



TPE 2023 – Case Study Part 1

Theatre Stars

History

TPE examination, May 2022. Pass rate 93%. 2½ hrs in the morning and 3 hrs in the afternoon.

Technical Content

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BACKGROUND NOTES

It is a Tuesday morning in May 2022. You are Dylan, a newly qualified chartered accountant, who works for Jackson, Wiles & Brady LLP ('JWB'), a medium-sized accountancy firm, in its Milton Keynes office. You have been assigned to work for Nick Clouter, a partner in the business services division.

"Good morning Dylan. Please come in and sit down," says Nick.

"I have an exciting opportunity for you. It is going to involve a lot of hard work, done quickly. You know that we don't shy away from hard work here, particularly when the fees are good, and we can really ramp up the charges over and above the standard rates on this one."

You feel a little stunned. You had been told that Nick was aggressive with his billing but had never actually met him until now.

"Late on Friday afternoon, I took a phone call from Samira Gauch, who is the sole shareholder of a children's theatre training company called Theatre Stars Limited ('TS'). I am always looking to increase my fee portfolio and there could be a significant bill from this. That's where you come in.

"I met Samira for lunch yesterday to find out what she might need help with. She explained that things have been very hectic over the last 18 months. Her father has been quite ill so some of the day-to-day running of the business has been left to the operations director, Emilia Dawson. There have been several issues within the business and Samira's a little unhappy with some of the things she has been hearing.

"Samira has provided us with some history and background on TS (Section 1) and there are some recent online articles from our firm's information service (Section 2) for you to use to familiarise yourself with the client.

"Samira told me that the business environment over the course of the last few years has been challenging. Training has been moved online for extended periods of time creating some dissatisfaction. There have also been some staffing issues, with the finance manager leaving in late 2021. The role has been covered by several temporary staff members as required.

"The year-end information produced has never really changed since the company started, remaining quite basic and lacking in depth. Samira is concerned about the current position of TS and wants us to help her understand the issues and provide her with advice.

"Samira has given me a copy of the draft results for the year ended 31 August 2021 that were prepared by one of the temporary staff members and the management figures for the eight months to 30 April 2022 (Section 3). The management figures have been taken directly from the online accounting software they use which is linked to the bank statements. Any monies which have been received for the current year will be included.

"She also gave me some notes prepared by the operations director on matters within the business (Section 4). I want you to pull together a briefing paper for me that I can present to Samira covering a number of areas. Firstly, I want you to evaluate the current performance focusing on the most critical aspect of the analysis of revenue and profitability. A review of expenses year on year is not required. You should also prepare a summary of the key issues within the business, along with possible reasons for the recent changes in financial performance and any potential underlying issues. Your paper should only cover the critical points which Samira is able to address and should include recommendations so that she understands what needs to be done.

“Samira explained that she had asked the operations director to perform a review of the supply of uniforms due to various issues. Two options have been put forward by the operations director to move this situation forward (Section 5). Samira would like us to compare the two options and provide a recommendation as to which would be most beneficial for the business based on that comparison. You should include this in the briefing paper for Samira as well.

“This assignment could be really good news for me. I’m always looking to increase my fees, particularly with the profit share review for the partners coming up shortly,” says Nick, cheerfully.

“Have the client acceptance procedures been done yet?” you ask.

“Oh, don’t worry about that, I’m sure it will get done. I need this moved along quickly, so get on it straight away. I’ll speak to the administration department, and we’ll get engagement letters and client identification sorted at some point. We don’t need them to get this briefing paper done. I’d like to read through it later today, so please have it ready for me at lunchtime. Remember, I want you to evaluate the current performance focusing on the most critical aspect of the analysis of revenue and profitability and a summary of the key issues within the business including your recommendations, along with possible reasons for the recent changes in financial performance and any potential underlying issues. Don’t forget the comparison of the options in respect of supply of uniform too,” adds Nick, as he ushers you out of his office.

Required:

- Prepare the briefing paper for Nick that he will present to Samira Gauch.
- Review all the information in preparation for the afternoon session.

SECTION 1

History and background

Theatre Stars Limited (TS) was formed by Samira Gauch in 2013 following a semi-successful stint in the performing arts industry. Her idea was to train a small group of children giving them opportunities in the performing arts at a professional level. The company is incorporated in England.

TS's strategy is to focus on training only those children with the potential to succeed in professional work. Entry to the program is by audition only. Fees are at a premium over other training providers. There has been a waiting list in effect for places since the business commenced.

The training year follows the English school year, running from September to August with children being required to commit financially for a full year on joining the company. Fees are billed in 12 equal monthly instalments. Bursaries can be awarded for exceptional children facing hardship, but these are very rare.

The range of services provided by TS increased over time to include child talent management and casting services. Many children trained by the company have worked professionally.

Teams

The children train in teams, split by age and ability; children deemed as requiring further development are trained as TS Evolution, with those at a more advanced level trained as TS Select.

Table 1: Team structure

Team	Age Range	Evolution	Select	Team Capacity
Minis	3-6	a	x	24 per each Evolution and Select Team
Juvenile	7-9	a	a	
Junior	10-12	a	a	
Intermediate	13-15	a	a	
Senior	16-18	a	a	

Training locations and instructor costs

TS started with one junior and one senior team in Leicester, opening in Milton Keynes the following year. As the business and demand has grown, further locations have been added. TS now operates in five locations: Leicester, Milton Keynes, Sheffield, York and Newcastle. All locations run the full range of teams. There is also a leased head office in London, as is standard within the talent industry.

TS leases training space in each training location and has an annual agreement with each landlord which details the room rental schedule for the year. TS pays a daily rate to rent the training space, which includes storage space for the equipment at each training location.

The largest training expense is the costs for the creative instructors who provide the actual training in the three disciplines of singing, acting and dancing. These instructors work on a self-employed basis, as is standard in the industry, and are utilised as and when required.

Regulations

There is no governing body that supervises this type of business, or the services provided. The services do not fall under the traditional educational regime regulated by government agencies, although there are legal regulations in respect of child performances. These regulations are very stringent, detailing when and for how long children can perform based on their age. These guidelines do not apply to training hours but do apply to any internal filming work carried out by TS. Disclosure & Barring Service (DBS) checks are also required for anyone coming into contact with the children within the training company.

Part of the promotional activity carried out by TS is the production of videos featuring the children trained by the company. These activities are carried out as a part of the Select team school holiday training and are to promote both the children and the organisation. Due to the restriction on the age group in respect of performance hours from the performance regulations, the Mini teams are not involved in this filming.

Funding

The business was initially funded by a director's loan from Samira. The business is currently self-funding.

Staff and directors

Samira Gauch recruited Emilia Dawson into the role of operations director on incorporation. Emilia is responsible for overall administration matters, scheduling, locations and so on, alongside an operations assistant. There is a full-time talent director with an assistant in the talent management division. Staff are based at the Head Office in London, with the exception of Emilia Dawson who works from home.

The staff of TS comprised the following during the current year:

Name	Age	Position
Samira Gauch	36	Managing director
Emilia Dawson	35	Operations director
Freya Jones	28	Talent director
Jacob Green	24	Operations assistant
Melissa Kenny	27	Talent assistant
Clive Burns	47	Finance manager (resigned October 2021)

Revenue

TS earns revenue from a variety of sources:

Membership fees

Children in both the Evolution and Select teams attend weekly training, which constitutes the base fee charged for all of the children. There is an additional monthly fee for children in the Select teams who attend a total of four weeks of mandatory training during the winter and spring school holidays. Fees increase annually following a review by the finance manager but have not been increased from 2020/21 levels for the 2021/22 training year.

TS takes on new students each year in September following an audition process in August. Returning students are allocated places in each team first. Successful new applicants will then be offered a place depending on the remaining spaces available. Over the last few years TS has operated at capacity.

Supplementary workshops and summer schools

The children are offered the chance to join workshops with industry professionals for an additional charge.

TS also offers six weeks of summer school at each of its locations, where children can train in the summer holidays. Each location can take a maximum of 60 children each week. This summer school is open to existing students and children who are about to audition for the following year. The cost per week is £525 and bookings close on 1 May each year with full payment due at the time of booking. The summer school did not take place in the summer of 2021, but all places have been allocated for the summer of 2022.

Uniform supply

All the children being trained are required to wear the TS uniform.

Other performance fees

Christmas concerts were put on in December 2021 featuring each of the teams in an attempt to increase revenue and to diversify the income streams.

Talent management agency fees

The talent management arm of the business generates income on a commission basis. This division also provides a chaperone service to provide care and supervision for its performing children when on set, chargeable directly to the production company. Temporary staff may be hired to cover the provision if it is a prolonged engagement requiring chaperone services for more than a couple of days.

Activity in the year to 31 August 2021 was significantly reduced due to the lack of live performances and social distancing regulations limiting filming of new productions.

SECTION 2

Online articles from JWB's information service

The Leicester Chronicle

1 March 2022

There has been a significant increase in the number of children being home-schooled in the Leicester area. Home schooling has been on the rise for several years for a variety of reasons including parents looking for more freedom for their children to pursue activities outside of the academic area, a trend which increased following the enforced home-schooling experienced in 2020 and early 2021. Many parents and children used lockdown to further their training in alternative pursuits, with many children simply not returning to school when the lockdown period ended. As a society are we losing focus on education in the pursuit of fast fame?

Performing Arts Exposure

5 March 2022

Is this the end for weekly performing arts training for our children? With the proliferation of full-time performing arts schools aimed at school age children, is it possible that the pursuit of performing arts careers will be limited to those who commit to it fully from a young age? The notion that the weekly training, even at the highest level, is 'just not enough' is a worrying trend that could restrict the development of some of the artists of the future by pushing them into training full-time in disciplines that they will eventually come to resent.

Developmental Psychology Today

10 April 2022

A leading child psychologist has spoken out about the pressures being placed on school age children from so called 'pushy-parents'. Dr Martin Jones prepared a report about the increase in cases of 'burned-out' children he is seeing as a result of being pushed to succeed by their parents. He reports a 37% increase in the number of cases of children aged 11-16 being referred to him who participate in either performing arts or elite sport. "The demands being placed on these children are extreme. Between attending school and participating in their extra-curricular training, many children are undertaking 60-80 hours of activity per week. Many of them are only doing this to satisfy their parents who are pushing their children into these domains based on the few success stories pushed by the media. We need to remember that these are children first and foremost".

SECTION 3

Draft results for the year to 31 August 2021 and management figures for the eight months to 30 April 2022

<i>ended</i>		<i>Eight months to 30 Apr 2022</i>	<i>Year 31 Aug 2021</i>
		<i>£'000</i>	<i>£'000</i>
Revenue	Membership – weekly training fees _____	1,942	3,110
	Membership – additional monthly Select fees_	754	1,152
	Supplementary workshops & summer schools_	1,420	306
	Uniform sales _____	147	213
	Other performance fees _____	63	-
	Talent management commission _____	<u>237</u>	<u>73</u>
		4,563	4,854
	Creative instructors _____	(829)	(1,184)
	Training location costs _____	(756)	(795)
	Head office costs (note a) _____	(473)	(727)
	Uniform costs _____	(137)	(201)
	Other operating expenses _____	<u>(311)</u>	<u>(397)</u>
	Operating profit _____	<u>2,057</u>	
	<u>1,550</u>		
Student information			
Number of students leaving to attend full-time performing arts school/colleges			
(Eight months to April 2022 estimated based on current information)			
(note b) _____		78	33
Auditionees _____		1,280	1,667
Students eligible for re-enrolment _____		962	958
Returning students _____		743	897
Weekday training monthly fees (per student) _____		£240	£240
Additional monthly Select fees (per student) _____		£200	£200

Notes

- (a) Head office costs include all overheads specific to the head office, such as depreciation, as well as staff salaries.
- (b) This figure comprises all students who have completed at least one year of training who do not renew for the subsequent year due to leaving the programme to attend full-time performing arts training. Approximately half of each senior team leave at the end of each training year due to them meeting the age limit for training, with approximately 25% of these pursuing full-time performing arts training.

SECTION 4

Notes prepared by Emilia Dawson (operations director) in April 2022 regarding current issues and developments at Theatre Stars

Administration and staffing

With the exception of the addition of the talent management team in 2016, staff numbers haven't increased at head office since 2014.

Our finance manager, Clive Burns, left the business in October 2021 and has not been replaced. He had an argument with the talent director, Freya, and due to the workload, he stated that he had had enough. Samira and I did discuss the issue of replacing Clive, but Samira was dealing with her father's illness, and it has been difficult to move this matter forward – I can address most things within the business but hiring staff is one element that lies solely with her.

The accounts for August 2021 have not yet been formally prepared and the finance system is somewhat unsupervised. Clive was also in charge of our compliance in respect of Disclosure and Barring Service ('DBS') checks for staff and other compliance matters. The DBS checks have been taken over by the talent assistant, Melissa. I think the argument that Clive had with Freya may have been regarding a DBS check not having been completed for a chaperone on set, but I can't quite remember.

Talent management

Freya Jones took the decision to reduce the number of children we have on our talent management books in September 2021. I did question her on this as the impression that I was given was that only children who have professional experience were retained. This was not Samira's intention when she added the talent management agency; she wanted TS to represent children who could go far in the industry but that was to include those with potential not just those who had already gained work. TS now only represents approximately 10% of the children trained.

This led to complaints from some of the parents whose child's talent management contract was not renewed, with many stating that they would not have signed up for training for another year if they had known. Three parents followed through on this, cancelling their direct debits for the year ended 31 August 2022. This is an area that Clive would generally have taken on, pursuing the lost fees through the small-claims courts. It is my understanding that Freya took the decision to change some of the contract terms at the same time, increasing the commission to 30% from 25%.

Online training

Throughout the year to 31 August 2021 training was provided in an online format. Many of our training facilities continued to charge, albeit at a reduced rate during this period. We did not reduce training fees during this time as we were still providing the training services to our students. This has led to complaints from some of the parents who feel that we should have reduced our charges due to the business not suffering the same level of costs.

It was not possible for us to conduct any of our usual ‘filming weeks’ during the holiday training as we could not have our students on location to film.

Competition in the industry

Theatre Stars pride ourselves on our structure and the way in which we provide training. We are the only multi-location training provider in the UK who organise all of our training from a head office team. This ensures consistency of provision to our students. We have several competitors in the industry who provide training on a franchised basis in most towns throughout the country. They recruit students on an inclusive basis rather than via audition and tailor their training as such.

Throughout the period of online training there was a proliferation of dance schools and creative instructors devising their own online training schemes. As these schemes are conducted online, they are much cheaper than face to face tuition, and they have continued to grow in popularity.

Feedback

We recently received the results of our annual feedback survey, aimed at the parents of the students rather than the students themselves. The feedback was more negative than we are used to, with many parents commenting on the issues already mentioned, but in other areas as well. I have included a selection of comments made which summarise these points.

“We travel such a long way for training, and whilst my daughter does enjoy it, she gets just as much joy from her online lessons.”

“With the changes in our personal circumstances, I really feel that we need to look for training closer to home. My son will be taking exams next year and the two hours of travelling each way to training is just not viable.”

“Having taken part in many online classes during the home-school period, my daughter could not wait to return to face to face teaching. Thank you for resuming as soon as you were able.”

“We joined Theatre Stars last year after my daughter had trained at the local branch of a national performing arts school for three years. The progress she has made since September far exceeds the entire three years of training she received previously. The quality of teaching at Theatre Stars is second to none.”

SECTION 5

Notes prepared by Emilia Dawson in respect of proposed changes to the supply of uniform at Theatre Stars

Samira requested that I perform a review of the supply of uniform. Uniform is currently being sourced from overseas, leading to long lead times and there have been complaints that the quality has significantly deteriorated. It is also an administrative burden, with deliveries being made to the head office, and having to be stored, sorted, packed and despatched by the staff there.

The options I have considered are to continue dealing with uniform in house or to outsource the service to a new supplier (a dance shop) completely and have them provide the uniform directly to the students, having sourced it themselves to the TS specifications.

Option 1 – Retaining in-house uniform supply

If we are to continue supplying the uniform ourselves, I do feel that we either need to address the issues with the current supplier or find a new supplier who can supply us with a better quality product, both of which will take time and potentially increase our costs. This will impact on the cost to the parents; the uniform is sold to students at a significant margin which we would like to maintain. We also need to address the current order requirements; currently the turnaround time from order to delivery to us is 8-12 weeks and we also need to order a minimum of twenty of an item in a particular size, hence our storage issues. We estimate that we currently have uniform stock with a value of approximately £37k.

We also need to address the current system of storage and distribution; there are currently boxes of uniform all around head office, none of which is categorised or catalogued. So many items of the wrong size or type have been sent out over the last year, most of which we haven't received back. What we have received are a lot of complaints when the children have been reprimanded for being incorrectly attired. Unfortunately, we cannot discriminate if a child is not wearing the correct clothing; they will be reprimanded whether it is an item they have forgotten or whether it is an item they don't have, even if it is ultimately an administrative error on our side.

Option 2 - Outsourcing the uniform supply

I have had discussions with a small chain of dance shops, Bright Dance Ltd, who have stores in London, Nottingham and Leeds. This company currently produces and supplies all of the additional branded items that we request our children to have, such as water bottles, rucksacks and so on. They provide a bespoke dance uniform service where they design, arrange production and distribute the uniform as required. The uniform is produced at a site in Rotherham which has a very good reputation and produces all types of sportswear including for professional level football clubs, so that gives me some confidence on the quality.

It would potentially involve some changes to the current uniform design due to production costs. They have stated that the production of most items will not cause any issues, but the strap design on the girls' leotards will need to be changed. They can also provide production runs of five items of a particular size at a time with a turnaround time of two weeks. TS would receive a commission of 10% of sale value on all items sold, with a quarterly reconciliation performed to confirm the

amounts due. Bright Dance Ltd have stated they can keep uniform charges to members at current levels.

END OF PAPER