s concerns and suggest how future reporting might be improved.

Trait ID			
Variations	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains the variances in a way which demonstrates little understanding of their meaning or why they have arisen. Poor application of the details given in the scenario.	1-3
	Level 2	Explains the variance in a way which demonstrates reasonable understanding of their meaning and why they have arisen. Applies some of the details given in the scenario.	4-6
	Level 3	Explains the variances in a way which demonstrates a good understanding of their meaning and why they have arisen. Applies most of the details given in the scenario to support the answer.	7-9
Staff concerns	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Provides very little discussion of the staff’s concern. Does not offer any suggestions for improvements to future reporting.	1-2
	Level 2	Provides a discussion of the staff’s concern but fails to consider the needs of the business. Recognises the needs to split the variances between controllable and uncontrollable.	3-4
	Level 3	Provides a balanced discussion between the validity of the staff’s concern and the needs of the business. Recognises the needs to split the variances between controllable and uncontrollable.	5-6

Sub task (b): Explain what actions we could take to deal with the cash deficit and the reasons why regular cash flow forecasting is important for GymFit.

Trait ID			
Actions	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies at least one potential action which could be taken but with little explanation or link to the scenario or the company.	1-2
	Level 2	Identifies one or two actions which could be taken with some explanation and linkage to the scenario or the company.	3-4
	Level 3	Identifies three or more actions which could be taken with good explanation and linkage to the scenario or the company.	5-6
Importance	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains the reasons in a way that demonstrates a limited understanding of the importance of cash flow forecasting.	1



	Level 2	Explains the reasons in a way which demonstrates a reasonable understanding of the importance of cash flow forecasting.	2-3
	Level 3	Explains the reasons in a way which demonstrates a good understanding of the importance of cash flow forecasting.	4

OPERATIONAL CASE STUDY PROTOTYPE ANSWERS

Variant 2

These answers have been provided by CIMA for information purposes only. The answers created are indicative of a response that could be given by a good candidate. They are not to be considered exhaustive, and other appropriate relevant responses would receive credit.

CIMA will not accept challenges to these answers on the basis of academic judgement.

TASK 1

Deciding whether to 'Fix' or 'Flex' the support contract

Explanation of the decision tree and the probability distribution

The decision tree maps out related outcomes and clearly expresses the overall impact in a single figure. In this case, the decision is whether to Fix or Flex the support contract for the FitTech equipment. If the decision is taken to Fix the cost, the decision tree illustrates that we will incur a fee of C\$25,000 per gym per year. If the decision is taken to Flex, the cost is not certain and will depend on two sets of events. The first of these sets considers whether the equipment usage is high or low; there is a 70% chance that usage is high and a 30% chance that usage is low. The second of these sets of events considers the level of problems with the equipment. This depends partially on usage; if usage is high there is a 60% chance of a high level of problems but if usage is low, there is only a 20% chance of a high level of problems.

The decision tree shows the expected value of the decision, based on joint probabilities. The expected value cost of C\$23,852 represents outcome C, the weighted average of the possible 'Flex' outcomes, weighted by their respective joint probabilities. The decision tree also shows outcomes A and B; outcome A has an EV of C\$27,328 where usage is high and outcome B has an expected value of C\$15,744 where usage is low. The probability distribution shows details of the full range of Flex outcomes, including the joint probability of each specific outcome which is not visible with a single expected value. The joint probability of high usage and high equipment problems is calculated as 70% x 60% which is 42%. The probability distribution shows that this is the most likely outcome with a cost of C\$29,408. It is also clear from the probability distribution that there is a 42% chance of incurring a higher cost with the Flex option versus the Fix option and consequently a 58% chance of incurring a lower cost with Flex.

The decision using different attitudes to decision making

Using a risk averse approach management would choose to Fix the support contract because this is the option that gives the lowest risk in terms of knowing what the future cash flow will be. Indeed, with this option there is no risk because the future cost is fixed

at C\$25,000. A risk averse decision maker would ignore the 58% chance of achieving a lower cost than the C\$25,000 contract cost to Fix costs. Using a risk-taking approach management would choose to Flex the contract, because this gives the opportunity to achieve the lowest cost (the 42% chance of the cost being higher than C\$25,000 would be ignored). Using a risk neutral approach management would utilise the decision tree and choose the option with the lowest expected value. From the decision tree, the Flex option expected value of cost of C\$23,852 is lower than the Fix option cost of C\$25,000. On this basis, GymFit would choose the Flex option as the expected value of the cost per gym per year is lower.

Limitations of using a risk neutral approach to this decision

The main limitation of using a risk neutral approach to decision making is that it is based on the lowest expected value of the cost. The limitations of this are as follows:

- The expected value is dependent on the estimates of the probabilities which are subjective, especially because they have been estimated in-house rather than through an expert consultant. The probabilities also assume that each gym will be the same, which is unrealistic because for some gyms we might expect a higher usage of the equipment than in others.
- The expected value of C\$23,852 is a weighted average and therefore is representative of the average position assuming that this activity happens time and time again. Whether to fix or flex the contract is a one-off decision.
- The expected value gives no indication of the dispersion of possible outcomes around the expected value, that is, the risk. As noted above using a risk averse approach would lead to a different decision because it chooses the option with the lowest risk (which in this case is nil because the fee would be fixed).

Budget responsibility for data hosting and equipment support costs

Responsibility accounting demands that managers account for the costs in their area of responsibility. Budgetary control requires a clear line between areas of responsibility, along with manager specific reporting. In order to successfully operate responsibility accounting however, costs need to be controllable. The responsible manager can thus remove any adverse variances by taking action to bring operations back under control. If the decision is made to fix the support costs at top management level, then there is little point in making functional managers responsible for the costs because they cannot do anything to influence the level of the cost. However, if the decision is taken to flex the costs, then potentially functional managers can influence the level of cost.

In this case of data hosting, it appears that these costs are going to be dependent on usage, membership numbers and initial data design decisions; this cost is therefore not controllable by any one manager. There is very limited room to manage the ongoing spend with the possible exception of the IT department who could take a pro-active role in ensuring that the minimum history is held, for example by deleting non-active member history.

Equipment problems however can be managed. It appears that we could see a significant reduction in equipment problems by ensuring that staff carry out the necessary preventative maintenance and have the appropriate training. The manager responsible for gym staff is therefore able to manage these costs to some degree.

Task 2

Costings for FitTech equipment

On-going costs of FitTech equipment: direct or indirect

Direct costs are those which are wholly and exclusively identified with a cost object, which in this case is the FitTech equipment. The FitTech monthly fee and the FitTech support costs for data usage and engineer call outs can be exclusively identified with the FitTech equipment and therefore are direct costs.

Indirect costs are those which are not wholly and exclusively identified with FitTech equipment. Gym instructors will use a portion of their time each month to perform routine maintenance and to give members guidance on the FitTech equipment. This will be classed as an indirect cost because instructor time is not exclusively spent on FitTech equipment: instructors perform many other activities as well.

There will also be administrative overheads such as the management time spent managing the FitTech relationship and IT support: these will all be indirect as the administrative function supports the business as a whole. The training costs are a one off and hence should be excluded from this analysis as they are not on-going.

How to determine the cost of FitTech equipment per member

To determine the cost per member we first need to establish the total cost of operating the FitTech equipment and this will involve allocation of direct costs and apportionment of the indirect costs to a FitTech equipment cost centre.

The 5% fee is based on membership fee income for the FitTech gym and hence an estimate of member numbers will be required to calculate this direct cost. The support costs are based on a flex contract and therefore we will need to estimate the mb of data that we expect to use and the anticipated number of engineer call outs to establish the expected total support cost.

The cost of gym instructor time will need to be apportioned across all of the different activities that they carry out based on the time spent on each activity, one of which is dealing with the FitTech equipment. Therefore, a share of gym instructor wage costs will be apportioned to the FitTech equipment cost centre equivalent to the proportion of time they will spend carrying out routine maintenance and member FitTech session compared to other activities.

All of the different administrative costs associated with the equipment will need to be established and then an appropriate share of each cost apportioned to the cost centre. For example, significant internal IT support is going to be required. The total cost of providing IT services to the business (including the impact of potentially outsourcing some of the service) can be apportioned to each of the cost centres using this service on a suitable basis (perhaps hours of IT support).

The final stage, after the total of the FitTech equipment cost centre has been established is to calculate the cost per member which will simply be the total of the cost centre divided by the number of members.

Financial information about potential supplier

Receivable days

Receivable days have grown across the three-year period and are higher than the average for the industry as a whole. It is not clear from the financial information what credit terms the IT services supplier offers to its customers and it is possible that the growth in receivable days is as a result of a deliberate policy to offer extended credit terms, perhaps to facilitate the significant growth in the business. If this is the case, the implication for us is that we could benefit from these extended terms in terms of retaining cash within our own business.

However, if there has not been a change in credit terms, the growth in receivables is worrying in terms of the potential supplier's ability to generate cash and therefore continue to trade. Possibly credit control procedures are poor or maybe the business does not have the resources to manage the receivables.

Payable days

Payable days have also grown across the three-year period, which could be a symptom of the business overtrading. Perhaps the potential supplier has been unable to pay its suppliers as quickly as it would like given its poor cash position.

However, even when it had cash in 2016, this IT services supplier was slower to pay its suppliers than the industry average. This could indicate that this business has taken advantage of its suppliers which would indicate a lack of ethical concern with which we would not wish to associate ourselves.

Revenue and cash position

The business is small in comparison to the industry as a whole and has grown significantly over the last couple of years: it is therefore likely to be a relatively new business. The younger the business the higher the risk that it does not continue to trade. There are indications that this business is overtrading: significant and quick growth in revenue, depletion of cash, paying suppliers later and a worsening of credit control. As a result of quick growth, the business has not had enough resources to manage the growth and as a consequence cash flow has suffered. The implication of this for us is that unless the business can secure finance to support cash flow, it might not be able to continue to trade for much longer.

Task 3

Corporate Governance

Appropriateness of current composition of board

Non-executive directors (NED's) fulfil an important role, attending board meetings and bringing a wider variety of experience to decisions. Typically, it is recommended that at least half of the board (excluding the chairman) should be independent non-executive directors. The guidance also suggests that there are at least two NEDs in smaller companies.

We do have two NEDs and thus meet this minimum number, but the board has six members in which case we fail to have the appropriate composition as less than 50% are independent non-executive directors. We should also check whether one of the NEDs has been appointed as a 'senior independent director'. This position would serve as a contact point for shareholders should they wish to raise issues directly.

One of our NED's, Karl Mann used to work for FitTech and therefore was possibly biased in his assessment of the potential benefits of partnering: raising a question of independence. It is vital that each NED is independent in order to act in the best interests of GymFit and we should therefore review the independence of all NED's.

Ways to improve the composition of the board

The current composition of the board should be increased above two NEDs given our listed status which demands high standards of governance. In addition, as a business we are embracing new technologies and initiatives, such as the link up with FitTech and thus are potentially increasing the risks that the business is facing. Our shareholders need to feel secure that the business is in safe hands and that decisions are being made in their best interests: increasing the number of independent NED's can only enhance this.

We also need to ensure that all the NED's are independent or that where there is a connection to a potential partner in the future, that the NED in question is not involved in any of the decision making.

Revaluation of properties

Financial reporting standards do allow us to select a policy of revaluing property, although if we choose this policy, we need to apply it consistently from year to year and in relation to all properties that we own.

The effect of revaluation is that we would need to firstly establish the market value of each of our properties and for this we will need to engage a professional valuer. Once the total value of the properties is established an accounting entry will need to be made to reflect the increase in value of approximately C\$3 million, the effect of which is to increase property, plant and equipment and to set up for the first time a revaluation surplus reserve as part of equity.

Both of these effects happen in the statement of financial position and therefore initially there will be no impact on profit or loss, although the increase in the revaluation surplus will be included as part of other comprehensive income for the year. In future years

depreciation will be based on the revalued amount for property which at around C\$3 million higher than current carrying amount means that the annual depreciation charge will be higher each year. This will have the effect of reducing profit.

Therefore, whilst we could revalue our properties, it will not boost our profit as the surplus from the revaluation will be included as a reserve and will not be reflected in profit or loss. Thus, revaluing properties will not counter any reduction in profit from reduced member numbers.

Fee income variances

Fee income price variances

The nil fee income price variance in April means that the fee income per member was the same as budget, which is as expected given that the Gym Managers at these six gyms were instructed not to change the budgeted price. The adverse variance in May shows that the average fee income per member was lower than budget. One reason for this was the 5% refund given to all members after the data breach: other discounts might also have been offered to students in light of the competitor's reduction in fees.

Fee income mix variances

The fee income mix variances show that the proportion of student to full fee members compared to budget changed in both April and May. In April the adverse variances show that there was a greater proportion of lower income members in the mix, meaning that the proportion of students was higher than that budgeted. The favourable variances in April show that there was a lower proportion of the lower income members in the mix, meaning that the proportion of students was lower than budget.

This fits with your expectation that the students were more greatly influenced by the FitTech equipment than was anticipated in the budget. Firstly, positively in terms of a higher number of students signing up as members and secondly, in a negative way when the data breach happened. Additionally, the reduction in the proportion of students in May will have been affected by the student specific promotion of one of our competitor gyms in the wake of the data breach.

Fee income quantity variances

The fee income quantity variance in April means that there were more members overall than budget, which shows the popularity before the hacking incident of the FitTech equipment. The adverse variance in May means that there were fewer members than budget. This variance is significant and shows the impact of both the loss of members due to the data breach and the reduction in student fee level by our competitor. It would appear that our 5% refund and extra student discount was not sufficient to stop members leaving.

Task 4

What if analysis

Explanation of the figures and risk of our cost structure

What-if analysis involves revising the budget on the basis of a series of varied assumptions. One or more assumptions can be changed at a time to determine the impact on the budget overall. In this case, we have changed our assumptions about the average number of members per gym to determine the impact on the budgeted profit. We could do this for each of the different variables within the budget and determine the variables to which the profit figure is most sensitive. We will also be able to determine by how much each of the variables can change before we make a loss.

It is apparent from the schedule that profit is very sensitive to a change in member numbers. We can see that a 10% change in member numbers results in a change in profit of 45% and that a change of 20% will result in a 90% reduction in profit and leave us almost in a loss-making situation, especially after finance charges and taxation are taken into account. A change in member numbers will affect both sales revenue and variable costs whilst the fixed costs will remain the same despite the volume change.

GymFit has a relatively high level of fixed cost, in other words we have high operational gearing. Businesses with high operational gearing are considered to be high risk since a relatively low change in volume will result in a relatively high change in profit, as is clearly demonstrated by the schedule. As a business with high operational gearing, we are reliant on scale since the higher the volumes the lower the fixed cost per unit or in our case per member. Our break-even point is relatively high, however, once the fixed costs are covered, we will start to achieve contribution at a relatively fast rate since our contribution per member is high as our variable costs are low.

Benefits and limitations of this 'what-if' analysis

What-if analysis provides us with more information about the effect on profit of changes to different variables and the sensitivities of profit to these changes. It allows us to make a decision about whether we are prepared to accept the risks involved. It will also allow us to decide whether it is worth spending time and money on, for example, further advertising to improve member numbers. We can also make contingency plans for the eventuality that the member numbers turn out to be much lower than expected.

What-if analysis, however, is limited as it assumes that changes to variables can be made independently however many variables are interdependent, for example, the number of members is likely to be very dependent on the membership fee set. In addition, this particular what-if analysis is based on the budgeted costs for 2019. We already know that operating costs are higher in the FitTech gyms because of the problems with the equipment, although given that only 6 out of 124 gyms are FitTech gyms, the impact of this is potentially small, although could have been incorporated into the what-if analysis.

We can establish from the analysis that if contribution falls by 20%, we will be close to making a loss, but it does not tell us the probability of that change happening. The contribution is also dependent on both the membership fee and the number of members. A change in the membership fee per member would impact the revenue figure but a change in number of members would impact both revenue and variable costs. The

contribution is therefore more sensitive to a fall in the membership fee than a fall in the number of members. We could however determine the probabilities of different member numbers and then calculate an expected value for both the member numbers and profit. However, this analysis is very dependent on the accuracy of the probabilities.

Feedforward control

Feedforward control is where budgeted results are compared against a forecast. By preparing a forecast of gym operating costs for the rest of the financial year and comparing this to the budget it will enable our managers to be pro-active and to take control action to prevent the adverse situation arising. These forecasts can be reviewed and changed regularly as circumstances change. This compares to feedback control where actual results are compared to budget.

This type of control mechanism will be of significant benefit to us since it will trigger action to control our operating costs earlier than would be the case if we reported variances compared to actual results. Comparing to a forecast allows us to see potential issues before they escalate. For example, had we prepared a forecast of operating costs after the first few times where FitTech equipment problems occurred, we might have foreseen that the fact that the training hadn't happened was an issue. As a result, we could have made the training a priority to ensure that staff knew how to operate and maintain the machines, which ultimately could have led to fewer engineer call outs and less fitness instructor time dealing with member concerns and queries.

Performance measures relating to FitTech equipment

Measures should be controllable by managers in order to influence their behaviour. With respect to the FitTech equipment these measures could include the following:

Percentage of fitness instructors trained to operate and maintain FitTech equipment

As noted in the FitTech Support Guide, there is a clear expectation on the part of FitTech, that gym staff are appropriately trained on the operation and preventative maintenance of the equipment. In addition, we have experienced increasing operating costs, probably as a direct consequence of staff not being trained. Therefore, it is important that gym managers support their fitness instructors to be trained and hence a measure to encourage this is to look at the percentage of instructors trained. Clearly the aim would be to achieve and then keep this at 100%.

Percentage of member complaints about FitTech equipment resolved

Complaints from members are a good way to assess how they feel about different aspects of the gym. A high level of member complaints about the FitTech equipment could indicate dissatisfaction, which if not dealt with by the gym manager could result in lost members and hence lost revenue. Therefore, a useful measure would be to see how successful the gym manager is in resolving complaints.

Number of FitTech engineer call outs

Each time there is a FitTech engineer call out to deal with the equipment, operating costs increase. Therefore, it is important to keep the number of call outs to a minimum and therefore an appropriate measure would be to consider the number of call outs. This is controllable by the gym manager because as long as staff are trained, the level of call outs should be low.

**About this marking scheme**

This marking scheme has been prepared for the CIMA 2019 professional qualification question tutorial.

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.

A marking scheme is a working document and will evolve during marking standardisation – this document, of course, has not been subject to that process. The marking scheme CIMA will publish after examinations will include any amendments which are discussed and agreed during marking standardisation.

General marking guidance as would be given to markers is given below to aid with understanding of how the scheme should be applied. It should also be noted that markers would also be subject to extensive training and standardisation activities and ongoing monitoring to ensure that judgements are being made correctly and consistently.

This document is provided to help students and learning partners understand the guiding principles behind the marking of case study examinations for the 2019 professional qualification. However, 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 marking 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 when 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 task**

Sub-task	Core activity	Sub-task weighting (% section time)
Section 1		
(a)	E. Prepare information to support short-term decision-making	68%
(b)	B. Prepare budget information and assess its use for planning and control purposes.	32%
Section 2		
(a)	A. Prepare costing information for different purposes to meet the needs of management.	56%
(b)	F. Prepare information to manage working capital.	44%
Section 3		
(a)	D. Apply relevant financial reporting standards and corporate governance, ethical and tax principles.	36%
(b)	D. Apply relevant financial reporting standards and corporate governance, ethical and tax principles.	24%
(c)	C. Analyse performance using financial and non-financial information.	40%
Section 4		
(a)	B. Prepare budget information and assess its use for planning and control purposes.	48%
(b)	B. Prepare budget information and assess its use for planning and control purposes.	20%
(c)	C. Analyse performance using financial and non-financial information.	32%



SECTION 1

Sub task (a): Explain a decision tree and probability distribution and how to use these to make a decision on whether to 'Fix' or 'Flex' the support contract using a risk averse, risk taking and risk neutral approach to decision making. Also, explain the limitations of using expected value to make this decision.

Trait			
Decision tree	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains some of the characteristics of the decision tree and / or probability distribution but application of the data presented is poor or non-existent.	1-2
	Level 2	Explains the decision tree and the probability distribution with reasonable technical accuracy but there is limited use of the data presented to illustrate the explanation.	3-4
	Level 3	Explains BOTH the decision tree and the probability distribution with technical accuracy with clear and accurate reference to the data presented to illustrate the explanation.	5-6
The decision	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains only one or two of the decision approaches with technical accuracy but with little or no attempt to determine the decision under each approach using the data presented in the task.	1-2
	Level 2	Explains the decision approaches with reasonable technical accuracy with a reasonable attempt to use the data presented in the task to determine the decision under each approach.	3-4
	Level 3	Explains all three decision approaches with technical accuracy with good use of the data presented in the task to determine the decision under each approach.	5-6
Limitations of EV	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains only one or two limitations.	1-2
	Level 2	Explains a range of limitations, but there is sometimes a lack of clarity regarding the explanation.	3-4
	Level 3	Explains a range of limitations and this is clear and accurate. This must include that risk is ignored.	5



SECTION 1 (CONTINUED)			
Sub task (b): Explain whether it is appropriate to assign budgetary responsibility for each element of the data hosting support and equipment support costs to the IT, Operations, Marketing or Gym Managers.			
Trait			
Budget responsibility	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains some aspects of budget responsibility but there is little attempt at linking this to the scenario. Does not include reference to each element of cost or does not comment on the most appropriate manager.	1-3
	Level 2	Explains most aspects of budget responsibility and there is a reasonable attempt at linking this to the scenario given. May not address each element of cost or always identify the most appropriate manager.	4-6
	Level 3	Explains key aspects of budget responsibility within the context of the scenario given. Addresses each element of cost and will clearly identify the most appropriate manager for each.	7-8

SECTION 2			
Sub task (a): Identify the different costs associated with operating the FitTech equipment on an on-going basis and explain which of these are direct and which are indirect costs of operating the equipment. Also, explain how to establish the cost of FitTech equipment per member.			
Trait			
Indirect or direct	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Identifies less than half of the on-going costs and does not always accurately explain whether these are direct or indirect.	1-2
	Level 2	Identifies around half of the on-going costs and accurately explains which of these are direct and which are indirect.	3-5
	Level 3	Identifies most of the on-going costs from the data presented and accurately explains which of these are direct costs and which are indirect.	6-7
Cost per member	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains how to establish the cost of FitTech equipment per member, but the explanation is weak with no or limited reference to cost allocation and apportionment. Limited reference to the on-going costs identified in the previous trait.	1-2
	Level 2	Explains how to establish the cost of FitTech equipment per member by demonstrating reasonable understanding of cost allocation and apportionment, but with limited application to the on-going costs identified in the previous trait.	3-5



	Level 3	Explains how to establish the cost of FitTech equipment per member by clearly demonstrating understanding of cost allocation and apportionment in the context of the on-going costs identified in the previous trait.	6-7
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SECTION 2 (CONTINUED)

Sub task (b): Explain what each element of the operating cycle tells us about how this potential supplier manages its working capital and the implications of this for the business. Explain what we might conclude from the revenue and cash position of the potential supplier over the three-year period and the implications of this for the business.

Trait			
Operating cycle	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains briefly, or with a lack of clarity, the supplier's approach to working capital management. Identifies no implications of this approach for the business.	1-2
	Level 2	Explains the supplier's approach to working capital management but lacks some clarity. Identifies no or limited implications of this approach for the business.	3-5
	Level 3	Explains fully the supplier's approach to working capital management. Identifies the implications of this for the business.	6-7
Revenue and cash position	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains a single sensible observation about the revenue and cash position of the supplier but does not identify that the supplier is possibly overtrading or comment on the implications of this.	1
	Level 2	Explains some sensible observations about the revenue and cash position and does identify that the supplier is possibly overtrading. The explanation of the implication of the supplier overtrading is either weak or missing.	2-3
	Level 3	Explains that the supplier is possibly overtrading based on observations about the revenue and cash position and clearly explains the implication of this.	4



SECTION 3

Sub task (a): Explain whether the current membership of the board is consistent with corporate governance principles and how its membership might be improved.			
Trait			
Board membership	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Demonstrates some understanding of corporate governance principles but application of these principles to explain the problems with the current board membership is lacking. Suggestions for improvement are either not given or are inappropriate for the business.	1-3
	Level 2	Demonstrates understanding of corporate governance principles but application of these principles to explain the problems with the current board membership is limited or inaccurate. Suggestions for improvements are given but these are not always appropriate for the business.	4-6
	Level 3	Demonstrates good understanding of corporate governance principles and applies these principles to explain the problems with the current board membership. Suggestions for improvement are in line with corporate governance principles and appropriate for this business.	7-9
Sub task (b): Explain the impact of revaluing the property that the business owns and whether this will have the effect that Troy suggests			
Trait			
Revaluation of properties	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains some of the revaluation rules of IAS16 with technical accuracy but there is limited or no application of these to the situation. Does not identify the impact on profit.	1-2
	Level 2	Explains most of the revaluation rules of IAS16 with technical accuracy with some application to the situation. Might not identify the impact on profit.	3-4
	Level 3	Explains the revaluation rules of IAS 16 with technical accuracy and clearly explains how these apply in this situation. The answer accurately identifies that a revaluation will not improve profit.	5-6

**SECTION 3 (CONTINUED)****Sub task (c):** Explain what the variances show in terms of the performance of the six FitTech gyms in April and May, giving possible reasons for the variances.

Trait			
Variances	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains one or two of the variances with technical accuracy but with limited explanation of what these variances mean in terms of the performance of the gyms over the two months. Reasons given for the variances might be missing or not linked to the correct variance.	1-3
	Level 2	Explains at least two of the variances with technical accuracy with reasonable explanation of what these variances mean in terms of the performance of the gyms over the two months. Reasons given for the variances might not be drawn from the information presented or maybe missing in some cases.	4-7
	Level 3	Explains each of the three variances with technical accuracy with good explanation of what these variances means in terms of the performance of the gyms over the two months. Reasons given clearly relate to the specific variance and are drawn from the information presented in the task.	8-10



SECTION 4

Sub task (a): Explain the figures in the ‘what-if’ analysis and what they tell us about the risk associated with cost structures. Discuss the benefits and limitations of using ‘what-if’ analysis.			
Trait			
What-if analysis	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Explains only briefly, and with a lack of technical accuracy, the figures given in the ‘what-if’ analysis. Does not address the risk associated with the cost structure.	1-2
	Level 2	Explains with reasonable technical accuracy the figures given in the ‘what-if’ analysis. May not address the risk associated with the cost structure.	3-4
	Level 3	Explains fully and with technical accuracy the figures given in the ‘what-if’ analysis and accurately identifies what this means in terms of the risk associated with the cost structure.	5-6
Benefits and limitations	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Discusses briefly some of the benefits and / or limitations. There is no reference to the analysis given in the task.	1-2
	Level 2	Discusses a range of points but either they are focused solely on either benefits or limitations or the points made are very brief. There should be some attempt to link the discussion to the analysis given in the task.	3-4
	Level 3	Discusses a range of points that relate to both benefits and limitations which are directly related to the analysis given in the task.	5-6
Sub task (b): Explain how we could use feedforward control to improve our variance reporting and the benefits of doing this.			
Trait			
Feedforward control	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Demonstrates some understanding of feedforward control, but there is limited explanation of how it improves variance reporting and the benefits. There is likely to be little use of the scenario.	1-2
	Level 2	Demonstrates understanding of feedforward control with some attempt to explain how it improves variance reporting and the benefits. There may be limited use of the scenario to illustrate.	3-4
	Level 3	Demonstrates good understanding of feedforward control and how this could make variances more meaningful allowing management to be more proactive in respect of cost control. The explanation will draw on the scenario to illustrate.	5



SECTION 4 (CONTINUED)

Sub task (c): Recommend and justify three measures that could be used at the FitTech gyms to enable the business to measure the performance of the gym managers in respect of the operation of FitTech equipment.

Trait			
KPI's	Level	Descriptor	Marks
		No rewardable material	0
	Level 1	Recommends at least one appropriate KPI but either the justification is weak or only one recommendation is made.	1-3
	Level 2	Recommends three appropriate KPI's but the justification is either not consistent across the three or is weak.	4-6
	Level 3	Recommends three appropriate KPI's with good justification for each.	7-8