

**CIMA**

Chartered Institute of  
Management Accountants

## Management Case Study Exam

Maximum Time Allowed: 3 Hours

Welcome, Candidate Name

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

Click **Next** to start the test.

This examination is structured as follows:

Section number	Number of tasks	Time for section (minutes)
1	1	45
2	1	45
3	1	45
4	1	45

The time available for each section is for reading, planning and writing your answer(s).

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

Reference Material

Pre-seen

You have received the following email:

**From:** Matt Spot, Finance Director  
**To:** Financial Manager  
**Subject:** proposed international expansion

Hello

The Board has been considering the opportunities for international expansion. We do not believe that there is any scope for further expansion in I-land or P-land, but there is a strong possibility that we could do well by opening up further restaurants in C-land.

As you know, we have a single restaurant in C-land. The restaurant is in the food court section of a large shopping mall in C-land's largest city, so there are lots of potential customers walking past it every day. Eddie, the restaurant manager, is one of our most experienced managers, with a great deal of expertise in opening new restaurants in P-land.

We have been disappointed by the results ever since the restaurant opened two years ago. The market demand has been lower than we predicted. We are unsure whether the restaurant's performance has been disappointing because the market is not receptive to Pizzatime, or because of poor leadership from Eddie.

The attached report shows the performance of the C-land restaurant for the last two months. All of the bookkeeping is done here in I-land. The takings are banked locally and are used to settle the wages bill and to pay for any minor expenses. The remainder is converted to I\$ and transferred to our main bank account in I-land. Any other expenses and any items of a capital nature are invoiced to our accounts payable department in I-land and are settled directly.

I need your advice.

Firstly, what are the challenges associated with predicting market demand for Pizzatime in C-land and how might we overcome them?

Secondly, do these figures suggest that the single C-land restaurant is under-performing? Is it fair to blame Eddie for the disappointing performance? I need you to discuss both the commercial issues and the implications of translating the C-land branch figures to I\$ when preparing this report.

Matt

**The attachment to this email can be viewed by clicking the Reference Material button above.**

## Monthly performance report

<b>Restaurant</b>	Happy Mall Foodcourt, Midcity, C-land		
	February 2016	January 2016	Average for all company-owned restaurants – February 2016
<b>Sales</b>			
Total sales	\$ 68,000	\$ 73,000	\$ 85,000
Customers served	3,000	3,300	4,200
Average spend per customer	\$ 22.67	\$ 22.12	\$ 20.24
<b>Staffing</b>			
Numbers – full-time equivalent (FTE)	18 FTE	18 FTE	16 FTE
Gross wages	\$ 21,470	\$ 25,100	\$ 29,400
Staff turnover	4 staff	5 staff	2 staff
<b>Financial</b>			
Operating costs, excluding labour	\$ 17,400	\$ 18,100	\$ 21,000
Capital employed	\$ 1,100,000	\$ 1,100,000	\$ 1,800,000

Reference Material

Pre-seen

Draft your response in the box below.

**From:** Financial Manager  
**To:** Matt Spot, Finance Director  
**Subject:** RE: proposed international expansion

Cut Copy Paste Undo Redo B I U

Empty text area for drafting the response.

[Reference Material](#)[Pre-seen](#)

Two weeks have passed since you responded to the Finance Director concerning the C-land restaurant. You have received the following email.

**From:** Matt Spot, Finance Director  
**To:** Financial Manager  
**Subject:** significant expansion in C-land

Hello

The Board has had a number of discussions since your helpful reply to my last email. We have decided to embark on an ambitious expansion plan, involving at least 50 new restaurants, in C-land. To minimise our exposure to the risks of operating in this relatively unfamiliar environment, we plan to use franchising to expand. We have projected some figures and these are shown in the attached spreadsheet.

We have projected five years into the future. We are working on the assumption that things will have settled down by year five and that year five's results will be repeated into the indefinite future. I have attached a spreadsheet that shows that this expansion has the potential to generate a significant positive net present value for us.

I need your advice on the following matters.

Firstly, I need your thoughts on the validity of the assumptions underlying our projections. I am happy that the arithmetic is correct and that an appropriate discount rate has been applied, so please ignore those issues.

Secondly, I would appreciate your advice on the specific project management issues arising from the implementation of this project. What should we do to ensure that this aspect of the expansion is a success?

Matt

The attachment to this email can be viewed by clicking the Reference Material button above.

## Net present value calculation

	A	B	C	D	E	F	G
1	Year	1	2	3	4	5 onwards	Total
2		\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
3	Franchise fees	2.6	4.8	8.1	9.3	11.4	
4	Royalties	0.7	2.7	7.9	13.8	18.7	
5	Contribution from sales of ingredients and disposables	0.6	2.4	7.1	12.4	16.8	
6	Sales of furniture and fittings	2.1	5.2	9.3	10.4	11.7	
7	Cost of furniture and fittings	(1.7)	(4.3)	(8.6)	(9.1)	(10.4)	
8	Legal fees	(2.5)	(1.5)	(3.1)	(4.2)	(6.1)	
9	Banking charges	(0.1)	(0.2)	(0.5)	(0.7)	(0.9)	
10	Advertising	(2.6)	(4.8)	(8.1)	(9.3)	(11.4)	
11	Net cash flow	(0.9)	4.3	12.1	22.6	29.8	
12	Discount factor at 10%	0.909	0.826	0.751	0.683		
13	Discount factor at 10% for perpetuity					6.831	
14	Discounted cash flow	(0.8)	3.6	9.1	15.4	203.6	230.9
15							
16							



Reference Material

Pre-seen

A further three months have passed. Pizzatime now has 15 franchised restaurants in C-land, mainly in large towns and cities. You have received the following email:

**From:** Monica Lall, Chief Executive

**To:** Financial Manager

**Subject:** press report

Hi,

Have you seen the latest news story? I have attached a copy to this email just in case.

We need your advice. As you know, the franchise agreements that we have signed with restaurants in I-land and P-land specify that there will be a standard employment contract for all employees. Franchise holders are required to offer their restaurant staff the same terms and conditions as we have in the restaurants that we own ourselves. We have always been regarded as responsible employers and we pay more than the minimum 'living wage' that has been calculated by the governments of both I-land and P-land.

Potential franchisees in C-land refused to grant us the right to set a minimum rate of pay or to standardise terms and conditions. We were forced to permit them to decide for themselves in order to have them sign up. Legally speaking, none of the restaurant staff in C-land work for us, they are all employees of the franchise owners. Perhaps we should have foreseen this, but we did not appreciate that the culture in C-land was quite so unsympathetic.

Regardless of what has gone wrong in the past, we are clearly going to have to make changes. We have already written to all franchisees in C-land to inform them that we will be monitoring their employment practices closely. Unfortunately, we have not yet decided how we are going to do that.

I need you to brief me on two issues.

Firstly, how big an impact can national cultures have on business practices? Was it unethical of us to have agreed to permit franchisees in C-land to set their own employment terms?

Secondly, what reporting systems might we put in place to ensure that C-land's franchisees treat their staff in a manner that would be deemed acceptable in terms of our corporate values? Explain how we could make this monitoring effective.

Regards

Monica Lall  
Chief Executive  
Pizzatime

**The attachment to this email can be viewed by clicking the Reference Material button above.**



# I-land Daily Journal

1 March 2016 | No. 1532

IS2.20

# Pizzatime    Is Poverty Time

**Beryl Been, Features Editor**

Pizzatime's expansion into C-land has provoked controversy, with accusations that restaurant staff are being paid exploitative wages.

Employment law in C-land is similar to I-land. The government sets a minimum wage that must be paid to all employees. That is expressed as an hourly rate that would be sufficient to enable a full-time employee to meet the minimum cost of living. Employers are encouraged to pay a little more, with a recommended 'living wage' that is intended to allow employees to afford some basic comforts.

Pizzatime has made no secret of the fact that all of its employees in I-land are paid more than the living wage. The company prides itself on being a caring and responsible employer.

An investigation by one of our reporters into



*Is the waiter smiling too?*

employment practices in C-land revealed that many employees are actually paid less than the minimum wage. There are various loopholes that apply to restaurant staff that make it permissible to do so without penalty.

One worker, who spoke on condition of anonymity, claims that he has to work at least 50 hours a week simply to pay for lodgings and food, with nothing left over for luxuries. His employer often asks him to work more than 60 hours per week, but will also send him home early if the restaurant is quiet, with no payment for the unworked hours. He claims "I have often been sent home after as little as one hour and have been left with insufficient to cover my bus fares to and from work."

Reference Material

Pre-seen

Write your response to the Chief Executive's email below:

**From:** Financial Manager  
**To:** Monica Lall, Chief Executive  
**Subject:** RE: press report

Cut Copy Paste Undo Redo B I U

Empty text area for response

**CIMA**

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Thank you for completing the Management Case Study Exam.

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

Please click the End Exam (E) button before leaving the testing room quietly.