



TPE 2023 – Mock 1

Theme Park – Case Study Part 1

History

TPE examination, November 2016. Pass rate 87%. 2½ hrs in the morning and 3 hrs in the afternoon.

Technical Content

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This mock exam is taking place remotely.

ICAS would remind you to continue to be ethical and observe the exam conditions applicable to the TPE exam.

BACKGROUND NOTES

It is November Yr51.

You are Eric, a newly qualified Chartered Accountant. You have recently accepted a position as assistant group financial controller at Goody Attractions Limited and Goody Hotel Limited (together, 'the group'), a family-owned and managed leisure and hospitality business. The current group financial controller, Ian Murray, is on sick leave due to stress and you are presently undertaking his day-to-day duties.

It is Tuesday morning and you are in your third week at the group's head office, which is in the grounds of the group's theme park ('Goody's' or 'the park') in Whitby, North Yorkshire. The park did not open for the Yr50 season due to restrictions resulting from the coronavirus (Covid) outbreak. The vaccination programme has allowed the park to reopen in Yr51.

You have promptly completed the first draft of the October management accounts and are looking forward to a relatively relaxed morning when your desk phone starts to ring. It's Lee Goody, the group's finance director.

"Eric?" he says, "It's Lee. I'm on the mobile on the way to a meeting so I will be brief. I have a bit of a job for you. As you will know, our current pricing model for Goody's is a 'pay-as-you-ride' model. I am looking to change our approach in this area by implementing a new pricing model whereby our customers pay one price only and we will send a barcode directly to their smartphone which they then swipe at turnstiles to gain access to our rides.

"I need you to evaluate my proposal for the new pricing model. I want you to determine if the new pricing model will be more or less profitable than pay-as-you-ride and also consider the practical consequences of making this change. I have already emailed to you my notes on the new pricing model (Section 2) and other background information that you will find useful as you are new to the group (Section 1).

"I would like you to also consider the group's hotel business and outline what the potential impact might be on that business as a result of implementing the proposed pricing model at Goody's. Whilst you are at it, use your commercial awareness and let me know of any other general improvements we could make to the hotel business. Of course, you already have the management accounts for both businesses (Section 3) as you prepared them!

"My ideas don't stop there either. I really want to raise our profile and build on the opportunities post-Covid by adding a new attraction which will be transformational for Goody's. There are two possible rides being considered, however, we are only looking to develop one of them at this time. The draft proposals are on the network in the folder named 'Project Game Changer' (Section 4). I need you to review the proposals for the rides – considering key financial and non-financial factors – and recommend which ride we should proceed with.

"If you can pull together all of my requests in the form of a briefing paper, that would be ideal. I can then discuss the various matters with my fellow board members in more detail.

"So, Eric, you've heard what I need, make sure you get the briefing paper done by lunchtime today. Email it across to me as I'm travelling again this afternoon."

Lee hangs up the phone without saying goodbye. You take a deep breath and realise there is some work to do this morning. You stand up from your desk and head for the coffee machine with the aim of filling the holes where motivation should be with a caffeinated substitute.

In preparation for answering the case study question this afternoon you will find it useful to undertake the following tasks during the morning session:

- read all the information carefully and note any points you feel are significant;
- prepare the briefing paper as requested by Lee.

SECTION 1

Background information

Overview of the group

The Goody group comprises two independent companies being Goody Attractions Limited which owns and operates Goody's theme park and Goody Hotel Limited which operates the Clifftop Hotel. Both are in Whitby, North Yorkshire.

Both companies are wholly owned by Fred Goody (Chairman) and the group is managed by Fred's daughter and son, Katherine and Lee.

Goody Attractions Limited

The group's activities date back to over 40 years ago when Fred acquired a small piece of land close to the beachfront in Whitby, on which he opened a small fairground comprising four rides (a big wheel, dodgem cars, a merry-go-round and miniature railway), a couple of side shows (coconut shy and 'hook-a-duck') and a candy floss and popcorn stall. This and subsequent purchases of land are owned personally by Fred but the company owns and operates the fairground.

The fairground was an instant hit with holidaymakers – quickly becoming known as 'Goody's' – and over the years has grown significantly, with Fred acquiring further land and adding or changing at least one ride each year. The park now extends to 22 acres and has 28 rides and a number of side shows and is one of the top 10 tourist attractions in North Yorkshire. The park is open for approximately 35 weeks a year (1 March to 31 October), seven days a week and from 10am to 6pm.

The park has a small cafeteria which can hold up to 15 diners at any one time and three separate stalls serving hot and cold snacks. The existing café is adjacent to a small prefabricated storage building that previously stored prizes and stock for the side shows and stalls, however, this was condemned recently by the local authority and is now fenced off from the public.

Goody Hotel Limited

In Yr28, Goody Hotel Limited acquired the iconic Whitby Clifftop Hotel ('The Clifftop') after purchasing it from an administrator. The Clifftop is situated around half a mile from Goody's and has panoramic sea views. The hotel recently reopened on 1 March Yr51 after an 18-month refurbishment. It has been modernised to a high standard – there are 50 guest bedrooms with prices starting at £100 per room per night. There are function rooms, a spa and treatment suite, a 12-metre swimming pool, a bar and a restaurant. The hotel offers a range of packages to suit customer needs and offers bespoke corporate hospitality. All bookings are made by telephone only.

The restaurant has an extensive (45-dish) menu and all patrons of the hotel can make use of the leisure facilities by advance booking of time slots and payment of a deposit. There are six car parking spaces at the hotel for guests.

Board of directors (both companies)

Fred Goody (Age 78)

Fred is chairman and has held this position since Yr7. Fred has been the driving force behind the development of the group. He stood down from day-to-day management in Yr47 but retains his role on the board and still makes occasional site visits to both the park and Clifftop Hotel.

Katherine Goody (Age 39)

Katherine is managing director and has recently taken up the position having spent the last 15 years working in various operational roles for a major high street bank in London. She is a railway enthusiast and, in her spare time, travels the country exploring the Great British rail network.

Lee Goody (Age 38)

Lee is finance director and he joined the group after University as an accounts assistant and has progressed to his current position. He has a number of other business interests in Whitby, where he also is a director of a local taxi firm as well as the owner of a number of Whitby-based fish and chip shops.

Section 2

Notes on new pricing model, prepared by Lee

I propose to introduce a single-price model which will allow customers all-day access to certain ride categories, depending on the price paid. The model will have three pricing tiers as set out below:

Category	Ride access allowed	Total available rides No.	Price £
A	White knuckle; Thrills & spills	18	25.00
B	Thrills & spills; Kiddie corner	21	18.00
C	Kiddie corner	10	15.00

It is expected that the number of customers in the Yr52 season who will visit the park under the new pricing model will be around 480,000 and that the approximate split of sales will be 39%, 32% and 29% for categories A, B and C respectively. This split of sales estimate is based on discussion with colleagues in the leisure sector (not necessarily theme parks) who have made similar pricing changes to their businesses.

I will offer customers a chance to upgrade their ride access from one to two days if they pay an additional £5 on top of the category price on the first day. I believe that 40% of customers will take up this fantastic offer.

Under the current pay-as-you-ride pricing model, it is estimated that each customer has, on average, 4.3 rides in the park per visit. Under the new system, I expect this to be much higher as I have no doubt people will look to maximise the time in the park to get the most value for money.

At the moment, we have a pay station at each ride and we have one staff member taking the cash at each pay station to allow customers access to the ride. Cash is kept in the individual pay station and, twice a day, it is collected by a member of the finance team for banking.

We will remove the existing pay stations and replace them with automated turnstiles. The customers will pay once only, at a new pay station at the main entrance of the park. We will then send a barcode directly to the customer's smartphone which can then be used to access the relevant rides they have paid for.

The cost of removing the existing pay stations is negligible and their carrying amount is insignificant. The new automated turnstiles and the new pay station at the main entrance to the park are estimated to cost £1,000,000 and will last the next 10 years. Most importantly, the net cost savings of not having staff at every ride are substantial, at around 35% of current staff costs. Most staff are temporary workers (given the seasonal nature of the park) but some permanent staff will be surplus to requirements as a result of this change.

SECTION 3

Extracts from the management accounts

Goody Attractions Limited

	Actual 10 months to 31 October Yr51	Budget 10 months to 31 October Yr51	12 months to 31 December Yr50	Actual 12 months to 31 December Yr49
	£'000	£'000	£'000	£'000
Sales – rides				
White knuckle	6,810	6,250	-	5,625
Thrills & spills	2,235	2,301	-	2,070
Kiddie corner	957	1,000	-	900
	<u>10,002</u>	<u>9,551</u>	<u>-</u>	<u>8,595</u>
Sales – other				
Side shows	765	800	-	720
Cafeteria & food stalls	455	500	-	450
	<u>1,220</u>	<u>1,300</u>	<u>-</u>	<u>1,170</u>
Operating costs – rides				
Staff costs	800	850	200	770
Depreciation	450	450	405	405
Utilities	151	170	26	162
Other operating costs	99	105	17	86
	<u>1,500</u>	<u>1,575</u>	<u>648</u>	<u>1,423</u>
Operating costs – other				
Staff costs	85	81	-	73
Raw materials & consumables	65	80	-	70
	<u>150</u>	<u>161</u>	<u>-</u>	<u>143</u>
Gross margin				
Rides	8,502	7,976	-	7,172
Other	1,070	1,139	-	1,027
	<u>9,572</u>	<u>9,115</u>	<u>-</u>	<u>8,199</u>
	%	%	%	%
Rides	85.0	83.5	-	83.4
Other	87.7	87.6	-	87.8
Customer numbers – rides	'000	'000		'000
White knuckle	1,362	1,250	-	1,250
Thrills & spills	745	767	-	828
Kiddie corner	638	667	-	900
	<u>2,745</u>	<u>2,684</u>	<u>-</u>	<u>2,978</u>
Average price per ride	£	£		£
White knuckle	5.00	5.00	-	4.50
Thrills & spills	3.00	3.00	-	2.50
Kiddie corner	1.50	1.50	-	1.00

Notes:

The park did not open in Yr 50 as a result of the restrictions from the covid pandemic. Most full-time staff were furloughed while the park was closed. A small number of staff continued to work maintaining the rides.

Yr49 can be considered as being free of any impact of the pandemic.

Goody Hotel Limited

	Notes	Actual 10 months to 31 October Yr51 £'000	Budget 10 months to 31 October Yr51 £'000	Actual 12 months to 31 December Yr50 £'000
Contribution	1			
Hotel rooms		350	450	-
Restaurant and bar		135	155	-
Corporate packages		2	50	-
Leisure facilities		15	40	-
		<u>502</u>	<u>695</u>	<u>-</u>
Overheads				
Administrative expenses		145	125	50
Marketing & advertising		2	25	-
Stock write-off	2	36	-	-
Customer complaints	3	2	-	-
Consumables		15	10	-
		<u>200</u>	<u>160</u>	<u>50</u>
Profit/ (Loss) before tax		302	535	(50)
Taxation		65	107	-
Profit/ (Loss) for the year		<u>237</u>	<u>428</u>	<u>(50)</u>
		£	£	£
GOPPAR	4	36	46	-

Notes:

1. 'Contribution' is sales less all direct costs (staff costs, depreciation, raw materials and utilities).
2. The restaurant offers a 45-dish menu. Since reopening, there have been high stock levels and, in turn, around £3,000 per month of wasted premium ingredients. This amount also includes missing cases of Norwegian cod fillets which has a description on the journal entry voucher as follows: "transfer to L. Goody fish shops".
3. Customer complaints about cleanliness of hotel rooms have resulted in several refunds and free meals offered to customers.
4. 'GOPPAR' is gross operating profit per available room, calculated as: $\text{Gross profit} \div \text{Number of available rooms in period}$.

SECTION 4

Draft proposals for Project Game Changer, prepared by Lee

Option 1 – The Zipper Ripper

This ride is a rollercoaster with four loops and a total track length of almost 1.5 kilometres. Constructed from steel, the ride will feel very smooth and will reach speeds guaranteed to thrill riders. The selected contractor is based in the USA and they will supply all materials and labour to construct the ride.

The cost of the ride is £5.0m and it will take six months to construct. An upfront payment of 80% is payable on signing the contract (which could be signed as early as 1 December Yr51) to enable procurement of materials, and the balance is payable on completion of the ride. The ride duration is around six minutes, including boarding and disembarking, and it can hold 12 riders per time. The price will be £5.00 on a pay-as-you-ride basis and operating costs are estimated at 20% of the pay-as-you-ride price. It is expected that for the first three seasons the ride will be 100% utilised during opening hours and this will reduce to 80% for the next seven seasons.

It is likely that the entire steel structure would need replacing after 10 seasons due to metal fatigue and given the size of this undertaking, it is likely the ride will be decommissioned at this time and replaced by another attraction.

Option 2 – The Wild Horse

This is a classic wood-constructed rollercoaster with some sharp turns and steep drops. The wooden track gives a very different ride experience compared to modern steel alternatives. The selected contractor is a local firm and the ride will be constructed from reclaimed timber.

The build cost is £2.0m – payable upfront – and the ride can be constructed in three months, potentially in time for the start of the Yr52 season. The ride is estimated to have 112 riders per hour. The price will be £5.00 on a pay-as-you-ride basis and operating costs are estimated at 10% of the pay-as-you-ride price. It is expected that for the first five seasons the ride will be fully utilised during opening hours, after which usage is uncertain. During the third season the ride would need to be closed during March and April for replacement of parts of the timber track on the steep drops which suffer most wear and tear. The estimated cost is £500,000. Significant repairs to the steep drops would be needed every three years and experience suggests that the rest of the track can last many years without need for replacement.

The construction will require excavation of part of the hillside at the park which is known to house a colony of bats. This, in turn, will require a specialist bat survey which will need to be undertaken before final planning permission will be approved as bats are a protected species. If the ride is built, the very popular Kiddies Corner Tea Cup ride will need to be closed and removed at a cost of £100,000.

We generally use a discount factor of 7.5% in appraising all potential ride projects.

END OF PAPER