

QUESTION BANK

SECTION A

STRATEGIC PLANNING AND CONTROL

A

1. Strategic management accounting

- (a) Identify and discuss the circumstances that have brought about the proposition that traditional management accounting control systems have lost their 'relevance' to today's manufacturing and organisational environment.

(10 marks)

- (b) Evaluate strategic cost management initiatives which may be used in order to restore the 'relevance' of management accounting control systems in today's manufacturing and organisational environment.

(15 marks)

(25 marks)

(Adapted from June 2004)

2. Zero Base Budgeting – National Electronics Ltd

National Electronics Ltd manufactures and markets a range of electronic office equipment. The company currently has a turnover of \$50 million per annum. The company has a functional structure and currently operates an incremental budgeting system. The company has a budget committee that is comprised entirely of members of the senior management team.

No other personnel are involved in the budget-setting process.

Each member of the senior management team has enjoyed an annual bonus of between 12% and 24% of their annual salary for each of the past five years. The annual bonuses are calculated by comparing the actual costs attributed to a particular function with budgeted costs for that function during the twelve month period ended 31 December in each year.

A new Finance Director, who previously held a senior management position in a 'not for profit' health organisation, has recently been appointed. Whilst employed by the health service organisation, the new Finance Director had been the manager responsible for the implementation of a zero-based budgeting system which proved highly successful.

Required:

- (a) As the new Finance Director, prepare a memorandum to the senior management team of National Electronics Ltd which identifies and discusses:

- (i) factors to be considered when implementing a system of zero-based budgeting within National Electronics Ltd;

(10 marks)

- (ii) the behavioural problems that the management of National Electronics Ltd might encounter in implementing a system of zero-based budgeting, recommending how best to address such problems in order that they are overcome.

(6 marks)

- (b) Explain how the implementation of a zero-based budgeting system in National Electronics Ltd may differ from the implementation of such a system in a 'not for profit' health organisation.

(4 marks)

(20 marks)

(Adapted from June 2004)

3. Beyond Budgeting Model

Better budgeting in recent years may have been seen as a movement from 'incremental budgeting' to alternative budgeting approaches.

However, academic studies (e.g. Beyond Budgeting - Hope & Fraser) argue that the annual budget model may be seen as

- (i) having a number of inherent weaknesses and
- (ii) acting as a barrier to the effective implementation of alternative models for use in the accomplishment of strategic change.

Required:

- (i)
- (b) Identify and comment on FIVE inherent weaknesses of the annual budget model irrespective of the budgeting approach that is applied.

(8 marks)

- (c) Discuss ways in which the traditional budgeting process may be seen as a barrier to the achievement of the aims of EACH of the following models for the implementation of strategic change:

- (i) benchmarking;
- (ii) balanced scorecard; and
- (iii) activity-based models.

(12 marks)

(20 marks)

(June 2005)

4. Strategic planning – Diverse Holdings Plc

Diverse Holdings Plc has five wholly-owned subsidiary companies.

These are:

- (i) Organic Foods Ltd (OFL) which is involved in the production and sale of organically grown fruit and vegetables. OFL has built up a very good reputation as a supplier of quality produce,
- (ii) Haul-Trans Ltd (HTL) which was acquired on 1 December 2005 and is involved in transporting a range of products on behalf of third parties,
- (iii) Kitchen Appliances Ltd (KAL) which is involved in the manufacture and sale of small, manually-operated kitchen appliances. KAL has recently suffered from squeezed margins as a consequence of competition from low cost imports.
- (iv) Paper Supplies Ltd (PSL) which manufactures and sells a narrow range of stationery products to two distributors,
- (v) Office Products Ltd (OPL) which manufactures and sells computer workstations with unique design features which are highly regarded by health and safety experts.

The management accountant of Diverse Holdings Plc has gathered the following actual and forecast information relating to the five subsidiaries:

Year ending 30 November

	2003	2004	2005	2006	2007
	Actual	Actual	Actual	Forecast	Forecast
(OFL)					
Market size (\$m)	100.00	120.00	150.00	180.00	225.00
Turnover (\$m)	5.00	8.00	10.0	13.50	18.00
Operating Profit (\$m)	1.00	1.80	2.50	3.00	3.60
(HTL)					
Market size (\$m)	Unknown	Unknown	Unknown	Unknown	Unknown
Turnover (\$m)	40.00	40.00	41.00	42.00	42.00
Operating Profit (\$m)	4.00	4.00	4.00	5.00	5.60
(KAL)					
Market size (\$m)	252.00	250.00	245.00	242.00	240.00
Turnover (\$m)	37.50	37.50	35.50	32.00	29.00
Operating Profit/(loss) \$m)	1.50	1.10	0.70	0.30	(0.20)
(PSL)					
Market size (\$m)	60.00	65.00	70.00	77.00	84.00

Turnover (\$m)	2.00	2.00	2.00	2.00	2.10
Operating Profit (\$m) (OPL)	0.60	0.60	0.60	0.50	0.50
Market size (\$m)	200.00	220.00	240.00	260.00	280.00
Turnover (\$m)	15.00	16.00	16.50	17.00	17.50
Operating Profit (\$m)	1.50	1.60	1.65	1.70	1.75

The management accountant has also collated the following information relating to the market share held at 30 November 2005 by the market leader in those markets in which each subsidiary operates:

Subsidiary	Market	Market share (%) held by market leader
Organic Foods Ltd	Food Production	6.66
Haul-Trans Ltd	Transport	Unknown
Kitchen Appliances Ltd	Kitchen appliances	16
Paper Supplies Ltd	Stationery	35
Office Products Ltd	Workstations	25

The management has decided not to undertake any further acquisitions during the next two years due to a shortage of funds.

Required:

- (a) Identify and comment on FOUR advantages that may be gained as a result of the adoption of a formal system of strategic planning. (4 marks)
- (b) Explain how the use of SWOT analysis may be of assistance to the management of Diverse Holdings Plc. (3 marks)
- (c)
- (i) Using ONLY the above information, assess the competitive position of Diverse Holdings Plc. (7 marks)
- (ii) Explain THREE strategies that might be adopted in order to improve the future prospects of Diverse Holdings Plc. (6 marks)
- (20 marks)**
(December 2005)

5. External environment

You are responsible for managing the preparation of all revenue and cost budgets for a motor component manufacturer. You are aware that the external environment has a significant impact on the business activity and financial performance of your company and that the current information systems are underdeveloped and ineffective in this respect.

Required:

- (a) Identify which aspects of the external environment you are likely to consider and give reasons for your choice. (10 marks)
- (b) Identify where you might find the relevant sources of information. (5 marks)
- (c) Suggest how an external environment information system could be introduced into your company. (5 marks)
- (20 marks)**
(December 2002)

QUESTION BANK

SECTION B

EXTERNAL INFLUENCES ON ORGANISATIONAL PERFORMANCE

B

6. Ethical issues and Mendelow's matrix – Toyworld plc

Toyworld Plc is a private company which has been manufacturing plastic toys for the last three years. Its factory is located in a city called Farland. It sells goods worldwide. In spite of having many competitors, the company has been making good profits since its first year of operation. Toyworld's strategy is to keep its costs at a minimum and compete on the basis of price.

Grace has recently been appointed as the CEO of Toyworld after retiring as the CEO of a very successful toy making company. In Toyworld, she has observed the following:

- A substandard material is used in making the toys. This material may be dangerous to health if children put the toys in their mouths. However, the company has not given any warning on the packaging of the toys. Rather, Toyworld products are advertised as being safe and are claimed to improve children's memory and motor skills at a faster rate than the toys manufactured by other companies (which has not been scientifically proven).
- All the workers (including child labourers) are required to work for more than 100 hours a week which is far above the maximum working hours prescribed through legislation. Since unemployment is high in Farland, people staying there are prepared to work for lower wage rates. Toyworld is successful in keeping its costs at a minimum by employing people in Farland at minimum cost (without paying fair wages or bonuses).
- Every year Toyworld donates \$25,000 to a political party whose leader is Robert. This is because Robert is also the chairman of Easy-money, a financing company, which provides finance to Toyworld at low interest rates.

Furthermore, the company has recently received adverse publicity through a local newspaper which reported that the emissions from the factory are polluting the environment of Farland. There is no emission treatment plant in Toyworld. In addition, the material used by Toyworld is bad for the environment. The newspaper has also highlighted, and published photographic evidence of, the poor hygiene conditions in Toyworld and the fact that female workers who have young children are allowed to bring their children inside the factory, which could be dangerous.

After becoming aware of all the above facts and reading the newspaper, Grace immediately called a board meeting and communicated her view that "our dream is for the company to grow by leaps and bounds and become a market leader. However, this can only be achieved by incurring some cost in the short term and therefore we should stamp out all unethical practices."

However, Tony, the finance director disagreed, stating that "we are running the business for profit. If we give up all these practices, our costs will increase and will directly affect our performance. In addition, although we are asking workers to work for more than the maximum working hours, this helps them to earn more money, without which they might not be able to provide for their families."

About 80% of the shares in Toyworld are held by the directors (excluding Grace) and the remaining 20% of the shares are held by people outside Toyworld. There is no substantial holding by any shareholder; rather many people each hold a few shares. As a result, the directors are in a dominant position when it comes to taking strategic decisions (the external shareholders are dormant).