

**UNIVERSITY OF BOLTON**

**GREATER MANCHESTER BUSINESS SCHOOL**

**MSC ACCOUNTANCY AND FINANCIAL  
MANAGEMENT**

**SEMESTER TWO EXAMINATIONS 2023/2024**

**ADVANCED PERFORMANCE MANAGEMENT**

**MODULE NO: ACC7505**

Date: Tuesday 14 May 2024

Time: 2.00 – 5.00

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**INSTRUCTIONS TO CANDIDATES:**

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

**SECTION A** consists of **ONE** question which is **COMPULSORY**

**SECTION B** consists of **TWO** questions, both are **COMPULSORY**

This is a closed book exam.

You must hand in the exam paper with your answer booklet.

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**SECTION A- ANSWER ALL QUESTIONS**

**Question 1**

**FORD GROUP- Background**

The corporate history of the FORD Group (F) stretches back 30 years. During that time, F has developed internationally and now trades in many diverse areas. Fifteen years ago, the company launched F Airlines, which has proved to be one of its most successful business ventures. Five years ago, the company established F Rail and obtained franchises for running rail services in its home country. However, F Rail has not achieved the success that F had intended and is frequently publicly criticised for providing services which do not run on time.

The Group has a distinctive brand name which was established when F's charismatic founder and Chairman launched the first business venture. The majority of the citizens in its home country have heard of the brand which has over time been applied to many diverse areas of business. The Chairman believes the reputation of the brand name places a heavy burden of responsibility on F not to disappoint its customers. The Chairman himself has impressed his own personality on F by pursuing personal publicity in business ventures and becoming involved in high-profile and sometimes dangerous 'leisure' activities. F has achieved a reputation for entering markets which are dominated by major companies, and has been successful in taking business from some major competitors by exposing their consistently poor service and complacency.

The principal business approach which has been adopted is that of 'brand stretching' across different products and services. Each company within the group runs its own affairs but they are all encouraged to help each other resolve their particular problems in a kind of family spirit.

**Key strategic factors**

The Chairman has stated that F is in business 'to be different' and that the F brand name should be clearly associated with this.

It is considered essential by the Directors that any products or services incorporated within the brand must help to build its good reputation, provide an opportunity to add value, and yield an appropriate trade-off between risk and rewards.

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### **Question 1 continued**

The Chairman considers that there are a number of key factors which have contributed to the success of F. The brand name is associated with being the consumer's champion, and has been very successful in delivering what the Chairman refers to as a 'sense of excitement' in most ventures to which it has been applied. In addition, the business contacts which have been established are important and he recognises that his own personality attracts customers and venture partners. F also encourages talented staff within the group to interact with each other in order to solve problems. The management style of F is therefore seen as a major contributory factor in its corporate success. Much weight is placed on its corporate image. The Chairman explains that the quality of a customer's experience when coming into contact with F is the most important item in determining its success.

### **Management style**

The Directors agree that the first priority in being able to achieve success is for F to ensure that the Group employs personnel of the best quality and calibre. Their simple philosophy is that motivated staff lead to satisfied customers which results in repeat and new business, and provides benefit to the shareholders.

F has a flat management structure with few authority levels within the hierarchy. The Chairman himself is committed to providing good communication channels within and outside the group. He believes very firmly that managers within the organisation must be prepared to listen both to the customers and also the staff.

### **Financial performance**

The business approach which has been developed is that the brand name is provided by F with a cash injection from a joint venture partner. This has generally proved to be a very successful formula although this has not been the case with the latest venture into the domestic railway market. The Directors consider that the performance of F Rail will improve following a programme to upgrade the infrastructure inherited from the previous nationalised rail network.

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### Question 1 continued

Comparative financial information relating to F Airlines and F Rail for the last two years at 31 December is as follows:

	20X3	20X4
<b>Turnover</b>	<b>\$m</b>	<b>\$m</b>
Airlines	570	678
Rail	410	423
<b>Pre tax Profit</b>		
Airlines	60	80
Rail	30	32
<b>Capital Employed</b>		
Airlines	750	790
Rail	530	640

### Other performance indicators

The following information is provided relating to F's airline and rail businesses:

	20X3	20X4
<b>Airline</b>		
Number of passengers carried	1.2 m	1.4m
Passenger miles travelled	3,000 m	3,300
<i>Ratio of cabin staff to passengers (excluding aircrew, i.e. pilots and navigators):</i>		
Economy class	1 to 10	1 to 12
Business and first class	1 to 4	1 to 5
Number of airline routes flown	40	44

- F Airlines sells economy, business and first-class seats to passengers. The prices reflect the level of comfort and service. For example, first-class seats cost double the price of business class seats and ten times the price of economy seats.
- Airline passenger numbers are expected to increase by 3% in the next two years in the long-distance economy-class market from which F attracts most of its customers.
- There is an increasing level of alliances emerging among airlines whereby each carries the other's passengers as well as its own on designated routes. F is engaged in such alliances for two of its routes.

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### Question 1 continued

- A general survey of satisfaction among airline passengers carried out by independent representatives from the travel industry in F's home country ranks F as being within the top three for most services.

	20X3	20X4 \$m
<b>Rail</b>		
Number of passengers carried	4.5m	4.3m
Passenger miles travelled	160 m	150 m
<i>Ratio of customer attendants to passengers:</i>		
Standard class	1 to 10	1 to 12
First class	1 to 20	1 to 25
Number of routes travelled	25	25

- F Rail sells standard and first-class seats to its passengers. The first-class seat is priced at about double that of a standard priced seat.
- An increase of 5% in total rail passengers is expected over the next four years.
- F operates the railway services under a franchise agreement, which is due for renewal in five years' time.
- The government has established a Railway Regulatory Authority to monitor the quality of the services provided by the F Group and other railway franchisees, and is increasing pressure on the franchisees to improve their services.
- A general survey of passenger satisfaction carried out by the Railway Regulatory Authority was highly critical of F's services with regard to its record relating to punctuality and service on its trains.

### Future development

F has enjoyed considerable success in its ventures within its domestic market. However, the Directors believe there is much opportunity to develop the brand name within the emerging highly populated retail markets elsewhere in the world where currently it is relatively unknown.

The other development that the Board want to address is the increasing importance of green and environmental issues to customers, Governments and potential investors. While F's record in these respects is not inferior to that of competitors, F does not have a focussed approach to defending and improving its green credentials. One director has suggested that F should investigate the implementation of environmental management accounting (EMA).

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**Question 1 continued**

**Required:**

**Write a report to the Board of Directors of FORD Group addressing the following issues:**

**(a) Discuss the importance of the external forces that F faces in its worldwide business development.**

**(10 marks)**

**(b) With reference to the comparative financial and other performance indicators, evaluate the performance of the F Airlines and F Rail companies. Recommend ways in which they may increase their individual contribution to the future development of the Group.**

**(15 marks)**

**(c) Explain the main factors which have contributed to F's commercial success so far. Comment on the Chairman's personal responsibilities to the Group's shareholders, employees, joint venture partners and customers.**

**(10 marks)**

**(d) (i) Discuss the importance of EMA to F.**

**(4 marks)**

**(ii) Explain, giving examples, EMA could be applied to F.**

**(7 marks)**

**Professional marks for the format, style and structure of the report.**

**(4 marks)**

**(Total: 50 marks)**

**End of question 1**

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**SECTION B- ANSWER ALL QUESTIONS**

**Question 2**

Al Shafi Group has two divisions – JS and AZ. JS is an iron foundry division which produces mouldings that have a limited external market and are also transferred to AZ division. AZ division uses the mouldings to produce a piece of agricultural equipment called the 'TN' which is sold externally. Each TN requires one moulding. Both divisions produce only one type of product. The performance of each Divisional Manager is evaluated individually on the basis of the residual income (RI) of his or her division. The company's average annual 12% cost of capital is used to calculate the finance charges. If their own target residual income is achieved, each Divisional Manager is awarded a bonus equal to 5% of his or her residual income. All bonuses are paid out of Head Office profits.

The following budgeted information is available for the forthcoming year:

	<b>AZ Division TN per Unit</b>	<b>JS Division Moulding per unit</b>
External selling price (\$)	500	80
Variable production cost (\$)	*366	40
Fixed production overheads (\$)	60	20
<b>Gross profit (\$)</b>	<b>74</b>	<b>20</b>
Variable selling and distribution cost (\$)	25	**4
Fixed administration overhead (\$)	25	4
<b>Net profit (\$)</b>	<b>24</b>	<b>12</b>
Normal capacity (units)	15,000	20,000
Maximum production capacity (units)	15,000	25,000
Sales to external customers (units)	15,000	5,000
Capital employed	\$1,500,000	\$750,000
Target RI	\$105,000	\$85,000

\* The variable production cost of TN includes the cost of a JS moulding.

\*\* External sales only of the mouldings incur a variable selling and distribution cost of \$4 per unit.

JS division currently transfers 15,000 mouldings to AZ division at a transfer price equal to the total production cost plus 10%.

Fixed costs are absorbed on the basis of normal capacity.

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**Question 2 continued**

**Required:**

(a) Calculate the bonus each Divisional Manager would receive under the current transfer pricing policy and discuss any implications that the current performance evaluation system may have for each division and for the company as a whole.

(15 marks)

(b) Both Divisional Managers want to achieve their respective residual income targets.

Based on the budgeted figures, calculate:

(i) the maximum transfer price per unit that the Divisional Manager of AZ division would pay;

(5 marks)

(ii) the minimum transfer price per unit that the Divisional Manager of JS division would accept.

(5 marks)

(Total: 25 marks)

**End of question 2**  
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### Question 3

FAB is a large internationally-diversified company that makes a range of consumer white goods such as fridges and freezers and that is organised into divisions based on geographical region. The board of FAB are currently discussing the current system of performance management, in particular looking at bonuses and the potential use of league tables within the group.

Currently, divisional managers are paid a bonus when the budgeted divisional profit for the financial year is achieved or exceeded. These bonuses can represent a large proportion of managers' annual earnings.

Meetings of divisional boards are held monthly and attended by the senior management of the division, and senior members of group management.

With the end of the financial year approaching, there had been discussions in all divisional board meetings of forecast profit for the year, and whether budgeted profit would be achieved. In three board meetings, for divisions that were having difficulty in achieving budgeted profits, the following divisional actions had been discussed. In each case, the amounts involved would have been material in determining whether the division would achieve its budget:

- Division A had severely cut spending on training, and postponed routine re-painting of premises.
- Division B had re-negotiated a contract for consultancy services. It was in the process of installing Total Quality Management (TQM) systems, and had originally agreed to pay progress payments to the consultants, and had budgeted to make these payments. It had re-negotiated that the consultancy would invoice the division with the total cost only when the work was completed in the next financial year.
- Division C had persuaded some major customers to take early delivery, in the current financial year, of products originally ordered for delivery early in the next financial year. This would ensure virtually nil inventory at the year end.

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**Question 3 continued**

**Required:**

**(a) Discuss the financial accounting, budgeting, ethical and motivational issues which arise from these divisional actions. Comment on whether any group management action is necessary.**

**(20 marks)**

**(b) Discuss the potential use of divisional league tables within FAB.**

**(5 marks)**

**(Total: 25 marks)**

**END OF QUESTIONS  
END OF QUESTION PAPER**

PAST EXAMINATION