



# CIMA Management Level Case Study Examination



# A walkthrough of a real examination answer

By Clancy Peiris

This exam answer walkthrough analyses two student answers from the August 2020 CIMA Management Case Study Examination. The actual student answer – passed demonstrates a comfortable passing standard; this answer earned a score of 120. The actual student answer – failed (score is around 60) demonstrates the common mistakes candidates make in CIMA Management Case Study examinations.

These transcribed answers were anonymized and annotated with observations and guidance. The answer with a passing score shows one of many ways a candidate can demonstrate sufficient knowledge, competence and application to earn a passing score. Note that it is not a perfect answer nor the only one that would earn a passing standard. However, this analysis provides a direct comparison of passing and failing answers side-by-side. It gives you an idea of what a strong answer looks like and some examples of where answers might fall short and need improvement. (Note: both the failed and passed answers appearing in this walkthrough are exactly as produced by the candidates in their examinations hence, they contain some spelling and grammar errors.)

## Getting the most from this analysis

To get the full benefit of this learning resource, you should skim through the [pre-seen materials](#) for the May-August 2020 CIMA Management Case Study Examinations. Afterwards, read the test variant 1, which these candidates answered to get context for these answers. You could also review the [Examiner's Report](#), [the Marking Guide](#) and [Performance Descriptors](#), which might give you a greater appreciation of these answers.

To provide a comprehensive walkthrough with helpful guidance and a comparison from answers of a passing and unsuccessful student, we only focused on Section (Task) 1. It is representative of the performance of the candidates across all four tasks in the full examination.

## An overview of May-August 2020 Operational Case Study examination

The examinations were based on a pre-seen scenario, which described Alpaca Hotel Group (Alpaca), a quoted company that owns and operates 50 luxury hotels organised into three divisions. Alpaca was based in Marylandia, which is a developed [fictious] country that has high standards of living with a thriving economy. The hotel industry is diverse, with revenues from business travel, tourism and other sources.

There were six examination variants based on Alpaca; the focus of Variant 1 was Alpaca making an overseas investment in a holiday hotel.

All variants were based on the [Management level examination blueprint](#) and covered all core activities in accordance with the weightings prescribed. A levels-based approach was used for marking candidate answers. For each sub-task, there was a detailed marking guide that split the total marks available into three levels: level 1, level 2 and level 3. It was also possible to achieve a score of zero for a trait if there was no rewardable material. For more information read the article [‘How your answer is marked?’](#)

## TASK 1 (45 minutes | 25 marks)

‘I would like you to:

- Firstly, prepare briefing notes for me to use in my presentation to the Board. Please use Note 1 and consider both financial and non-financial factors. (60%)
- Secondly, using the figures for the gym project, prepare notes that I can use in the training session that explain why sensitivity would be useful when presenting this project to the Board. Also, discuss whether it would be better to use sensitivity analysis or scenario planning when evaluating the gym proposal. (40%)’

**Note: Task 1 examines the below Core Activities from the [Management level examination blueprint](#).**

- Sub Task (a) tests Core Activity A – Evaluate opportunities to add value.
- Sub Task (b) tests Core Activity B – Implement senior management decisions.

Candidates of the Management Case Study Examination are expected to simulate the role of a Finance Manager whose duties require the exercise of professional judgement, as recommendations and decisions can have a significant impact on the actions of both internal and external decision-makers, as tested in the sub-task (a).

Further, a Finance Manager has to collaborate with colleagues from finance and other disciplines to make decisions concerning investment projects and evaluate business risks, as tested in sub-task (b).

Liz Petrov (the Senior Finance Manager) intends to use the notes supplied by her Finance Manager (exam candidate) in her presentation to the Board. Therefore, it would be appropriate to maintain a ‘tone of advice’ in the briefing notes.



## SECTION (Task) 1 – sub task (a):

'Firstly, prepare briefing notes for me to use in my presentation to the Board. Please use Note 1 and consider both financial and non-financial factors.' (60%)

### QUESTION DEBRIEF A Level 3 answer to this sub-task should offer:

- (i) What financial factors should be considered? A full discussion of relevant financial factors; and
- (ii) What evidences from the scenario support your points? (i.e., good justification for all points candidate raised using the information provided in the pre-seen and unseen materials.) (6 to 8 marks)
- (iii) What non-financial factors should be considered? A full discussion of relevant non-financial factors; and
- (iv) What evidences from the scenario support your points? (i.e., good justification for all points candidate raised using the information provided in the pre-seen and unseen materials.) (6 to 7 marks)

### Actual student answer – failed

To Liz Petro\  
From Finance Manager  
Subject Breifing note ojn project proposal  
Date today

#### Breifing Note

The evaluation of the two project should consider both financial and no finacial factors.

#### Financial Factor

There is capital rationing it is important to allocate fund for the most profitable project

1. Even though the the NPV of Swimming pool is slightly lower than Gym NPV by M\$0.46mn the investment M\$ term is less Mn 20Mn than GYM.
2. Profitablity Index also is higher than the GYM propsoal where swimming pool the PI is 0.36 where as for GYM is 0.20 therefore theswimming pool gives a better chance of being the prority project
3. The payback period for the swimming pool is shorter than GYM. Which mean that the investment can be recovered within 1year and 11 month where as the for the Gym it will be recovered only after 2 year 4 months
4. IRR which the cost of capital at which our NPV become Zero the Swimming pools IRR shows at 29.6 % where as for GYM is 19.3%.

In the MCS examination, you are expected to simulate the role of a Finance Manager. Therefore, write the job title, Finance Manager (not your name), if the answer is required in a report format. For this sub-task, the title "Briefing Note: ..." is sufficient.

This answer demonstrates a good technical understanding of investment appraisal; this candidate provides a theoretical overview of each investment appraisal technique as illustrated at the beginning under the subheadings "Payback period" and "Net present value and IRR".

This candidate's technical understanding of capital rationing seems incomplete as it might mean that Alpaca might have to reject one or both projects.

The four financial factors mentioned in the 'failed' answer are entirely a reproduction of information provided in the scenario, in a different format! These are non-rewardable material as the candidate does not offer a discussion through application of technical knowledge to the scenario information.

This candidate provides a complete discussion (as in the sub-task requirement) making reference to the information provided in both the pre-seen and unseen materials, particularly evidenced well in the paragraph under the subheading "Payback period" (e.g., reference to additional 5 months, initial capital M\$ 40m, etc.)

The candidate demonstrates application skills through the ability to put his/her knowledge on NPV and IRR to 'practical use'. For instance, the first two sentences under the subheading "Net present value and IRR" covers the theory' about NPV and IRR and the rest of the paragraph contextualises the theory by arguing that "both NPV's are positive and so each project would be acceptable as the expected present value of cash inflows are greater than the present value of cash outflows" that provides a logical conclusion.

### Actual student answer – passed

To: Liz Petrov  
From: [this candidate had mentioned their real name and it's removed]

#### Breifing Note

TheFinancial and non-financial factors, and sensitivity analysis and scenario planning.

This briefing notes looks at a project appraisal review of both projects at GS, the pool and the gym. This appraisal focuses both on financial and non-financial factors. Secondly, this brief considers the usefulness of sensitivity analysis and scenario planning.

#### Project appraisal

##### Payback period

The payback period appraisal method is good for an initial screening of the projects, to see how quickly the cash inflows of the project will equal the cash outflows. We can see here that the pool project has the lower payback period, meaning that it will be quicker to generate cash inflows. Having said that, it will only take an additional 5 months for the gym project to also equal their cash outflows (which is higher initial capital outlay of M\$40m), which in the grand scheme of things is not much longer. Therefore, initially, both projects look viable, provided there is enough capital to undertake both projects.

##### Net present value and IRR

Net present value (NPV) is the most commonly used method for project appraisals. It is preferred to IRR because it is an absolute measure so it allows for comparisons between different projects. For the pool and the gym projects at Alpaca, we can firstly see that both NPV's are postive and so each project would be acceptable as the expected present value of cash inflows are greater than the present value of cash outflows. Secondly, we can see that the gym project has a higher NPV (M\$8m) compared to the pool project (M\$7.5m), therefore if we are restricted with our capital investment funds for any reason (such as external limitations), then it is favourable to proceed with the gym project over the pool project, due to the higher NPV.

Both of the project's IRR's would also be accepted as the IRR for the pool is 29.6% and for the gym is 19.3%, both of which are higher than Alpaca's cost of capital of 10%. Although the pool project has a higher IRR, the gym project would be the more favourable choice as NPV project appraisal method is superior to the IRR project appraisal method (which is the APR assuming that the NPV is equal to zero).

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## SECTION (Task) 1 – sub task (a):

'Firstly, prepare briefing notes for me to use in my presentation to the Board. Please use Note 1 and consider both financial and non-financial factors.' (60%)

### QUESTION DEBRIEF

A Level 3 answer to this sub-task should offer:

- (i) What financial factors should be considered? A full discussion of relevant financial factors; and
- (ii) What evidences from the scenario support your points? (i.e., good justification for all points candidate raised using the information provided in the pre-seen and unseen materials.) (6 to 8 marks)
- (iii) What non-financial factors should be considered? A full discussion of relevant non-financial factors; and
- (iv) What evidences from the scenario support your points? (i.e., good justification for all points candidate raised using the information provided in the pre-seen and unseen materials.) (6 to 7 marks)

## Actual student answer – failed

This shows that we have good leverage on the cost of capital than the GYM. Our current COC is 10% and we can increase it up to 29.6% to make this project NPV negative and in case of GYM the COC can only go up 19.3%

### Non Financial Factors

1. The Major factor here to consider here that our local knowledge of the country and the demand factor. Mainly how the behavioral pattern of the non residents
2. There will be major competition to GS by the proposed health club. However the information needs verified for authenticity. Availability of cont

Continued

The two non-financial factors provided in the 'failed' answer suffer from lack of clarity, depth of discussion and justification of points using scenario information as opposed to what is evident in the 'passed' answer. This candidate seems to have spent insufficient or no time for answer-planning, which usually allows time to think about enough points at the outset and answer each sub-task in the required amount of depth.

This candidate demonstrates the simulation of the role of Finance Manager, which is evidenced through the professional judgment in advising their manager. The arguments were built logically particularly in the latter part of the answer. (Read the candidate's advice to their line manager to consider non-financial factors with justification under the subheading. ("Alpaca's mission and corporate objectives"))

This answer demonstrates familiarity with the business that helps the application of knowledge to the scenario, as seen in the last paragraph under the subheading 'Customer satisfaction'. (e.g., customer expectations, ratings in the Visitadvisor etc.) It also helps when thinking about the wider issues that affect the decision that the candidates were asked to comment on.

## Actual student answer – passed

### Profitability index

The overall project of acquiring GS is divisible into projects such as the pool project and gym project. The PI indicates which of those projects would result in a higher profitability, and we can see that the pool project has the highest profitability index. Therefore, the pool project, using this appraisal method, would be favoured. However, as mentioned above, the NPV is the most commonly used and significant appraisal method, so generally speaking the project with the highest NPV should be prioritised.

### Alpaca's mission and corporate objectives

There are a number of non-financial factors which must also be considered here, and this is usually done prior to the quantitative methods listed above. One of the key non-financial factors to consider is if the projects are in line with Alpaca's overall mission of delivering authentic hospitality by making a difference to our customers and our guests. The pool project is aimed at maintaining current occupancy levels and attracting more guests. Being an attractive leisure facility, this is in line with Alpaca's mission and objects to provide high quality and guest satisfaction. The gym project aims to provide an additional source of revenue stream for Alpaca by allowing non-residents to also use the gym, and this is in line with Alpaca's aims of becoming the largest luxury hotel operator by revenue and room capacity. This will lead to a significant increase in Alpaca's revenue stream. To summarise, both projects are in line with Alpaca's mission and aims and so would be viable projects to undertake.

### Customer satisfaction

Alpaca also prides themselves on delivering high customer satisfaction through our values such as 'excellence' and 'attention to detail'. Customers would certainly be happy with Alpaca's decision to open a pool and gym in their luxury hotel in Boravia, and this is somewhat expected by the customers as most of Alpaca's 50 current hotels in Maylandia will have gym and pool facilities. Our quality of facilities are generally rated relatively high on the Visitadvisor website and so would lead to greater customer satisfaction. Greater customer satisfaction will likely lead to repeat customers and increased occupancy rates in the future, which is one of Alpaca's objectives.



## SECTION (Task) 1 – sub task (b):

'Secondly, using the figures for the gym project, prepare notes that I can use in the training session that explain why sensitivity would be useful when presenting this project to the Board. Also, discuss whether it would be better to use sensitivity analysis or scenario planning when evaluating the gym proposal.'  
**(40%)**

### QUESTION DEBRIEF

#### A Level 3 answer to this sub-task should include:

- (i) What is the usefulness of sensitivity analysis? A full and relevant explanation that is clear and comprehensive of the usefulness of sensitivity planning; and
- (ii) Why sensitivity analysis is useful in this context? (i.e., rational justification for all points raised making reference to the information provided in the pre-seen and unseen materials.) (4 to 5 marks)
- (iii) What are similarities and differences between sensitivity analysis and scenario planning? (i.e., a full and relevant comparison of sensitivity analysis and scenario planning); and
- (iv) What evidences from the scenario may support your points? (i.e., rational justification for all points raised making reference to the information provided in the pre-seen and unseen materials.) (4 to 5 marks)

### Actual student answer – failed

#### Notes on Sensitivity Analysis

The importance of the sensitivity analysis is that we can ascertain the sensitivity of each factor in the project appraisal to net present value of the GYM project. Therefore it helps to analyse what factors are significant in the appraisal process and what are the factors that are less susceptible to change the decision.

When the cost of gym equipment increased beyond 19.9% the project NPV becomes negative. If the membership income decreased beyond 10% the project NPV becomes negative and also the cost of capital increase beyond 93% the project NPV becomes negative. This reflects the importance of the sensitivity analysis for decision making.

Thank You  
Finance Manager

The overall answer demonstrates a non-targeted approach commenting on everything that the candidate seems to remember about sensitivity analysis from a theoretical point of view. This usually scores no marks.

The candidate has kept the explanation of the usefulness of sensitivity analysis (first paragraph) succinct allowing more time for a broader discussion of the applicability of sensitivity analysis in the gym project. This demonstrates the candidate's understanding of the question requirement and time-split between all requirements in the sub-task.

In the second paragraph, this candidate refers to some of the information provided in the unseen materials; however, it fails to provide an in-depth discussion addressing the specific requirements of the sub-task. This represents a missed opportunity to demonstrate application skills that are critical in obtaining a passing score.

This answer demonstrates a lack of answer planning that usually helps to produce a comprehensive answer, applying technical knowledge to the specifics of the scenario. Answer planning will allow time to think about all of the points that help to give the answer a clear format (as in the 'passed' answer), importantly saving time.

This candidate has appropriately drawn information from the pre-seen and/or unseen and importantly provided his/her interpretation followed by an in-depth discussion. The candidate has been vigilant not to appear to be repeating the information given in the scenario but rather paraphrasing it, drawing on relevant information to support his/her point. This is a clever way of demonstrating application skills. (e.g., 'The sensitivity of gym equipment is 19.8%, so it is not as sensitive to changes in decisions as the volume of membership')

### Actual student answer – passed

#### Sensitivity analysis and scenario planning

##### Why sensitivity analysis is useful

Sensitivity analysis is a useful technique which is typically used to address uncertainty for new projects. It looks at how much a variable will be affected if a certain decision is implemented, and it also considers how much one variable can change before a project fails (meaning the NPV is equal to zero).

##### Effect of decision on variables

It is obvious that the gym project is at risk due to the planning permission to build new gym facilities near GS for non-residents. If this project goes ahead, they will be a major competitor for our GS hotel. As a result, Alpaca may want to lower their prices of their gym membership to become more competitive. Sensitivity analysis can be used here to estimate how sensitive the volume of memberships sold would be to a reduction (or increase) in prices. We can see here that the sensitivity analysis percentage for volume of memberships sold is 10% and is much lower than cost of capital or cost of equipment. Therefore, the volume of memberships sold is the most sensitive and the most likely to be affected by changes in a decision. This would be a benefit to Alpaca, for example, if they did reduce the prices as the volume of membership sold is likely to increase.

##### How much one variable can change before project fails

Alpaca can also use this approach to see how much the cost of equipment can change, for example, before the project fails. This is very useful as Alpaca are a luxury brand and want to buy the best equipment to reflect their high-quality and luxury name. Therefore, Alpaca can use this approach to see how much they can spend on gym equipment and how this affects the project. The sensitivity of gym equipment is 19.8%, so it is not as sensitive to changes in decisions as the volume of memberships. Therefore, increased costs for gym equipment may be quite large before the project fails.

Overall, these features of sensitivity analysis are useful when presenting the project to the Board, mostly because it accounts for any uncertainty around the project in the near future. The uncertainty around the planning permission and new gyms opening is a key consideration here, so Alpaca can use sensitivity analysis to see how this will affect our revenues and subsequently profits from the gym project, if it is undertaken.

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## SECTION (Task) 1 – sub task (b):

'Secondly, using the figures for the gym project, prepare notes that I can use in the training session that explain why sensitivity would be useful when presenting this project to the Board. Also, discuss whether it would be better to use sensitivity analysis or scenario planning when evaluating the gym proposal.'  
(40%)

### QUESTION DEBRIEF

**A Level 3 answer to this sub-task should include:**

- (i) What is the usefulness of sensitivity analysis? A full and relevant explanation that is clear and comprehensive of the usefulness of sensitivity planning; and
- (ii) Why sensitivity analysis is useful in this context? (i.e., rational justification for all points raised making reference to the information provided in the pre-seen and unseen materials.) (4 to 5 marks)
- (iii) What are similarities and differences between sensitivity analysis and scenario planning? (i.e., a full and relevant comparison of sensitivity analysis and scenario planning); and
- (iv) What evidences from the scenario may support your points? (i.e., rational justification for all points raised making reference to the information provided in the pre-seen and unseen materials.) (4 to 5 marks)

## Actual student answer – failed

Continued

This answer demonstrates a good grasp of the technical knowledge under the core activity through the use of information (given as part of the task and from the pre-seen material), and how it was incorporated into the answer, as evidenced throughout and especially in the paragraphs under the last subheading 'Sensitivity analysis vs scenario'.

This candidate has been mindful to keep the answer tailored to strictly address the sub-task requirement. To this effect candidates need to read the question requirement very carefully to ensure that they keep their answers relevant.

The candidate has expanded beyond a mere explanation and commits to an argument throughout the answer. This has been made possible through answer planning which is evidenced through the structure, presentation and logical and coherent flow. Headings, subheadings and paragraphing have made it easy to follow the answer and award marks.

## Actual student answer – passed

### Sensitivity analysis vs scenario

Scenario planning is typically a much more qualitative technique in comparison to other stress testing methods as it look as potential scenarios that may occur in the future, and writes a detailed report of their consequences and outcomes. Sensitivity analysis, however, also has its limitations: it does not consider the probability of an outcome occurring and when using sensitivity analysis you can only change one variable at a time. Therefore, if multiple decisions are changing at once, then this is not a very useful technique.

Conversely, one of the great advantages of scenario planning is that you can look at more than one variable at a time, so it overcomes the limitations of sensitivity analysis. For example, Alpaca can consider both the change in price and also upgrading the gym equipment at once, to see how this impacts the gyms overall profitability. There are also more quantitative methods of scenario planning available which make use of algorithms to predict the probabilities and estimate NPVs for the projects, based on the hypothetical situations. As such, scenario planning is a more well-rounded technique and I would recommend using this technique over sensitivity analysis, as there will undoubtedly be more than one variables that need to be considered at any one time.

# What did the candidates do right or wrong?

At first glance, the answer with a passing score has paragraphs that are well structured and laid out, suggesting comprehensive coverage of each area of the task and subsequent requirements. In addition, at Management level, to achieve a higher passing score, you need to demonstrate strong technical knowledge of the topics being tested through clear and comprehensive explanations and applying this technical understanding to the scenario. In the failed answer, the candidate seemed to have missed out on the marks primarily because of the poor technical understanding of the syllabus topic examined. Further, in the failed answer the candidate has explained the issues too briefly and with a lack of clarity.

Regarding writing style, the candidate who produced the answer with a passing score has kept the replies professional with a good layout. They have used headings to clearly indicate which task they are addressing and to provide structure to the response. Each idea has a separate paragraph that makes it easy for the marker to follow the train of thought and award marks. You will notice that the candidate has not used bullet points in the answer with a passing score. It is clearer if you write short paragraphs with subheadings.

One other area worthy of mention is a candidates' ability to apply, which is demonstrated well throughout the answer with the passing score. At the Management level, many of the tasks require application. The candidate who produced the 'passed' answer has demonstrated a good technical understanding in the context of the scenario and the particulars of the issue addressed, incorporating relevant information from the pre-seen and unseen. The primary difference between the 'failed' and the 'passed' answer is the candidates' ability to put theoretical concepts to practical use to demonstrate application skills in their answers consistently.

The candidates have made some spelling and grammar errors, but the examiners won't penalise this. The key element the examiner is looking for is the ability to address the requirements of the tasks and communicate them effectively within a time constrained environment. Therefore, you will not earn marks unless the examiner can understand what you are trying to say. If communication is not your natural strength, you need to start working on it as soon as possible. Ask friends or colleagues to read your answer for you and see if they can understand what you are trying to say.

Finally, remember three keys to producing a passing answer for the CIMA Management Case Study Examination:

- Ensure that your **knowledge base is complete**. The examiner emphasises that knowledge of all areas of the syllabus is very important; lack of technical knowledge in one or two areas, usually in financial reporting (F pillar), is one of the main reasons candidates fail to obtain the passing score. When there are knowledge gaps, application is not possible. You may use the 'Assessment Outcomes' in the [Management level examination blueprint](#) as a useful checklist.
- **Application is key**. Demonstrate technical understanding in the context of the scenario. Information given (both pre-seen and unseen) should be, as far as possible, incorporated into answers. In other words, technical understanding is important but simple regurgitated knowledge scores poorly – it needs to be applied. Read this article to learn [how to demonstrate application skills](#) in your answer.
- **Read the requirements carefully** and [do exactly what the examiner asks you to do](#). This is possible through [answer planning](#) and time management.

For more hints and tips from the examiner read the article '[Examiner's Advice on Common Mistakes in CIMA Case Study Examinations](#)'. Also, watch the video '[How to Produce an Answer Examiners Love to See](#)'. (Read the video transcript [here](#).)

You may also benefit from reading CIMA's published answer to the variant 1. This gives you an alternative approach to achieving a passing score from the same requirements. It is useful to understand how different approaches can earn marks and that the markers are not looking for a model answer.

It's recommended that you read other useful learning resources in the [CIMA Planner](#) to guide you in preparing well for your CIMA Case Study Examination and producing answers with a high passing score.



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