1 Diverse holdings (PM 12/05, amended) 45 mins

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 20X5 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				
	20X3 Actual	*20X4 Actual*	*20X5 Actual*	*20X6 Forecast*	*20X7 Forecast*
(OFL)					
Market size ($m)	100.0	120.0	150.0	180.0	225.0
Revenue ($m)	5.0	8.0	10.0	13.5	18.0
Operating profit ($m)	1.0	1.8	2.5	3.0	3.6
(HTL)					
Market size ($m)	Unknown	Unknown	Unknown	Unknown	Unknown
Revenue ($m)	40.0	40.0	41.0	42.0	42.0
Operating profit ($m)	4.0	4.0	4.0	5.0	5.6
(KAL)					
Market size ($m)	252.0	250.0	245.0	242.0	240.0
Revenue ($m)	37.5	37.5	35.5	32.0	29.0
Operating profit/(loss) ($m)	1.5	1.1	0.7	0.3	(0.2)
(PSL)					
Market size ($m)	60.0	65.0	70.0	77.0	84.0
Revenue ($m)	2.0	2.0	2.0	2.0	2.1
Operating profit ($m)	0.6	0.6	0.6	0.5	0.5
(OPL)					
Market size ($m)	200.0	220.0	240.0	260.0	280.0
Revenue ($m)	15.0	16.0	16.5	17.0	17.5
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 20X5 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	16.00
Paper Supplies Ltd	Stationery	35.00
Office Products Ltd	Workstations	25.00

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 FIVE advantages that may be gained as a result of the adoption of a formal system of strategic planning. **(5 marks)**

(b) Explain how SWOT analysis could be used to assist the performance management process at Diverse Holdings plc. **(7 marks)**

(c) (i) Using ONLY the information provided in the scenario, 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)**

(Total = 25 marks)

2 ST University 45 mins

ST University (STU) is university in a European country, with approximately 8,500 full time students. It employs 360 academic staff and 450 other staff.

STU currently receives a significant amount of government funding, which covers its capital budget (for buildings and equipment), teaching, and research.

However, a recent visit from government appointed auditors has been critical of STU's performance in a number of areas:

- For the last two financial years, STU has operated at a deficit, with its expenditure being greater than its income.
- The percentage of students dropping-out of courses is greatly in excess of the national average, as is the failure rate.
- The number of student complaints was very high, and has been increasing over the past 5 years
- It has had an abnormally high level of staff turnover
- STU's internal control of cash receipts is weak, and in several areas there were discrepancies between the cash actually held and the expected amount
- It also had a large number of debtors (receivables), mainly ex-students, but was not taking any action to collect outstanding debts.
- STU could not accurately produce a head-count of the number of students enrolled on its courses
- Overall, the quality of education provided by STU has been graded as 'Poor', which is the lowest possible rating.

Following the visit, the government has instructed STU to prepare a new strategic plan for the next five years, which addresses the criticisms identified by the audit.

Although STU's senior management team were disappointed at the level of the auditors' criticism overall, they were particularly surprised at the comments about its computing facilities. Over the past two years, STU has made a major capital investment in upgrading all the computing facilities across the university.

The auditors' report made reference to this investment, but pointed out that some department faculties are making much better use of them to promote learning than others.

Required

(a) Discuss the extent to which the criticisms made about the University are strategic or operational. **(6 marks)**

(b) Advise STU how control measures could assist in the successful implementation of the new strategic plan, and recommend controls the university could use to assist in the improvement of any TWO of the areas which were criticised in the recent audit. **(10 marks)**

(c) Advise STU how it could use information systems to support the successful implementation of the strategic plan. **(9 marks)**

(Total = 25 marks)

3 HEG (APM 12/07, amended) 45 mins

The directors of The Healthy Eating Group (HEG), a successful restaurant chain, which commenced trading in 1998, have decided to enter the sandwich market in Homeland, its country of operation. It has set up a separate operation under the name of Healthy Sandwiches Co (HSC). A management team for HSC has been recruited via a recruitment consultancy which specialises in food sector appointments. Homeland has very high unemployment and the vast majority of its workforce has no experience in a food manufacturing environment. HSC will commence trading on 1 January 20X8.

The following information is available:

(1) HSC has agreed to make and supply sandwiches to agreed recipes for the Superior Food Group (SFG) which owns a chain of supermarkets in all towns and cities within Homeland. SFG insists that it selects the suppliers of the ingredients that are used in making the sandwiches it sells and therefore HSC would be unable to reduce the costs of the ingredients used in the sandwiches. HSC will be the sole supplier for SFG.

(2) The number of sandwiches sold per year in Homeland is 625 million. SFG has a market share of 4%.

(3) The average selling price of all sandwiches sold by SFG is $2·40. SFG wishes to make a mark-up of 33$\frac{1}{3}$% on all sandwiches sold. 90% of all sandwiches sold by SFG are sold before 2 pm each day. The majority of the remaining 10% are sold after 8 pm. It is the intention that all sandwiches are sold on the day that they are delivered into SFG's supermarkets.

(4) The finance director of HSC has estimated that the average cost of ingredients per sandwich is $0·70. All sandwiches are made by hand.

(5) Packaging and labelling costs amount to $0·15 per sandwich.

(6) Fixed overheads have been estimated to amount to $5,401,000 per annum. Note that fixed overheads include all wages and salaries costs as all employees are subject to fixed term employment contracts.

(7) Distribution costs are expected to amount to 8% of HSC's revenue.

(8) The finance director of HSC has stated that he believes the target sales margin of 32% can be achieved, although he is concerned about the effect that an increase in the cost of all ingredients would have on the forecast profits (assuming that all other revenue/cost data remains unchanged).

(9) The existing management information system of HEG was purchased at the time that HEG commenced trading. The directors are now considering investing in an enterprise resource planning system (ERPS).

Required

(a) Using only the above information, show how the finance director of HSC reached his conclusion regarding the expected sales margin and also state whether he was correct to be concerned about an increase in the price of ingredients. **(6 marks)**

(b) Explain the concept of critical success factors, and explain FIVE critical success factors to the performance of HSC on which the directors must focus if HSC is to achieve success in its marketplace. **(13 marks)**

(c) Explain how the introduction of an ERPS could impact on the role of management accountants. **(6 marks)**

(Total = 25 marks)

4 AB Electronics **45 mins**

AB Co manufactures, markets and distributes a large range of electronic components, and it is has established a significant market share across Europe and the United States of America.

AB has three different divisions: the Domestic Electronic Components division (DEC), the Industrial Electronic Components division (IEC), and the Specialist Components (SC) division. The DEC division and the IEC division supply standard electronic components for domestic and industrial use, while the SC division supplies specialist components which are often unique and made to specific customer requirements. Each division has its own factory, with DEC and IEC's factories based in the same Eastern European country and SC's factory based in a Western European country.

All three divisions have been profitable over the past five years, although the Board has traditionally taken a relatively cautious approach to providing strategic direction for the company. However, AB's institutional shareholders are now looking for increased growth and profitability. In the past, the institutional shareholders have been critical of AB's board for being overly cautious in their attitude to risk.

In AB's most recent annual report, published in March 20Y0, the Board stated that AB's overall strategic aim is to: 'Achieve growth and increase shareholder returns by continuing to produce and distribute high quality electronic components, and develop our international presence through expansion into new overseas markets.'

Two years earlier, in 20X8, AB established a separate trading company with a local partner in Asia to sell the IEC division's products. The ownership of the company is shared: 50% by AB and 50% with a local entrepreneur. AB chose this structure because of local legal requirements. A further legal requirement is that, in the case of the company ceasing to trade, AB will be required to reimburse the local entrepreneur the full amount of his original investment (which was $500,000).

This expansion was initially very successful, with good levels of demand being experienced for IEC's products. Recently, however, a number of environmental factors have rapidly changed. These include a forecast of declining demand for IEC's products in Asia due to adverse world economic factors (which have slowed the growth in demand for electronic components in total) and a move towards protectionism in some Asian countries. The trading company had originally been forecast to make a profit of $2 million in 20Y1, but this figure has now been re-forecast to $1.6 million.

IEC has also been unfortunate in that its direct labour costs in Asia have increased by more than the planned level. Economic intelligence suggests that this inflation will continue increasing for the next two years.

However, analysis by AB's management accountant shows that the trading company's costs (and in particular its wage costs) are proportionally much higher than its competitors.

Required

(a) Advise the Board of AB how strategic management accounting could help it manage the performance of the trading company in Asia. **(8 marks)**

(b) Discuss the factors which AB should consider before withdrawing from the trading company it has established with its partner in Asia. **(12 marks)**

(c) Briefly discuss how the Board's attitude to risk means it may respond to potential new opportunities in a different way than the institutional shareholders would like. **(5 marks)**

(Total = 25 marks)

5 Megasnack **45 mins**

Megasnack Co operates an extensive chain of fast-food outlets in a number of countries. Most outlets are owned and managed by the company but some are operated under a franchising agreement. The company's strategy is based on conformity – providing a range of standard products at a standard price, in similarly-designed stores, using the same service procedures. This means that customers visiting a Megasnack outlet in any country will know what service, what eating environment and what products to expect, and (depending on currency rates) how much they will pay for their food.

The financial strategy of the company has been to achieve targets for gross contribution and net operating profit at all outlets, and to achieve sales growth by meeting customer needs and expectations better than rival fast-food