



CIMA/CGMA

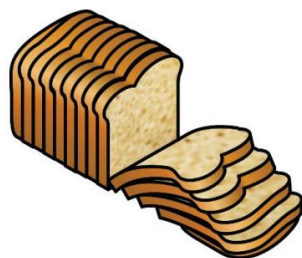
Operational Case

Study

Case Book

(DEMO-260 PAGES)

Halfpenny



Contents:

Preseen Material Application	
Introduction to the OCS exam	42
Core activity A: Costing Information.....	45
Core activity B: Budget	68
Core activity C: Performance Analysis.....	110
Core activity D: IFRS, Taxation, Corporate Governance, Ethics ..	143
Core activity E: Short Term Decision Making	183
Core activity F: Working Capital Management	234

Study Platform walk through from Page 27 onwards

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Preseen Application

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Your role and Company background

Company Type	Industrial bread producer (packaged loaves & rolls)
Founded	1891 (Keeland); shifted to wholesale model in 1952
Location	Based in central Keeland, Europe
Ownership	Family-owned; currently run by Trey Halfpenny (MD) and Rosa Grimble (Sales & Marketing Director)
Production Facility	Single site (opened in 1985); centralised production for all products
Distribution Centre	Co-located with factory; opened in 1999
Current Products	Sliced packaged bread loaves and packaged bread rolls
Recent Change	Product range expansion under review due to slowing growth
New Role	Harry Chang appointed as Product Development Director
Production Model	Likely linear flow, suited to high-volume, low-variation production
Strategic Risk	Low product diversity, outdated factory layout, over-reliance on core SKUs/Stock Keeping Unit.

When Bread Logistics Failed

In 2020, Allied Bakeries—owner of the prominent Kingsmill brand—closed its Orpington bakery, once a major production site in its national network. The decision was not prompted by reputational damage or a collapse in demand, but by something more systemic and preventable: the gradual erosion of operational competitiveness.



The Orpington site had become burdened with high fixed costs. Its machinery, building infrastructure, and , responsiveness to variability in demand was low, and downtime issues accumulated over time—all quietly compressing margins.

But one of the more subtle, yet decisive, weaknesses lay in logistics strategy. Orpington's model was still heavily dependent on direct-to-store deliveries, an approach that had once been a strength—offering freshness and close retailer relationships—but had become logistically intensive and commercially obsolete. In this model, , on the road, more delivery routes to manage, higher fuel costs, and limited economies of scale in transportation.

Moreover, the fragmented nature of direct-to-store deliveries meant that inventory optimization was nearly impossible. It led to frequent mismatches between what stores needed and what was delivered. Overstock resulted in waste; understock risked lost sales. And given bread's perishability, these inefficiencies . This allowed them to consolidate transport, reduce last-mile costs, and gain better control over stock rotation—especially crucial for short shelf-life goods.

In Orpington's case, the cost burden of clinging to the direct-to-store model became unsustainable. When layered onto already-high fixed production costs and a narrow product portfolio heavily reliant on low-margin white and wholemeal , restructuring, but entrenched labor agreements and the physical limitations of the site rendered transformation impractical. The facility was eventually shut down.

How Interstate Bakeries Failed to Evolve (Failed Product Portfolio)

Interstate Bakeries Corporation (IBC), once the largest wholesale bakery in the United States, is best known as the former owner of Wonder Bread and Hostessd recognition, IBC collapsed—twice—due in large part to a failure in product portfolio strategy.

During the early 2000s, consumer trends began shifting quickly. People were buying more whole grain, low-carb, and healthier bread options. Interest in artisan and organic products was growing. But IBC did not keep up. Its with new product lines that aligned with health trends, IBC continued to promote the same white and soft wheat loaves it had sold for decades.

When IBC did attempt to innovate, it was slow and reactive. Its whole grain and health-oriented products were introduced late, lacked clear differentiation, and often ving elsewhere. There were also missed opportunities to repackage or reposition its legacy brands for new demographics.

Financial pressure mounted. By 2004, IBC filed for bankruptcy protection, citing high labor costs, debt, and weak sales. It emerged from bankruptcy five years later as Hostess bread and snack cakes. In 2012, it filed for bankruptcy again. This time, the company was liquidated. Its brands were sold off to different buyers, and its original structure was dismantled.



Former headquarters on Armour Boulevard in Kansas City (later the operations center).

Preseen:

by 1952, the company no longer had its own stores and was entirely focused on the production of bread, which was sold to grocery stores in central Keeland.

Consumer brand-building without physical retail presence.

In the industrial bread sector, where the average packaged loaf sits quietly on the shelf, often indistinguishable from its neighbors, Warburtons made a deliberate choice: to act like a consumer brand in a category that treated itself like a commodity. And they did it without owning a single store, without cafés, and without ever meeting the consumer face to face.

Their approach was calculated. Warburtons understood that visibility on a , he bread

aisle. This is where most industrial bakers fail: they produce efficiently but disappear at the point of decision. Warburtons refused to accept that fate. They decided to compete on more than just freshness or price. They competed for emotional share of mind.

The company made bold marketing investments that would have looked excessive—..... , partnerships—

George Clooney, Peter Kay, and Sylvester Stallone among them. The point wasn't just humour or novelty; it was strategic reframing. They positioned bread not as an afterthought, but as a daily ritual worth choosing, and their brand as a household name deserving loyalty. These were not product ads—they were identity ads. For a product sold in plastic, they were selling a perception: quality, warmth, reliability, family.

What made this strategy more impressive

is that it , ating pull pressure on retailers to stock and promote the brand. This reversed the power dynamic: Warburtons became not just another supplier, but an asset to the retailer's bakery aisle.

To reinforce that loyalty, they also standardized brand presentation across formats—from , segments. Consumers didn't need to taste each item to believe in its quality; the branding did that work.

In short, , ensable in a space dominated by private label pricing pressure. The marketing didn't just create recognition; it generated influence. It gave , a brand moat in a market where most players compete only on cost and logistics.

In conclusion: perception can be more valuable than shelf space itself.



New video: George Clooney is the latest celebrity to appear in a Warburtons ad, appearing on a video call to try and pitch a film idea to the company's boss Jonathan

Preseen:

In 1952, Joseph invested in what was, at the time, state-of-the art machinery to slice and package loaves in Halfpenny-branded waxed paper.

A Brand That Refused to Slice (functionally retired NOW)

There was a time when **Mother's Pride** was one of the biggest names in British bread. In the mid-20th century, it sat proudly next to Kingsmill and Warburtons, holding its own as a trusted, familiar loaf across millions of homes. But by the early 2000s, the brand had e, even as the rest of the industry sprinted ahead.



The key issue? Mother's Pride stuck stubbornly to an outdated product format. While competitors began slicing, sealing, and rebranding their loaves for modern consumers, Mother's Pride kept g, and offered variety: thin slices for sandwiches, thick slices for toast, seeded options, gluten-free versions, and so on.

But Mother's Pride? It was like the relative who refuses to buy a smartphone—loyal to the past, allergic to change. The packaging looked dated, the product range was limited, and the bread wasn't even sliced. This might have passed in a corner bakery, but not in supermarkets where efficiency and shelf appeal rule. Buyers didn't want to deal with a product that couldn't keep up with the demands of , barcoding, health claims, freshness sealing, and consistent sizing. Mother's Pride couldn't—or wouldn't—meet those standards.

Behind closed doors, this was a known issue. Insiders at Associated British Foods, the , -presented loaves. Warburtons and Kingsmill came in with sharp, modern packaging, uniform slicing, longer shelf life, and actual brand stories. They were speaking the language of the modern shopper. Mother's Pride, in contrast, looked like a forgotten relic.

Preseen:

The early 1980s was a period of rapid growth for the company, principally due to the boom in supermarkets. ,

How Supermarkets Crushed Kerry Foods' Chilled Meats Business

In 2019, Kerry [REDACTED], with chilled deli meats—like sliced ham, cooked meats, pâtés, and sandwich fillings—it announced that [REDACTED]. Over the years, UK retailers had tightened their grip on suppliers, especially those **dealing in low-margin, perishable goods**. For



Kerry, this meant they were constantly under pressure to offer discounts and promotions, which the supermarkets demanded nearly all year round. And Kerry had to fund these discounts themselves—cutting into their own margins.

Things got worse when supermarkets began stretching out payment terms. What used to be a 45-day wait for payment became 75 or even 90 days. For a business like chilled [REDACTED], s to get paid, all while taking on the full financial burden of running promotions.

At the same time, **input costs were rising sharply**. Meat prices and energy costs went up, but supermarkets refused to accept price increases. Kerry had no choice but [REDACTED], trapped between rising costs on one side and immovable retail pricing on the other.

Inside the company, finance teams had been sounding the alarm for over a year. The chilled meats division, they warned, was becoming structurally unprofitable—even before any crisis or disruption hit. No matter how much volume they pushed through, the numbers didn't stack up. It wasn't just a temporary dip—it was a broken model.

Eventually, the leadership at Kerry made the hard decision: exit the category altogether. It was a shock to the industry. Kerry was no small supplier; it had scale, brands, and a reputation.

But it came to a simple conclusion: you can't stay in a business where the customer sets your price, controls your promotions, delays your payment, and won't share cost pressures. The supermarkets held all the cards.

Rather than fighting a losing battle, Kerry chose to reallocate capital into higher-margin, more controllable businesses, like ingredients and functional nutrition, where they had stronger pricing power and more direct customer relationships.

Industry information about 'ingredients and functional nutrition'

Profitability Comparison:

Industry Segment	Average Gross Margin	Key Characteristics
[REDACTED]	20–30%	Highly commoditized, price-sensitive, high spoilage
[REDACTED]	15–25%	High production costs, low margins, short shelf life
[REDACTED]	40–55%	High technical barriers, customized, low substitutability

Why Do B2B Markets Like Nutritional Ingredients and Food Components Generate Higher Profit Margins Than Traditional Consumer Products?

High Specialization → Strong Pricing Power:

Food ingredients are not generic commodities. They are often highly specialized, by end consumers. As a result, suppliers can defend their pricing, face less price competition, and build in higher margins.

Customers are Branded Manufacturers → More Stable Commercial Relationships

In the B2B ingredients sector, the primary customers are:, and commercial negotiations are more rational and less adversarial.

In contrast, retailers like supermarkets tend to:

- Demand yearly cost reductions
- Push promotional burdens onto suppliers
- Retain rights to return unsold goods
- Extend payment terms aggressively

This makes B2B ingredient sales more predictable and manageable, from both a margin and working capital standpoint.

Asset-Light Operations and Slower Inventory Turnover → Healthier Cash Flow

Unlike perishable consumer food products such as fresh bread or deli meats, ingredients are typically sold in the form of:

..... means:

- No daily distribution pressure
- No short shelf-life losses
- No exposure to supermarket shrinkage or returns

This results in a more resilient, lower-risk operational model, which improves margin stability and reduces capital intensity. The company can manage cost structures more effectively, and cash flow is far less volatile.

Preseen:

In 1985, the company relocated its bakery to a new Production Facility. This has been expanded upon over the years but is still the location where all of the company's products are made. This is in central Keeland. The company also has a Distribution Centre, opened in 1999, which is located next to the Production Facility.

3 Problems:

Problem 1: Extreme Single-Site Dependency = High Operational Risk

In the bakery ite—whether a fire, flood, power outage, equipment breakdown, labor dispute, food safety incident, or regulatory shutdown—the entire company's supply chain grinds to a halt.

Even a few days of downtime could trigger shelf space losses that are hard to win back - supermarkets may remove their products from the shelves and replace them with competitors.

Problem 2: Logistics Bottleneck Risk

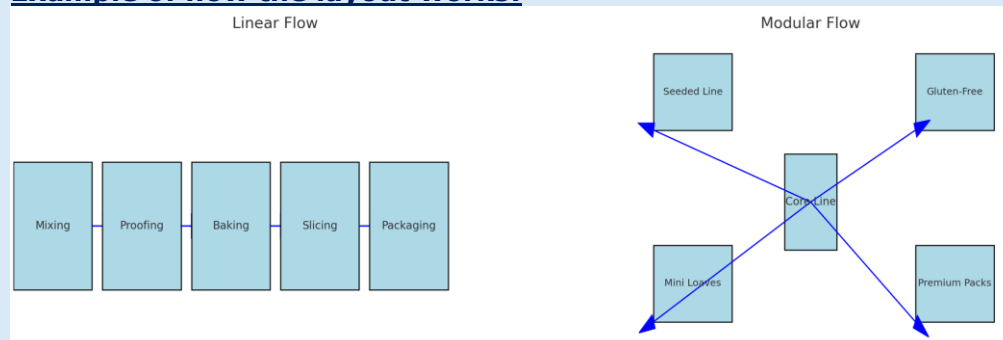
- Having estion
- Weather-related transport delays

Problem 3: Outdated Site Risk — Aging Infrastructure and Capacity Constraints

- The facility was pecially problematic with rising energy costs)
- **Capacity ceilings** (the plant may be at or near maximum output already)

Layout Type	Best For	Limitation
Linear	Mass production of few SKUs	Inflexible, hard to modernize
Modular	Mixed product, agile production	Higher capex but far more adaptable

Example of how the layout works:



A Modular layout:

- For 4 ids' lunchboxes

1. Shared Base Processes (Core Line) - At the beginning of production, all loaves go through common base steps such as Ingredient storage and scaling, Mixing and dough preparation and Initial proofing (if applicable).

2. Once the dough is prepared, it is split into different product-specific modules: The standard loaf continues on the main baking and slicing line, optimized for high speed and volume; The gluten-free dough is transferred to a dedicated gluten-free baking module, physically separated to avoid cross-contamination. This module uses slower baking cycles and different molds.

3. Each

A linear flow layout:

A linear flow layout means that production moves in a straight, fixed sequence — often from one end of the facility to the other — with each process step hardwired into place (e.g., mixing → proofing → baking → slicing → packaging). Designed for high-volume, single-product lines. However, it lacks flexibility, ie adding new products or changing batch sizes is difficult.

Preseen:

Halfpenny currently produces a range of sliced packaged bread loaves and packaged bread rolls (the latter added in 1999). Until recently, senior end, Harry Chang has recently been appointed Product Development Director.

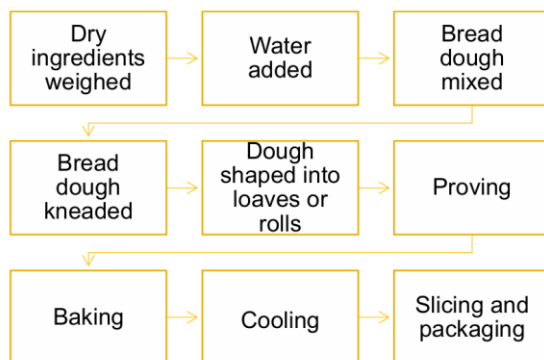
Preseen:

Production

All products are made at the company's Production Facility which is in operation 360 days a year.

Production occurs in batches. For 800g loaves, the batch size is 2,500 loaves and for 400g packets of rolls, the batch size is 2,500 packets. Therefore, each batch of loaves requires twice as much bread dough as a batch of rolls. The bread dough recipe used for each type of loaf or roll is the same (for example, all White Loaves and White Rolls are made from the same bread dough recipe).

The production process is summarised below:



Potential JIT problems:

Halfpenny the silos must be empty and cleaned for the next batch.

Capacity issues:

Capacity balancing

Even though Halfpenny produces 2,500 loaves and 2,500 packets of rolls per batch, the actual workload isn't equal. A loaf weighs 800g, a roll pack just 400g. If management treats both batches as "equal units" when costing or planning, it underestimates the resources (flour, water, energy, labour) needed for loaves — leading to distorted costing and budget errors.

One schedule doesn't fit all

Loaves and rolls have different baking times (e.g. 20 mins vs 15 mins). Ovens may be idle between batches, or other steps (like cooling or slicing) get plan around it.



Introduction to the OCS exam

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SYLLABUS CONTENT

Session 1: Exam

- Preseen and unseen; Marking

Session 2: Exam Techniques

- Writing style; Planning your answer

Topic 1: Exam

Preseen and unseen

Preseen is the business case given by CIMA before the exam. We will go through the entire preseen material with you.

Unseen questions are questions in the actual CIMA case exam.

Exam

The exam is 150 marks, and you must achieve 80 marks.

The exam is 3 hours, and it is split into 4 questions. Each question may contain multiple tasks such as writing email and report, but most questions will only include one task and several requirements.

There are only two cases in a year, ie Feb and May cases would be the same whereas August and November cases are the same.

Your exam result

When you get your case study exam result you will see:

1. An overall grade (Pass/Fail).
2. A scaled score between 0–150 (80 or above represents a pass).
3. Feedback on your performance by each core activity (formerly sectional or competency feedback).

Syllabus

- Blueprints 2025-2026

Marking

- There is no rigid rules of marking the case study exam, the marking is based on 'merit', ie if the answer is reasonable, and it answers the requirement, you will get marks.

Topic 2: Exam Techniques

Exam tips

- About paragraphs per question.
- The style of your answer should be: Point + Because.
- Each paragraph = sentences (avoid sentence).
- Equally divide total paragraphs for each requirement.

Planning your answer

This is absolutely vital in the exam and make sure that when you read the question requirements in the preseen, you will directly copy the requirement in the unseen answer box. Do not use the scratchpad provided by CIMA, but rather directly plan your answer in the answer box.

Do not show the number for each of your paragraphs.

Make sure that you will also plan the deadline to answer each part of the requirement.

Core activity A:

Costing Information

Prepare costing information for different purposes to meet the needs of management.



Assessment Outcomes:

- I can use appropriate technologies to gather data for costing purposes, from digital and other sources.
- I can apply different costing methods to produce costing information suitable for managers' needs.
- I can explain costing information to operational and senior management using appropriate formats and media.
- I can compare different costing methods and systems to determine the most suitable for use by the organisation for different purposes.
- I can identify the cost information required for digital cost objects.

SESSION CONTENTS

Topic 1: Absorption Costing and Marginal Costing

Topic 2: Activity Based Costing (ABC)

Topic 3: Joint and By-Product Costing

Topic 4: Costing digital products

Topic 5: Throughput Accounting

Topic 6 Quality Costs, Environmental Costs and Weighted Benefits Scoring

Topic 1: Absorption Costing and Marginal Costing

Absorption Costing Principles (Pre-learnt paragraphs)

- **Definition:** Full production cost per unit, including fixed overheads.
- labor, variable overheads) and absorbed fixed overheads.
- **Overhead Absorption Rate:** Based on budgeted overhead and budgeted activity levels, ie use machine hours if it's machine intensive, **Calculation of Gross Profit:** Sales revenue minus the cost of goods sold, including absorbed fixed production overheads.
- **Adjustment for Under or Over-Absorbed Overheads:** if it's under absorption of overheads, costs of sales should be increased by this amount; otherwise, costs of sales should be reduced by the over-absorption of overheads amount.
- **Effect on Inventory Valuation:** Inventory is valued at full production cost, including absorbed fixed overheads.
- **Impact on Profit When Inventory Levels Change:** Increased inventory leads to more fixed overheads carried forward, affecting **Long-Term Profit Consistency:** Total profit remains the same in the long term; differences arise from the timing of costs and sales.

Marginal Costing Principles (Pre-learnt paragraphs)

- **Valuation of Inventory at Variable Costs Only:** Inventory is valued solely at variable production costs, excluding fixed costs, which are fully expensed in the period.
- **Focus on Contribution Margin:** Contribution per unit is calculated as selling price minus total variable costs (production and non-production), guiding short-term pricing and decision-making.
- **Profit Calculation Based on Contribution Minus Fixed Costs:** Net, emphasizing the impact of sales and efficiency over production volume.
- **Comparison and Reconciliation with Absorption Costing:** Differences in profit between marginal and absorption costing arise from how inventory changes affect fixed cost allocation, requiring adjustments to reconcile.
- **Advantage - Better for Decision Making:** Marginal costing highlights and one-off decisions.
- **Disadvantage - May Not Cover Fixed Costs:** There is a risk of selling, potentially leading to losses in the long term.

Question practice about AC and MC

Q1: (15minutes)

The Senior Management Team (SMT) recently met to review September's sales figures. Sales were lower than expected overall, particularly in Cetland. Jack Newman, Production Director, suggested that we should report the figures to AgRi using marginal costing so that the profit would look bigger than if we ed), I have shown the standard costs for our A++ tractor range. The other ranges followed a similar pattern over the month. I would like to use these figures to explain why Jack Newman's statement is incorrect while explaining marginal and absorption costing.

Please prepare a report to the SMT which explains:

The differences in how profit is calculated using both marginal and absorption costing based on Table 1, and the impact of the different methods on profit in the short and long term.

(sub-task(a)=32%)

Table 1: Standard production costs for the A++ Power range

	Model		
	Basic	Regular	Premium
Production cost per unit:	T\$	T\$	T\$
Variable	56,644	75,745	96,973
Fixed	14,092	21,099	24,029
Total	70,736	96,844	121,002

Notes

1. The actual fixed production overheads for September were 5% higher than budgeted.
2. Actual production was lower than budgeted but, because of the low sales, inventory of all three models in the range increased.

Suggested Answer:

How Profit is Calculated Using Marginal and Absorption Costing

..... ting in different profit figures being calculated.

Absorption Costing

Absorption costing determines a full production cost per unit for each type of tractor in the A and the budgeted level of activity, using the most appropriate method for the overhead characteristics and the production department.

Under absorption costing, gross profit is calculated as sales less the cost of goods sold, where the cost of goods sold includes fixed production overheads. The fixed production overheads are absorbed by each tractor based on a pre-determined overhead absorption rate. The profit figure is adjusted by any under or over-absorbed overhead. Under/over absorption is calculated by comparing the absorbed overheads to the actual overheads. If actual expenditure is higher than anticipated but production is lower, it

suggests under-absorption. From this gross profit, non-production costs (both fixed and variable), such as selling and administration, are deducted to obtain profit.

Marginal Costing

Marginal costing focuses on the variable costs of production, such as direct labor, materials, and variable overhead, to produce a contribution figure. From this contribution figure, the actual fixed costs for production for the period and non-production costs are deducted to arrive at a net profit.

Why Marginal Costing Profit May Be Lower Than Absorption Costing in the Short Term

The major difference between marginal and absorption costing is in how they value each unit of production (and therefore inventory). Marginal costing values each unit produced at the marginal production cost. For example, this would for this period into the next period (T\$14,092 for each Basic tractor).

When inventory is increasing, as it did in September, the value of fixed production overhead carried into October will be greater than the value brought forward from August into this period. Therefore, when inventory is rising, more fixed production overhead costs are carried forward, and consequently, fewer are charged this period. Jack Newman's view is incorrect. If we switched to marginal costing for September, the profit would be lower.

Profit in the Long Term

In the differences arise only from the timing of the sales and production volumes from period to period.



Core activity F:

Working Capital

Management

Prepare information to manage working capital.



Assessment Outcomes:

- I can identify appropriate sources of short-term finance and methods of short-term investments.
- I can explain how to manage and control working capital.
- I can explain working capital ratios in comparison to prior periods or to other organisations.
- I can identify the impact of changing working capital policies.

SESSION CONTENTS

Topic 1: General working capital management knowledge

Topic 2: Receivables Management

Topic 3: Inventory Management

Topic 4: Cash and Payables Management

Topic 5: Short Term Finance and Investments

Topic 1: General working capital management knowledge

Ratios

Cash operating/working capital cycle= Inventory days + Receivable days – Payable days

Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

Quick ratio = $\frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$

Question practise for working capital ratios

Q: (22minutes)

I need to prepare a report for the next directors' meeting and I would like you to draft a couple of sections for me.

The directors would like an analysis of our working capital position at the end of June 2016 compared both with our position at the end of June 2015 and with one of our major competitors which has a year-end of April. This competitor operates concessions in large department stores and has a number of corporate contracts to supply hotels with its products.

I've pulled together the following information in respect of this:

	Based on our 30 June 2016 balance	Based on our 30 June 2015 balance	Based on our competitor's balance at 30 April 2016
Inventory days	240 day	207 days	180 days
Receivable days	45 days	23 days	47 days
Payable days	35 days	42 days	65 days
Working capital cycle	250 days	188 days	162 days

Suggested Answer:

ANALYSIS

Topic 5: Short Term Finance and Investments

Model Answer for sources of short term finance

Trade Payables

- Trade credit is a source of short-term finance. We could delay payment to our suppliers which would help to alleviate our cash flow difficulties but we would lose any early settlement discounts.
- Delaying payment without prior agreement from our suppliers is also unethical and suppliers may stop further supplies or take legal action against us.
- Both of these would be harmful to our reputation and credit rating. It is important therefore that we ensure agreement with our suppliers before taking this course of action.

Trade receivables

- We could use our trade receivables as a source of short-term finance by factoring the debts or using invoice discounting. There would be interest costs and fees involved with either of these options and we would need to evaluate whether this was worthwhile.
- Invoice discounting has the advantage that it is a confidential service whereas with factoring the customers are aware that the debt is being factored and this may raise a question mark over our financial stability.

Bank borrowings

Bank overdraft:

- we could try to increase our bank overdraft facility. This has the advantage that it is flexible and that we only pay interest on the amount used which means it is a relatively cheap source of finance.
- The interest rate is variable which means we are exposed to any changes in bank base rate and makes it more difficult for us to budget for the interest costs.
- We should however be able to increase our overdraft but would need to check our current security arrangements with the bank. They will probably require us to provide up to date cash and profit forecasts to support our application for an increase in the facility.

Bank loan:

- we could agree a short-term loan with the bank to cover the period of the additional cash deficit over and above our overdraft limit.
- Interest however will be payable on the whole sum of the loan for the specified period of the loan.
- This is therefore liable to be more expensive than an increase in the overdraft. We may also have to provide further security for the loan.

Other methods:

- This may include short term leasing arrangements, although this would most likely be expensive to arrange.
- Reducing discretionary cash flows by deferring discretionary expenditure. postponing non-essential expenditure and reducing dividend payments.

Model answer for finance for export sales: (very rarely to be tested)

Bills of Exchange:

- A bill of exchange is a negotiable instrument that can be used to finance exports. It is a document including a promise to pay and involves a drawer (the party issuing the bill), a drawee (the party to whom the bill is addressed) and a payee (the party to whom payment should be made).
- If we were to use a bill of exchange then if we drew up the bill we would act as drawer and payee and our overseas customer would be the drawee. Alternatively, we could arrange for a bank to act as drawer on our behalf given that they will have expertise in this area.
- There are two clear benefits to the business of using a bill of exchange for our export customers, which are:
- The bill is a legal acknowledgement of the debt, which given the size of the export orders involved, is important.
- Because the bill is a negotiable instrument it can be sold in the financial markets. This means that we could draw up a bill for say payment in 60 days and then sell it to the financial market and receive the amount due almost immediately. Clearly, this benefits our cash flow and also eliminates our exposure to credit risk. There would be a cost associated with this though as the bill would be sold to the financial market at a discount from the amount due.

Export Factoring:

- Export factoring works in much the same way that normal factoring works. We could arrange with a factoring company to take over responsibility for the running of our export receivable. They would then be responsible for collecting it.
- In addition, the factor would be able to advance say 80% of the value of the invoice at the time that it is raised. This means that we would receive funds more quickly which would help to improve our cash position.
- However, the downside of any factoring arrangement is the costs involved. The factor would charge an administrative fee for managing the receivables collection and will also charge interest on the funds lent to us in advance. This is likely to be expensive, although this cost would need to be carefully compared to the cost of the discount with bills of exchange to determine which method of receiving the funds early would be most expensive.

- The factoring arrangement could be set up to be 'with recourse', meaning that we would still be responsible for irrecoverable debts, which would help to reduce the cost of factoring.

Documentary credits:

- This is a document which is often used in export situations. In effect it is a letter which authorizes a party (the exporter) to take a specified amount of money from the funds of its customer, on a specified date. The letter will be drawn up by the bank of the customer and will include conditions that must be met before payment can be taken.
- In our situation, we could request our customers to draw up a letter of credit once we have accepted the order. This would then include the conditions that would need to be met, likely to be the receipt of the Goods and the specified 60-day credit period.
- Letters of credit are not negotiable and therefore cannot be sold to third parties in the same way that bills of exchange can. Therefore, if we insisted on letters of credit it would not allow us to receive the cash any earlier and therefore will have no positive impact on cash flow.
- The one benefit of a letter of credit is that it can act as a guarantee of payment if it is drawn up as irrevocable. (+*Application to the unseen about the risk of the contract*) However, given that our City bicycle contracts are with large city councils which have government backing, then our credit risk as such is relatively low.
- On balance, letters of credit are not really beneficial to us.

Model answer for short term investments

Q: (22minutes)

Feyland business has really helped to boost the overall cash position of the business. At the moment there is around K\$1,000,000 in our business bank accounts. The directors have already decided that in four months' time K\$950,000 will be needed to expand the production facility. However, in the short term they are keen that any currently surplus money should earn some form of return (at the moment no interest is earned on either of the business bank accounts). They have therefore asked that the briefing paper includes an explanation of the factors that they need to consider when choosing how to invest this money and suggestions of suitable investments.

Suggested Answer:

.....,

Note: "....." refers to content that is exclusively available within the official course package and is not publicly accessible.

Study Platform


Walk Through

Accounting
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Overview of the course

CIMA/CGMA Operational Case Study (OCS)



Operational Case Study (OCS)
(May 2025)
Halfpenny

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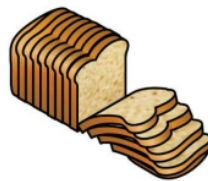
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Halfpenny



May/August 2025

Preseen material go through – Halfpenny case

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The bread industry in Keeland

Bread is a staple food in Keeland. The market was worth over K\$2.5 billion in 2024 and the products included in this are bread loaves, bread rolls and speciality bread items (such as pita bread, crumpets and English muffins).

There are three categories of bread producers in Keeland:

Large plant bakeries	<ul style="list-style-type: none"> Mass producers that make pre-packaged bread products with an extended shelf life. Typically sell products business to business rather than direct to the consumer.
In-store bakeries	<ul style="list-style-type: none"> Located within supermarkets, baking daily. Typically sell products unpackaged (and loaves unsliced) and so have a shorter shelf-life compared to pre-packed products. Sales are business to consumer.
High street and artisan bakers	<ul style="list-style-type: none"> Small scale producers that make unpackaged bread products with a limited shelf-life. Sales can be business to business and business to consumer.

45:39

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Reporting

External Investor

Higher

Lower

Decision Making

Internal

Topic 1: Absorption Costing and Marginal Costing

Absorption Costing Principles (Pre-learnt paragraphs)

- Definition:** Full production cost per unit, including fixed overheads.
- Components of Production Cost:** Includes variable costs (materials, labor, variable overheads) and absorbed fixed overheads.
- Overhead Absorption Rate:** Based on budgeted overhead and budgeted activity levels, ie use machine hours if it's machine intensive, or to use labour hours if it's labour intensive environment.
- Calculation of Gross Profit:** Sales revenue minus the cost of goods sold, including absorbed fixed production overheads.
- Adjustment for Under or Over-Absorbed Overheads:** if it's under

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IFRS 5 Non-current Assets Held for Sale and Discontinued Operations


Top Tips:

IFRS 5 is very topical in the exam, both non current assets held for sale and discontinued operations are highly likely to be tested. You must be very familiar with the criteria where the non current assets can be reclassified as non current assets held for sale (SALE criteria); and you must be familiar with the rules for discontinued operations. As I have checked most of the past exam questions, the segment which is closed were not be classified as discontinued operations because most of them just account for a small proportion of total sales revenue of the company.

Classification criteria

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CIMA Operational Case Study

Mock Exam 1

Halfpenny

May/August 2025

Questions Paper

(3 hours)

Task 1

A new premium, high-protein bread line called "Halfpenny Active" has been developed by the Product Development Director, Harry Chang. This is Halfpenny's first venture into functional bread products aimed at health-conscious and fitness-oriented consumers. The line includes high-protein white rolls and loaves, made with added wheat protein and seeds, and enhanced with vitamins.

These products are scheduled to launch nationally across Keeland on 1 October 2025, targeting younger urban consumers seeking both convenience and nutritional value. These items differ significantly from Halfpenny's traditional white and wholemeal lines, both in formulation and target audience.

Trey Halfpenny, the Managing Director, has asked the Finance team to support the upcoming launch with a clear performance forecast.

You receive the following message from Lottie Phipps, Finance Director:

"The Board wants a robust sales forecast for our new *Halfpenny Active* line. Health-enhanced bread products have existed in niche channels for a few years now, but the trend only gained mainstream attention in 2023.

To support this, I've attached a chart showing actual national sales of functional bread products in Keeland from early 2022 to present, with a 4-point moving average to smooth fluctuations.

Please prepare a briefing paper for the Senior Management Team that explains:

Task 1:**What Chart 1 shows us**

The data points joining the solid line represent actual sales volumes of Halfpenny's packaged bread loaves and rolls in Keeland across 16 quarters—from Q1 2019 to Q4 2022. This forms a time series, which can be analysed for patterns.

The chart clearly shows seasonality in sales: demand consistently peaks in Q2 (April–June) and drops in Q4 (October–December). This is in line with consumer bread consumption patterns, which may be influenced by weather (fewer picnics or school lunches in colder months), or retail promotions aligned with seasonal diets.

The dotted line is a centred 4-point moving average, which smooths out the seasonal effects and reveals the underlying trend. Initially, sales declined slightly, possibly due to market saturation or increasing competition from in-store bakeries and health-conscious consumers. However, an uptick post-period 11 is evident, which could correlate with Halfpenny's introduction of premium products like the rustic and multi-seed loaves, aligning with trends toward higher-margin, health-oriented breads.

Trend Line and Seasonal Variations

To analyse performance further, a trend line can be established using least squares regression based on the moving average line. This offers a clearer view of the underlying growth or decline.