



**CGMAX Operational Level Case Study February 2020**  
**Marking Guidance**  
**Variant 1**

**About this marking scheme**

This marking scheme has been prepared for the CIMA 2019 Professional Qualification Operational Case Study [Feb 2020].

The indicative answers will show the expected or most orthodox approach; however the nature of the case study examination tasks means that a range of responses will be valid. The descriptors within this level-based marking scheme are holistic and can accommodate a range of acceptable responses.

General marking guidance is given below, markers are subject to extensive training and standardisation activities and ongoing monitoring to ensure that judgements are being made correctly and consistently.

Care must be taken not to make too many assumptions about future marking schemes on the basis of this document. While the guiding principles remain constant, details may change depending on the content of a particular case study examination form.

**General marking guidance**

- Marking schemes should be applied positively, with candidates rewarded for what they have demonstrated and not penalised for omissions.
- All marks on the scheme are designed to be awarded and full marks should be awarded when all level descriptor criteria are met.
- The marking scheme and indicative answers are provided as a guide to markers. They are not intended to be exhaustive and other valid approaches must be rewarded. Equally, students do not have to make all of the points mentioned in the indicative answers to receive the highest level of the marking scheme.
- An answer which does not address the requirements of the task must be awarded 0 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 sub task**

Sub Task	Core Activity	Sub task weighting (% section time)
<b>Section 1</b>		
(a)	B. Explain the advantages and disadvantages of participatory budgeting	36%
(b)	B. Explain time series information	40%
(c)	B. Explain the limitations of time series analysis for predicting future demand	24%
<b>Section 2</b>		
(a)	D. Explanation of the accounting treatment of IRFS16	40%
(b)	A. Comparing the effect on profit of using marginal costing compared to absorption costing	40%
(c)	A. Explain throughput accounting	20%
<b>Section 3</b>		
(a)	E. Short-term decision making using limiting factor analysis	40%
(b)	D. Inventory valuation IAS 2	28%
(c)	E. Short-term decision making using EV and probability distribution	32%
<b>Section 4</b>		
(a)	C. Interpretation of sales price mix and quantity variances	44%
(b)	C. Justify appropriate KPIs to enhance the performance information given by the variances	24%
(c)	F. Explain how to improve receivables management	32%

SECTION 1			
<b>Task (a):</b> Explain the advantages and disadvantages to Lottie Graphite of using a participative approach to budget setting in these circumstances. Please also explain whether you think participative budgeting would be an appropriate method for setting the budgets for the operations in Feland.			
<b>Trait</b>			
Participatory budgets	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	0
	Level 1	Explains a limited number of points without application to the context of the scenario.	1-3
	Level 2	Explains a reasonable number of points that include both advantages and disadvantages. Some limited application to the context of the preseen and/or scenario. May not contain consideration of whether participative is an appropriate approach.	4-6
	Level 3	Explains fully both the disadvantages and advantages and applies the detail provided in the preseen and scenario to illustrate the points made in context. Contains a clear consideration of whether participative is an appropriate approach.	7-9
<b>Task (b):</b> Explain what tables 1, 2 and 3 of the attached schedule tell us about the demand for pencils in Neland and whether the calculation of seasonal variations on an additive basis is appropriate.			
<b>Trait</b>			
Time series	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	0
	Level 1	Demonstrates limited understanding of what the time series information shows. No or poor explanation of the appropriateness of the additive model.	1-3
	Level 2	Demonstrates reasonable understanding of what the time series information shows. No or limited comments about the multiplicative or additive seasonal variation methods.	4-7
	Level 3	Demonstrates good understanding of what the time series information shows. Demonstrates a good understanding of the multiplicative and additive seasonal variation in context.	8-10
<b>Task (c):</b> Explain the limitations of this analysis for use in predicting future demand for pencils in Feland.			
<b>Trait</b>			
	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
Limitations		No rewardable material	0



	Level 1	Limitations are limited to a text-book list, which may be correct but either not applied or applied badly to the scenario context.	1-2
	Level 2	At least one well applied and correctly explained limitation of the data is included although there may also be text-book limitations that are less well applied.	3-4
	Level 3	The limitations of the data are correctly identified in the context of the scenario.	5-6

**SECTION 2**

**Task (a):** Explain how the leased equipment shown in table 1 of the attached schedule will be recorded within the financial statements for the year ending 31 December 2020 and subsequent years.

<b>Trait</b>			
IFRS 16	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of the principles of initial and subsequent recognition of the right of use asset and lease liability. The explanation lacks clarity and is unlikely to identify the need to pro rata for 2020.	1-3
	Level 2	Demonstrates reasonable technical understanding of the principles of initial and subsequent recognition of the right of use asset and lease liability. The explanation might not be clear and is unlikely to identify the need to pro rata for 2020.	4-7
	Level 3	Demonstrates good technical understanding of the principles of initial and subsequent recognition of the right of use asset and lease liability. The explanation is clear and probably identifies the need to pro rata for 2020.	8-10

**Task (b):** Explain

- the reasons for the differences between the marginal and absorption profits shown in the two profit statements in table 2, for each of weeks 1 and 2.
- whether marginal costing will always show a higher profit than absorption costing.
- the benefits of using absorption costing to our business.

<b>Trait</b>			
Differences MC & AC	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	0
	Level 1	Demonstrates some technical understanding of the difference between profit under marginal costing and absorption costing. Limited use of figures within the reference material. No application of the benefits of absorption costing to Lottie Graphite.	1-3
	Level 2	Demonstrates reasonable technical understanding of the difference between profit under marginal costing and absorption costing. Uses the figures within the reference material	4-7

		but may omit some elements. Some limited application of the benefits of absorption costing to Lottie Graphite.	
	<b>Level 3</b>	Demonstrates good technical understanding of the difference between profit under marginal costing and absorption costing. Utilises fully the figures in the reference material and applies the benefits of absorption costing to Lottie Graphite.	8-10
<b>Task (c):</b> Explain the principles of throughput accounting and its potential benefit to our business. Use examples in our business to illustrate where possible.			
<b>Trait</b>			
Throughput accounting	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	0
	<b>Level 1</b>	Explains some of the characteristics of throughput accounting but there is no application to Lottie Graphite.	1-2
	<b>Level 2</b>	Explains the concept of throughput accounting with reasonable technical accuracy. There is an attempt to use the company to explain the benefits.	3-4
	<b>Level 3</b>	Explains BOTH the concept of throughput accounting and the benefits that Lottie Graphite can expect to gain, using examples of the business processes to illustrate.	5

SECTION 3			
<p><b>Task (a):</b> Explain the principles behind the production schedule (appendix 1) and how it has been used to determine the number of batches that should be made for each of the three types of pencil grade. Please also explain whether, from a financial perspective, it is worth offering members of the packing department the G\$14 overtime premium.</p>			
<b>Trait</b>			
Limiting factor	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	0
	Level 1	Demonstrates some understanding of the principles of limiting factor analysis but without application of these principles to the information in the schedule. The explanation of the overtime rate is either not given or is incorrect for the context given.	1-3
	Level 2	Demonstrates reasonable understanding of the principles of limiting factor analysis and gives an explanation of how the technique has been applied in the context of the incorrectly embossed pencil grades. Incomplete explanation of the use of the overtime rate and lack of application to the context of the 5 batches of 8B.	4-6
	Level 3	Demonstrates good understanding of the principles of limiting factor analysis plus a comprehensive application of the technique to appendix 1 in order to explain the production schedule. A good explanation of the use of the overtime rate in the context of the 5 batches of 8H pencils.	7-10
<p><b>Task (b):</b> Explain how the financial statements for the year ended 31 December 2020 will be affected by the incorrectly embossed graphite pencils. Please make reference to the appropriate financial reporting standards.</p>			
<b>Trait</b>			
IAS 2	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	0
	Level 1	Explains some of the principles of IAS 2 but does not apply to the two different parts of the inventory (the 60% and 40%).	1-2
	Level 2	Explains most of the principles of IAS 2, with a reasonable definition of NRV. Applies the rules to the two parts of the inventory under review fairly well. May not mention that there will be a reduction in profit for the period.	3-5

	<b>Level 3</b>	Explains IAS 2 principles clearly and applies them well to the two different parts of inventory. Clearly explains the effect on inventory and debates the lower of cost V NRV in the context of the information in the case. Clearly explains the effect on profit for the period.	6-7
<b>Task (c):</b> Explain what the expected values as shown on appendix 2 mean, and the limitations of using this information to decide whether to investigate the coloured pencil inventory.			
<b>Trait</b>			
Expected values	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	0
	<b>Level 1</b>	Explains some of the limitations of EV but there is limited or no application of these to the situation. Might not explain the concept of EV.	1-3
	<b>Level 2</b>	Explains most of the limitations of EV with some application to the situation. There will be a reasonable explanation of the concept of EV and this will use the table data.	4-6
	<b>Level 3</b>	Explains the limitations of EV with technical accuracy and clearly explains how these apply in this situation. There will be a good explanation of the concept of EV and this will use the table data. The answer will include a clear decision that based on EV the investigation should not go ahead.	7-8

**SECTION 4**

**Task (a):** Explain how each of the three sales variances in the attached schedule have been calculated and what they mean. Please also comment on what may have caused these variances and how useful they are for measuring the performance of the sales team in January.

<b>Trait</b>				
Variances	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>	
			No rewardable material	0
	Level 1	Explains one or two of the variances with technical accuracy. Reasons given for the variances might be missing or not linked to the correct variance. No or limited application to sales team performance.	1-4	
	Level 2	Explains at least two of the variances with technical accuracy with reasonable explanation of what these variances mean. Reasons given for the variances might not be drawn from the information presented or maybe missing in some cases. No or limited application to sales team performance.	5-8	
	Level 3	Explains each of the three variances with technical accuracy with good explanation of what these variances means in terms of the sales team's performance in January. Reasons given clearly relate to the specific variance and are drawn from the information presented in the task.	9-11	

**Task (b):** Explain three KPIs that we can use to measure the performance of the sales team. Please explain and justify each KPI.

<b>Trait</b>				
KPIs	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>	
			No rewardable material	0
	Level 1	Identifies at least two KPIs although these may lack a timescale or quantification. Offers some justification but this may not be linked to the sales objectives of the Feland business as set in the scenario.	1-2	
	Level 2	Identifies three KPIs although these may lack good quantification and/or time. Some justification linked to the sales, and to some extent the objectives, of the Feland business detailed in the scenario.	3-5	
	Level 3	Identifies and justifies three KPIs that are quantified and/or time assigned. All three KPIs are relevant to the detail given in the scenario and linked to the objectives of sales growth/new business and/or address the concern re the withholding of sales orders.	5-6	

<b>Task (c):</b> Explain how to improve the receivable days of the Feland customers.			
<b>Trait</b>			
Receivable days	<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
		No rewardable material	0
	<b>Level 1</b>	Explains at least one way to improve receivable days but explanation may lack clarity. Little or no application to the context of the scenario.	1-3
	<b>Level 2</b>	Explains at least one way to improve receivable days although explanation may lack some clarity. Some attempt to link these processes to the facts in the scenario.	4-6
	<b>Level 3</b>	Explains more than one way to improve receivable days using a clear rationale. Reference is made to the scenario.	7-8