

UNIVERSITY OF BOLTON
INSTITUTE OF MANAGEMENT
ACCOUNTANCY PATHWAY
SEMESTER 2 EXAMINATIONS 2018/2019
ADVANCED PERFORMANCE MANAGEMENT
MODULE NO: ACC 7505

Date: Monday 20 May 2019

Time: 2.00 – 5.00

INSTRUCTIONS TO CANDIDATES:

There are **THREE** questions on this paper.

Answer **all** questions.

All questions carry equal marks.

Silent calculators may be used

Present Value Discount tables will be provided.

No books or materials may be referred to in the examination.

SECTION A

THIS ONE QUESTION IS COMPULSORY AND MUST BE ATTEMPTED

1 The Middlebrook council has been heavily criticised in recent years over its use of incremental budgeting and so has decided to experiment with zero-based budgeting (ZBB). Accordingly, the new Chief Finance Officer (CFO) put in to place the following process:

- (1) The areas to be budgeted for using ZBB were decided upon and those responsible informed. All these people were sent on a two-day course that attempted to explain how ZBB worked.
- (2) Decision packages were requested with reasonable deadlines for each area and the road maintenance and building decision package is reproduced below.
- (3) Once received, the decision packages were to be reviewed and challenged before a second and final draft was agreed.
- (4) The decision packages were to be ranked using a weighting and ranking system and the budget was then to be allocated. The weighted and ranking system is explained below.

Weighted and ranking

In order to decide on the ranking of each decision package they were to be scored out of 10 in each of 6 areas based on the PESTEL model. Each area was to be scored by an independent manager within the council.

The weightings were not disclosed to the producers of the decision packages but are shown here:

- Political 30%
- Economic 30%
- Social 5%
- Technological 5%
- Environmental 15%
- Legal 15%

Each score given is multiplied by the % above to give a total score and this is then used to determine the budget allocation.

Please turn the page

For example a ZBB budgeting package has already been submitted (not road building and maintenance) and the scoring was as follows:

	Score	Weighting	Total score
Political	6	30%	1.80
Economic	5	30%	1.50
Social	8	5%	0.40
Technological	6	5%	0.30
Environmental	2	15%	0.30
Legal	4	15%	0.60
Total score			4.90

The budget allocation for this was set at £73.5m and further allocations to other projects were to be pro-rata to this +/-10%.

Road Building and Maintenance Decision Package

This decision package is in support of a request for £120m of funding to support the building of new roads and the repair and maintenance of the existing roads in the Rockborough area.

Political

It is well known that the current national government is supportive of improvements to the transport infrastructure in the country. It has recently funded a new high-speed rail link to connect our major cities and so it is suggested that improving our road network would meet national government approval.

Local government elections are looming (3 months away) and poor roadways are often seen to fill complaint boxes of local councillors. If money is allocated to improve our roads, the existing councillors are more likely to gain re-election.

Car taxes (raised by central government) far exceed the amount actually spent on the roads. The national car lobby is extremely vociferous on this issue. It is felt we have a moral obligation to increase spending in this area.

Please turn the page

Economic

Delays created by poor roads and road works 'cost' the local economy over £40m each year in terms of late meetings, cancelled appointments and so on. It is felt that the true cost of these proposals is therefore much less than is being requested.

The budget (requested at £120m) is specified on a least cost basis having consulted 5 different contractors.

The money will go to firms that are locally represented in our city hence improving employment in the area.

Social

Car ownership is ever increasing and so our road network must keep pace. It is expected that car ownership will increase by 30% over the next 10 years.

Public transport may suit a small number of people (commuters for example) but for many the car is their main and preferred mode of transport. Most people's journeys cannot be easily carried out without a car and the council should accept that. It is not for the council to dictate individual transport choices and we should build and maintain the roads, as the people want us to.

Technological

Car technology has improved dramatically over recent years and this has resulted in fewer accidents (in particular fatal ones) and much better fuel consumption. It is proposed therefore that the historic arguments about traffic accidents and global warming are less serious as a result.

Environmental

As mentioned above with better fuel economy the environmental arguments surrounding global warming and the use of fossil fuels are weakened and so our roads must facilitate the increased use of cars.

Legal

The council has a legal obligation to maintain the roads. Indeed failure to do so has in the past resulted in many legal claims against us by car drivers that have damaged their cars in potholes. Extra spending on pothole repairs could actually save the £30m we pay in out of court and in court settlements.

Please turn the page

Further points

The weather has been unusually cold in recent winters and this has destroyed the roads in our area. Money must be spent on repairing damaged roads.

Required:

You are a management accountant for the council. Write a report to the council:

- (a) **Evaluate the use of the PESTEL model for the purpose of a decision package in ZBB.**
(15 marks)
- (b) **Assess the arguments made in the decision package produced for road buildings and maintenance. You should consider strengths and weaknesses discussing each in turn.**
(10 marks)
- (c) **Evaluate whether a move from traditional incremental budgeting to zero-based budgeting (ZBB) would be appropriate for Rockborough council.**
(15 marks)
- (d) **Produce 5 follow up questions that the council officials can put to the budget holder for road building and maintenance when the decision package is challenged.**
(6 marks)
- (e) **Evaluate the use of the weighted and ranking system explained in the text above explaining the benefits and risks of such an approach.**
(10 marks)

Question 1 includes professional marks for the format, style and structure of the discussion of your answer.

(4 marks)

(Total: 60 marks)

Please turn the page

SECTION B

BOTH QUESTIONS MUST BE ATTEMPTED

2 David Lloyd Hotels is a chain of twenty hotels across the country of Boltland. Each hotel is wholly owned by the company. Four years ago the chain was bought by a group of investors who installed a new management team. The company's mission is 'to maximise shareholder wealth' with more focused aims of 'maintaining the brand image of David Lloyd Hotels for above average quality' and 'to obtain a dominant market presence'.

The new management team introduced a new reward scheme for the hotel managers in an attempt to motivate managers to improve the revenue and profitability of the chain. The salary package devised for each manager comprised:

- A relatively low fixed salary.
- A bonus payment based on high room occupancy rate. The occupancy rate is the percentage of usable hotel beds filled every night. Managers who achieved more than 90% occupancy rate receive a significant bonus. This target is aimed at keeping the hotel full.
- A smaller bonus payment based on the net profit margin achieved by the hotel. This is aimed at improving the profitability of the hotel.

However, despite these incentives the overall performance of the company is still declining. Managers are generally achieving a high occupancy rate but are largely failing to deliver higher net margins. It is also clear that some managers have achieved a high occupancy rate by declaring that some bedrooms were unfit for use or were being used as seminar rooms.

Also, the pursuit of high occupancy and high net profit appears to be affecting the perceived image of the hotel chain. Once regarded as a quality, mid-market hotel chain, the chain now seems to be perceived as a budget buy. A large percentage of bookings are received through the Internet broker finalsecondhotels.com and their view of the chain is given in appendix 1, together with some visitor quotes from their web site.

The chief executive officer (CEO) is dissatisfied with the existing performance management system, as she is not convinced that it is helping to achieve the company's mission and aims. Therefore, she has asked you to evaluate the current reward system and to consider the impact of applying Fitzgerald and Moon's building block model.

Please turn the page

University of Bolton
MSc Accountancy and Financial Management
Semester 2 Examination 2018/2019
Strategic Business Reporting
Module No. ACC7520

In order to improve the company's competitive position and to assist in the achievement of its mission and aims, the CEO has decided that the company should consider a Six Sigma initiative to give an immediate step change improvement in service quality at David Lloyd Hotels. She has some knowledge of Six Sigma but would like to know more about the DMAIC methodology and its potential benefits.

Appendix 1: Comments

'Great last minute bargain ... very easy to get rooms at half the advertised rate'

'Full of school children on a trip ... will not be using this chain again' 'No Internet connections in the rooms or public areas, very disappointing'

'The bath was cracked and the windows were dirty. Cheap, but badly in need of a clean'

'Receptionists were very off-hand and unable to help. Did not seem to know much about the area surrounding the hotel'

'The staff were surly and uncommunicative. Much worse than last time we visited it. It used to be such a lovely hotel'

'Cheap, but don't eat there. The price for breakfast was extortionate'

'Cheap and cheerful but don't pay the full rate! Always lots of cheap beds available'

'Food was expensive and dull. The serving staff were uncommunicative; the cutlery was dirty and damaged. Staff were more interested in talking to each other than to the customers'

'Restaurant food was very expensive and of poor quality. The two nights I stayed there I was the only customer in the restaurant'

Lastsecondhotels.com says: 'Value for money hotels with rooms always available. Perfect for those last minute breaks'

Required:

(a) **Evaluate the effectiveness of the current reward system at David Lloyd Hotels.**

(10 marks)

(b) **Explain the main improvements the introduction of a building block model approach to performance management could provide.**

(10 marks)

(Total: 20 marks)

Please turn the page

University of Bolton
 MSc Accountancy and Financial Management
 Semester 2 Examination 2018/2019
 Strategic Business Reporting
 Module No. ACC7520

3 Nickerson's is an engineering manufacturing company specialising in the production of mobile machinery for the construction industry. The company has identified and defined a market in which it wishes to operate. This will provide a new focus for an existing product range. Nickerson's has identified a number of key competitors and intends to focus on close co-operation with its customers in providing products to meet their specific design and quality requirements. Efforts will be made to improve the effectiveness of all aspects of the cycle, from product design to after-sales service to customers. This will require inputs from a number of departments in the achievement of the specific goals of the new proposal. Efforts will be made to improve productivity in conjunction with increased flexibility of methods.

An analysis of financial and non-financial data relating to the new proposal is shown in Schedule 1 below.

Schedule 1	New proposal – estimated		
	Statistics		
	2018	2019	2020
Total market size (£m)	120	125	130
Nickerson's sales (£m)	15	18	20
Nickerson's total costs (£m)	14.1	12.72	12.55
Nickerson's sundry statistics:			
Production achieving design quality standards (%)	95%	97%	98%
Returns from customers as unsuitable (% of deliveries)	3.0%	1.5%	0.5%
Cost of after-sales service (£m)	1.5	1.25	1.0
Sales meeting planned delivery dates (%)	90%	95%	99%
Average cycle time (customer enquiry to delivery) (weeks)	6	5.5	5
Components scrapped in production (%)	7.5%	5.0%	2.5%
Idle machine capacity (%)	10%	6%	2%

Please turn the page

Some additional cost information has also been provided in Schedule 2 below.

Schedule 2	2017	2018	2019
Target costs			
– variable (as % of sales)	40%	40%	40%
– fixed (total)	£2m	£2m	£2.5
Internal failure costs			
	20%	10%	5%
(% of total target cost)			
External failure costs			
	25%	12%	5%
(% of total target cost)			
Appraisal costs	£0.5m	£0.5m	£0.5
Prevention costs	£2.0m	£1.0m	£0.5m

The company is considering the implementation of a new performance measurement system in an attempt to make a clear link between performance and strategy and to be flexible and adapt to an ever-changing business environment. The directors are considering implementing the performance pyramid, a modelling tool that can be used in the design of a new performance measurement system or the re-design of an existing performance measurement system.

Required:

(a) Prepare a table (£m) of the total costs for the new proposal for each of the years 2018, 2019 and 2020, detailing target costs, internal and external failure costs, appraisal costs and prevention costs. (4 marks)

(b) Explain the meaning of each of the cost classifications in (a) and comment on their trend and inter-relationship. You should provide examples of each classification. (7 marks)

Please turn the page

University of Bolton
MSc Accountancy and Financial Management
Semester 2 Examination 2018/2019
Strategic Business Reporting
Module No. ACC7520

- (c) **Prepare an analysis (both discursive and quantitative) of the new proposal for the period 2018 to 2020. The analysis should use the information provided in the question, together with the data in Schedule 1. The analysis should contain the following:**
- (i) **Discussion of the external effectiveness of the proposal in the context of ways in which (1) *Quality* and (2) *Delivery* are expected to affect customer satisfaction and hence the marketing of the product. (4 marks)**
- (d) **Discuss the potential benefits to Nickerson's of implementing the performance pyramid. (5 marks)**

(Total: 20 marks)

End of paper