

Module A

Diploma in Financial Management

PROJECT DA2, INCORPORATING SUBJECT AREAS

- INTERPRETATION OF FINANCIAL STATEMENTS
- PERFORMANCE MANAGEMENT

All questions are compulsory and **MUST** be answered

The project **MUST** be written in English.

The maximum word count (including appendices and tables but excluding references and bibliography) is 5,000.

The project **MUST** be **TYPED** in black ink, one-sided, double-spaced, using a minimum 12-point font size and a 1-inch margin at each side. **HANDWRITTEN SUBMISSIONS WILL NOT BE ACCEPTED.** The project must be submitted by post, electronic submissions are not acceptable.

The project should be submitted on A4 paper with your student number, project name, date and page number at the top of each page.

A project submission form **MUST** be completed for each project submitted and attached to the front of the project.

The Association of Chartered Certified Accountants



Section 1 – Interpretation of Financial Statements

ALL THREE questions are compulsory and MUST be attempted

The following two questions are based upon the published financial statements of Britax International plc, a UK listed company, which produces aircraft interior systems, specialised vehicle systems and childcare safety systems. An extract from the financial statements of Britax International plc for the year ended 31 December 2000 is included as a supplement to this assignment.

- 1 Analysts use the reported profit figures of companies as indicators of corporate financial performance. Profit figures may be used in isolation or as a component of ratios such as net margins or return on capital employed ratios. However, the use of single figure indicators may be misleading where a company is reporting a complex set of operating and other financial conditions. The Profit and Loss Account of Britax International plc for 31 December 2000 is a good example of such complexity.

Required:

Prepare an analysis of the operating and financial performance of Britax International plc based upon the Profit and Loss Account for the year ended 31 December 2000 and the comparative figures for 1999 and relevant notes, which fully utilises the information provided, supported by appropriate ratios. Your analysis should include explanations of the usefulness and limitations of using the type of information included in profit and loss accounts presented in this way. (30 marks)

- 2 Using the group Balance Sheet for the year ended 31 December 2000, the five year summary and relevant notes, comment upon the changes in the asset structure and capital structure of Britax International plc over the years 1996 to 2000. (13 marks)

- 3 What specific issue of interest to analysts is raised by the Auditors Report to the members of Britax for the year ended 31 December 2000? Discuss the implications of the issue raised. (7 marks)

(50 marks)

Section 2 – Performance Management

This ONE question is compulsory and MUST be attempted

- 4 York Systems plc is a UK-based global high-tech engineering group. It has a long history within the UK where it now has 65,000 employees, and another 24,000 employees worldwide. It is structured with four operating divisions each in different product markets. One of the divisions, York Systems Engineering (YSE) has three production facilities in different parts of the UK. YSE produces high quality and frequently complex engineering components. 75% of production is sold to other companies within York Systems plc.

One of the three sites within YSE is located at Bradchester (the site is referred to as Bradchester). This site employs 6,500 staff; the majority of whom are skilled operators, engineers or designers. Bradchester has had a strong engineering culture where engineering innovation and quality had been more important than financial results or delivering on time. However, a change in senior management has led to greater financial emphasis.

A new organisation structure has been implemented at Bradchester. The previous large cost centres have become quasi-businesses; they are now described as profit centres. Each profit centre has to quote for work, both within the company and outside. The aim of this change is to create incentives for more efficient production and to encourage the centres to seek additional profitable work.

The manager of the Fabrication Department has begun to realise some of the implications of the new structure. In the past there was no need to emphasise the cost of products as they were automatically transferred to another department at cost – he saw this merely as an accounting transaction with little impact on his work and not part of his responsibility. However, under the new structure he has to determine prices that form part of the bids for all work. In particular, the pricing of bids for additional work from customers outside YSE will be critical. He believes that generally prices will have to be based on costs. The new work is desperately needed to help Bradchester and the Fabrication Department maintain profits through a recession, but the additional work must be profitable.

Bradchester has a high level of overheads and the previous costing system allocated these using a department-wide allocation rate based on labour hours. It is clear that the product range in the Fabrication Department is diverse, with some products making much heavier demands on overheads than others. The finance manager in the Fabrication Department has suggested that a simple activity-based costing system would help to determine a better estimate of product costs and thus be a better guide for pricing. She has proposed that the Fabrication Department implement a simple system using only the main cost drivers. If this proves beneficial a more complex system will be considered later. Details of the activity analysis and cost driver analysis are shown below, along with details of two products (X43 and X44) that have recently been costed.

YSE has also recently undertaken a benchmarking exercise of its main operations. This has revealed that stock levels of raw materials, work-in-progress and finished goods are all significantly higher than some of YSE's main competitors. The Operations Director at Bradchester has been attempting to improve efficiency for many months. He is aware that many departments have large amounts of stock on the shop-floor and that the store-keeping and stock-holding function occupies a large amount of factory space. As the factory site is large it takes a considerable time to deliver parts to the correct place and return them to stores when the next process has been completed. As a result of this exercise the Operations Director has decided to investigate the possibility of introducing just-in-time principles for purchasing and production.

A further area of weakness that has been highlighted by the bench-marking exercise concerns the management information system (MIS) within Bradchester. The situation appears to be that Bradchester has too many MISs rather than not enough. The IT Department has reported that Bradchester currently has 38 different computer-based information systems, using a variety of different languages and most of the systems cannot directly communicate with other systems within the firm. The current systems include: accounting, purchasing, production planning and scheduling, stock control, and capacity planning. The IT manager commented that, 'we are awash with data but most of it is next to useless! People spend a lot of time manually loading data into one system that has come from another'.

The Operations Director knows that a number of similar companies have implemented a radical solution to the problem facing Bradchester. He is considering a similar solution in which all the current MISs are replaced by a single Enterprise Resource Planning System (ERPS). These systems have a MRPII (materials requirement planning) system as their basis but by using a large and powerful database also include all other necessary information systems.

Activity-Based Costing Data

Overhead data for the Fabrication Department

Activity	£	Cost driver	Cost driver volume
Set-ups	325,360	set-up time	16,600 hours per year
Quality assurance	232,500	quality staff time	9,300 hours per year
Material movements	215,840	material movements	7,600 movements per year
Special parts	109,375	special parts ordered	625 orders per year
Detail machines	777,600	hours	8,640 hours per year
High volume machine	230,400	hours	5,760 hours per year
Other overheads	439,530	direct labour hours	112,700 hours

Notes

1. Products are made in batches. All the activities above, except 'other overheads' are incurred per batch. Special parts are ordered for a batch and thus if 2 special parts are needed for each item, these will incur two special order charges per batch as the total needed for each batch will be ordered at one time.
2. 'Other overheads' are simply allocated using direct labour hours.

Details for items X43 and X44

	X43		X44
Materials per unit	£252		£264
Direct labour per unit	3 hours at £15	£45	3 hours at £15
Batch size	100		20
Set-up time per batch	1 hour		3 hours
Material movements per batch	2		6
Quality assurance time per batch	30 minutes		1 hour
Special parts per batch	1		4
High volume machine time per unit	1 hour		–
Detail machine time per unit	–		2 hours

Note

Under the present labour-based system all overheads are allocated using direct labour hours.

Required:

- (a) Calculate the cost per unit for the items X43 and X44 using:
- (i) Bradchester's present labour-based system;
 - (ii) the proposed simple activity-based costing system. (8 marks)
- (b) Comment on the pricing implications for the Fabrication Division of the calculations in (a) above. (5 marks)
- (c) Comment on possible further uses for activity-based techniques within Bradchester. Which activity-based techniques might be used to improve performance in Bradchester? What problems may be encountered in implementing these techniques? (13 marks)
- (d) Write a report to the Operations Director of Bradchester dealing with the following issues, using the information contained in the case where appropriate:
- (i) The implications and costs of holding a large amount of stocks and work-in-progress.
The nature of just-in-time (JIT) production and purchasing.
The benefits that might arise from implementing JIT.
The problems that might arise in implementing and operating a JIT system. (12 marks)
 - (ii) The benefits and possible drawbacks, in terms of improved performance, of implementing an enterprise resource planning system (ERPS).
Whether and how the organisation culture might have to change in order to obtain the best results from and ERPS.
The best ways in which to use consultants in the implementation process, and any pitfalls that should be avoided. (12 marks)
- (50 marks)**

End of Project