

# Finntutors

## Pre-Seen Analysis

May 2024 – Aug 2024

Operational Case Study Exam

**Kanann**



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### **Context of this Pre-seen**

CIMA is aware that there has been, and remains, a significant amount of change globally.

To assist with clarity and fairness, we do not expect students to factor these changes in when responding to, or preparing for, case studies. This pre-seen, and its associated exams (while aiming to reflect real life), are set in a context where current and on-going global issues have not had an impact.

Remember, marks in the exam will be awarded for valid arguments that are relevant to the question asked. Answers that make relevant references to current affairs will, of course, be marked on their merits.

## Your role

You are a **Finance Officer** working within the **Finance Department** of Kanann.

### What is the Role of a “Finance Officer”

#### A finance officer must help with:

- Short term focused decisions
- costing
- variance analysis
- working capital management
- prepares reports and documents covering accounting transactions for management review.
- ensures that accurate records are kept by standard practices.
- establishes budgets
- forecasts future cash flows
- provides periodic financial analysis.

You are principally involved in the **preparation of management accounting information** and **providing information** to managers to **assist with decision making**.

As we know, P1 is the major foundation pillar of this exam and the principal role given to you revolves around the same.

At times, you are also expected to assist with the preparation of the **financial statements** and answer **queries regarding financial reporting** and other financial matters.

**F1 Syllabus**

For any case study exam, it will be important to immerse yourself into the details of this company as only then will you be able to present answers that are specific for your company.

**Business Skills**

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## Introduction

Kanann is a company that **designs, makes and sells saddles** for horse riding.

You are part of an organisation that designs- manufactures and sells. So, keep this in mind and topics that are manufacturing related from your E1, P1 and F1 syllabus become more important.

We will be discussing them throughout the pre-seen analysis.

It means, we are a downward vertically integrated company. Meaning, every single part of this product is controlled inhouse. We design, we make and we sell.

This has various advantages such as: customer information, customer direct access, potential for understanding buying patterns and much more.

This also have various drawbacks like increased capital requirements, reduced flexibility and high operating costs.

Let us keep in mind the strategic supply wheel and supply chain management issues as everything is controlled by us.

  
**E1 Syllabus**

Kanann **only makes saddles**, it **does not make bridles**. Companies such as Kanann are **known as saddle makers**.

Our differentiating factor could be that we focus on quality and saddles only but this would also mean that one product segment is being ignored which could be a lost revenue for the business.

Future expansion into this segment can be looked at?

Opportunity to focus on/create products that are aimed at a wider customer base.

The company is **based in Keeland**, a country located in **mainland Europe** which has the **K\$ as its currency**.

**From this we understand:**

- Keeland is a developed economy which means people have the interest and the money to spend on innovative, quality oriented and niche products like horse riding saddles.
- We also know that Europe and the west has a deep rooted horse riding culture.
- So, the trend and culture will be such that people will be used to these kind of products as we have seen in our industry analysis.

Segmentation and external market analysis will be important here.

**Kanann is located in a developed economy** so it opens up advantages such as better infrastructure, highly skilled workforce and customers having the spending power.

Here, we need to also take into consideration the higher regulation and high factors of productions costs.

**E1 Syllabus**

Kanann was founded in **1906 by William Kanann**.

Company Founded in 1906 so roughly we have been in business for 118 Years!

A business can only and only survive for so long because it has garnered a set of loyal customers and a growing brand image all of which amount to increasing Goodwill.

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William started his working life as an **apprentice saddler** and, after completing his apprenticeship at a local company, started his own business making saddles for the **Keeland Army**.

Started as a small business and grown tremendously. William will be a key person for this business as he has worked through the inception to success of the company.

Structure of the organization and changing roles of different functions within the organization (especially finance) needs to be kept in mind.

**E1 Syllabus**

He purchased a site on the **outskirts of his local town and built a workshop**. The company remains on this original site, although it has expanded over the years to **incorporate a production facility, inventory warehouses and offices**.

We will have our own production facility and so inventory, scheduling, working capital, labour management, variances will be regular occurrences.

**P1 and F1 Syllabus**

Because we have our own facilities many concepts including assets, capital raising and taxation related issues can be raised. We will be speaking about these concepts one by one within the pre-seen analysis.

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A single production facility meaning we are reliant on one production unit to run all the production/assembly functions.

We will start to think about the benefits and limitations of having one single centralised unit here.

Can this site continue to meet the demand as we continue to grow?

When we make any production related decisions, it is important that relevant costs be considered in the process.

Rather than making some of our elements in-house we can look at a make vs buy decision in this scenario.

  
**P1 Syllabus**

During the 1920s and 1930s, the customer base widened to include **civilian customers** and **customers in other European countries.**

Sold throughout Europe. So different currencies coming into the picture here.

During this time, the company became known for **its high quality, stylish saddles.**

This is our competitive advantage and culture of our company. Within the Porters generic strategies this is known as differentiator/premium quality.

This also showcases our premium pricing strategy. Different pricing strategies need to be studied here.

  
**E1 Syllabus**

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The saddles **made and sold by Kanann today** are based on traditional designs and are marketed as **general purpose saddles** rather **than specialist saddles**.

Their **more traditional design** means that Kanann saddles **have limited appeal** in **some modern markets**.

The **innovation and developments** seen in the products offered by other saddle makers, but **lacking in Kanann's saddles**, are thought to be reasons why **Kanann's sales have not increased** as much as those of some other brands.

The general perception in the market is that, although **Kanann's saddles offer value for money**, the company has **significantly fallen behind** the times.

**It is very clear that:**

- Our external market analysis has failed and hence we do not know what the customers really want. (PESTLE).
- Data gathering techniques have failed.
- IT infrastructure within the organization is weak and hence technologies driving the digital world (big data, cloud computing, data mining, data analysis) have not been focused on.
- New types of marketing have not been incorporated.

**P1 and E1 Syllabus**

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A saddle **consists of a tree** (the inner skeleton of the saddle), **webbing** and **leather pieces which are stitched together** to create the saddle.

The company currently offers a **range of three different styles of saddle** and different options in respect of the tree and the quality of the leather used. Today, Kanann's saddles tend to be used by **amateur equestrians** who typically use them for **hacking and occasionally for very low-level competition.**

Focus is on – amateur equestrians for hacking and low-level competition.

We need to expand our ideas and market prospects greatly to increase Kanann sales.

As the business expands, we will need to look at capacity planning and risk related decision making.

Studying various Pay-off tables to enable risk-based decision making/different risk attitudes will be important before making the final call.

  
**P1 Syllabus**

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Throughout the company's history, it has been **owned and managed** by the **Kanann family**.

A family-owned business may be defined as any business in which two or more family members are involved and the majority of ownership or control lies within a family.

#### **Advantages of family businesses:**

- Common values - you and your family are likely to share the same ethos and beliefs on how things should be done - and a competitive edge for your business.
- Strong commitment - building a lasting family enterprise means you're more likely to put in the extra hours and effort needed to make it a success.
- Stability - knowing you're building for future generations encourages the long-term thinking needed for growth and success.
- Decreased costs - family members may be more willing to make financial sacrifices for the sake of the business.

#### **Disadvantages of family businesses:**

- Lack of skills or experience - some family businesses will appoint family members into roles that they do not have the skills or training for.
- Family conflict - conflict can arise in any business, but it's important to consider that disputes within a family business can become personal as the staff are working with the people closest to them.
- Favouritism - can you be objective when promoting staff and only promote the best person for the job whether they are a relative or not?
- Succession planning - many family business owners may find it difficult to decide who will be in charge of the business if they were to step down.

The company's current **Managing Director is John Kannan.** John has a sister, Ann, and they hold **80% and 20% of Kanann's equity shares respectively.**

**Ann is a successful author** of romantic novels and has no interest in horses or equestrian pursuits. She is not involved in the management of Kanann.

**John's daughter, Freya Kanann,** has participated in equestrian sports from when she was a small child. She is now an international show jumper and represented Keeland at the recent World Equestrian Games. Freya's medal-winning performances in individual and team events at the World Equestrian Games led to her **inclusion in Keeland's Olympic team.**

Freya is an international show jumper and holds accounting and finance knowledge. Freya can be a good marketing aspect for our business.

She is also included in the Olympic team, so how much time does she have to give to the business?

Are these factors holding the business back?

Freya's sporting prowess is matched by her intellect. She recently graduated from a prestigious Keeland university with a **first-class honours degree in Accountancy and Finance.** After graduation, Freya started working at Kanann, although she does take **substantial periods of leave** to continue her equestrian career. John is immensely proud of his daughter's academic and sporting achievements and welcomes her involvement in the company, which he freely **admits has an ageing management profile and needs new ideas.**

HR will be an important role at this stage within our organization since change is expected.

New marketing techniques could be explored.

New Costing techniques could be explored.

A small business overhaul is on the horizon.

**P1 and E1 Syllabus**

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An exam question revolving around this situation is likely. Expansion can lead to capital requirement needs (F1), property, plant and equipment recognition (F1), production planning (P1).

Since the topic of expansion is prominent in discussions, can there be an opportunity to outsource certain business units?

**Outsourcing has its own advantages and dis-advantages.**

**Advantages of outsourcing**

- Improved focus on core business activities
- Increased efficiency
- Controlled costs
- Greater competitive advantage

**Disadvantages of outsourcing**

- Outsourcing involves handing over direct control over a business function or process to a third party. As such, it comes with certain risks
- Service delivery issues which may fall behind time or below expectation
- Confidentiality and security - which may be at risk
- Lack of flexibility - contract could prove too rigid to accommodate change

**E1 Syllabus**

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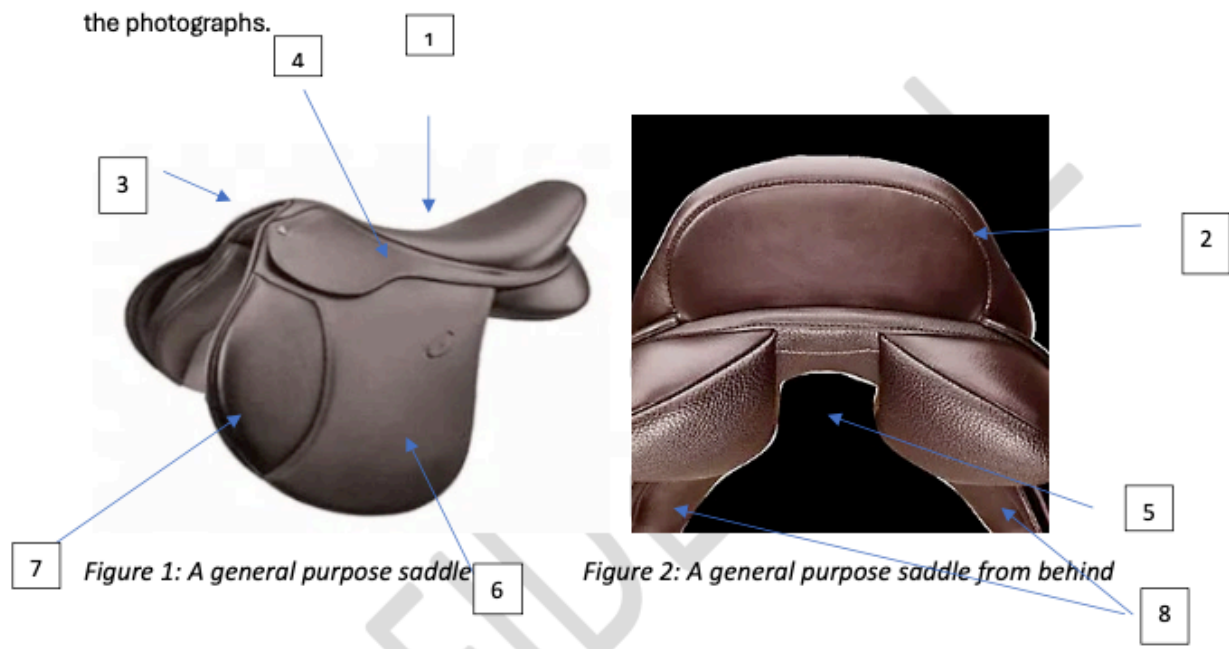
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# Extract from Keeland Pony Club Manual

## Chapter 3: The general-purpose European style saddle

A general-purpose European style saddle (figures 1 and 2) is designed to **accommodate different riding styles and disciplines.** It is important to understand the different areas of a saddle when looking after your horse.

Below, we have a numbered list of the different areas of a European style saddle with an explanation of each area. These correspond to the numbers in the photographs.



**1. Seat:** The seat of the saddle is where the rider sits. It should provide a comfortable and balanced position for the rider.

**2. Cantle:** The cantle provides support and security for the rider, helping to keep them in place during riding. The height and angle of the cantle can affect the rider's position.

**3. Pommel:** This is the raised front portion of the saddle seat.

**4. Tree:** This is the internal framework of the saddle that gives it its shape and structure. It plays a crucial role in distributing the rider's weight evenly across the horse's back. A well-designed tree is essential for horse comfort. The tree cannot be seen in the photographs.

**5. Gullett:** This is the channel which runs along the length of the saddle underneath the seat. It provides clearance for the horse's spine, ensuring there is no pressure on the horse's back.

**6. Flaps:** These are the large leather panels that hang down on both sides of the saddle.

**7. Knee rolls and thigh blocks:** Knee rolls and thigh blocks are padded areas on the front of the saddle flaps. They provide additional support and stability for the rider's legs.

**8. Panelling:** The panels are the padded areas which come into direct contact with the horse's back. They should be designed to distribute the rider's weight evenly and provide cushioning.

After a saddle has been assembled, it is then stuffed with flocking to provide padding in the seat. Flocking can be made of **wool or synthetic material** or a **mixture of both.**

Since it is a mix of different processes and different materials the variances topic comes into the picture here.

With different processes/products/needs and expansion comes issues in production and this needs to be managed well which is possible if variances are well understood. Your material and labour variances become important here.

**P1 Syllabus**

# Article in Keeland Equestrian News

## How have European Saddles developed over the last 500 years?

### Ella Winter-Barker for The Keeland Equestrian News

Horse riding saddles have a **rich history, dating back millennia** and their design has **evolved significantly** over the last 500 years. This development has been driven by the changing needs of riders, improvements in materials and manufacturing, as well as a deeper understanding of equine anatomy and biomechanics. This **looks set to continue.**

The business is changing so managing change and uncertainty and dealing with risks will be important.

The Medieval Era (15th Century) saw saddles which were **simple and practical** and, as the illustration shows, were designed mainly for military use.



Medieval soldiers on horse back

High pommels and cantles provided stability for knights in armour. Stirrups, introduced around the 9<sup>th</sup> century, were pivotal in **developing improved control and balance.**

The 16th and 17th Centuries, in the Renaissance and Baroque periods, saw saddles becoming more **decorative and focussed on rider comfort.** The rise of Equestrian arts and a desire for elegance led to saddles **being elaborately adorned.**

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17<sup>th</sup> Century rider

With The Age of Enlightenment, the 18th and 19th Centuries saw more advancements. With saddles becoming **lighter and more balanced**, with better weight distribution, the introduction of wooden saddle trees and developments in design, these all allowed **greater freedom of movement** for the rider.

Saddle design continued to be revised during the 20th Century with **disciplines like dressage, show jumping and eventing driving the creation** of specialised saddles tailored to the unique demands of each discipline.

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# The industry

## Overview of the market

Kannan's **market share in Keeland is relatively small** in terms of the volume of saddles sold.

However, there is a **flourishing equestrian market in Keeland**, with the sector generating K\$4 billion of GDP each year. Approximately 1% of the 26 million households in Keeland own horses with an average of 2.4 horses being owned by each horse-owning household.

A very big market with new opportunities every day.

We must look at evolving and growing market segments as well. Geographical or product expansion can be seen as the next step.



Countries with a **tradition of horse ownership** usually have saddle makers which only sell into the domestic market as well as saddle makers which sell globally.

Saddle makers typically sell saddles to **wholesalers and retailers** of equestrian equipment.

## Growth avenues:

- Tradition
- Global players also included in this market
- Increasing demand for sophisticated and technologically advanced saddles
- Population owns saddles

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Such equestrian equipment retailers usually have their **own in-house saddle fitters** who will connect with the **end user to make the sale**. Saddle makers do not usually **sell directly to the end user**.

Relationship management with retailers and wholesalers will be important to manage as they will be the ones selling our products. *(E1 Syllabus)*

Also, receivables management and contracts with downward sellers will be an important thing to manage. *(F1 Syllabus)*

Today, individual riders may have **multiple saddles for one horse**, with each designed to **improve performance in a specific discipline**. For instance, a show jumping saddle will be made with large knee rolls to allow better grip when jumping, whilst a dressage saddle is likely to have a deeper seat to allow better contact with the horse when completing dressage tests.

In addition, riders with multiple horses are also likely to have saddles specifically sized to each horse they own. The move to riders having specific horses for specific disciplines has **driven global sales over the past few years and is expected to continue in coming years**.

### **Global saddle manufacture**

Saddle manufacturing is an industry with **many national and global manufacturers**. There is a high concentration of saddle makers in areas such as the **USA, Australia and South Asia** where there are **long equestrian traditions**.



However, the equestrian saddle market is **very diverse and includes different separate equestrian** pursuits such as polo, horse racing and European and Western riding. Manufacturers in each of these

individual fields do not compete in most cases, with only a **very few global firms operating in more than one market**.

A very big market with new opportunities every day.

We must look at evolving and growing market segments as well. Product expansion can be seen as the next step.

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Developments are being seen in the saddle industry in terms of both **production and design.**

**Production**, which has previously been very labour intensive, is now seeing a move to **more automated production techniques** in areas such as leather cutting. However, despite this, the production of a saddle still relies heavily on the **skilled labour of the saddle makers** in relation to stitching and assembly.

More automated techniques would mean better production and with production costing needs to evolve as well. The switch to ABC for modern businesses is seen as the next step.

ABC will be detailed upon in the costing segment of the pre-seen analysis.

↑  
**P1 Syllabus**

**Design improvements** are being seen in the use of **high-tech materials**, for instance, using carbon fibre in tree manufacture to obtain a lighter and stronger tree and the introduction of synthetic materials in the production of saddles. There have also been moves to introduce **more automation** into the production process, which has traditionally been very labour intensive.

More automation also means a move towards modern manufacturing techniques such as JIT, TQM, Lean manufacturing and quality circles. Is this something that our organisation is also moving towards?

These new concepts give rise to discussions on quality management and quality related costs.

↑  
**E1 Syllabus**

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## Extracts from the Kanann sales brochure

### Our saddle range

At Kanann, our long history as equestrian saddle makers shows in our range of traditional saddles and designs. Each saddle has evolved with the aim of helping both horse and rider to enjoy their activity.



#### **Key words to focus on that defines our strategy:**

- Premium Quality: Focuses on High quality and hence High prices.
- Prices showcase our high-quality and custom built credentials.
- Traditional saddles and designs

We offer you **three different styles of saddle**, each named after horses that have been owned by the family over the years. These are:

Astral

Meteor

Comet

There are **two models of the Astral**, **two models of the Meteor** and **one model of the Comet**.

A total of 6 products are sold by our business.

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**Each model uses a different grade of leather,** from E grade (economy quality) to A (premium quality) and either a Type 1, Type 2 or Type 3 saddle tree.

<b>Saddle style</b>	<b>Astral</b>		<b>Meteor</b>		<b>Comet</b>
<b>Average price</b>	K\$2,750	K\$3,250	K\$3,500	K\$4,000	K\$4,500
<b>Saddle tree type</b>	Type 1	Type 2	Type 2	Type 3	Type 3
<b>Leather grade</b>	E	D	C	B	A

**Each model is available in different sizes** to allow the saddles to fit different height riders and different size horses.

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