
Answers

Indicative solution and mark scheme

(a) 1 mark per valid point to a maximum of	8	
For a balanced discussion of both usefulness and limitations	2	
	10	
Available		
Maximum		8

Candidates would be expected to discuss, *inter alia*:

Usefulness:

The regulatory framework ensures that information is in a consistent and reasonably standardised format

Reliability of audited information

Comparison can be made with other similar companies

Trends can be assessed

Calculation of key ratios can highlight areas for further investigation

Limitations:

Window dressing/creative accounting is still possible

Different accounting policies can make comparison difficult

Different year end dates may make comparison difficult

Information is historic – and often out of date

Results will be affected by external influences

Difficulty of establishing a suitable benchmark for comparison

(b) For justification of the choice of each ratio or measure, up to 2 marks:		
for a weak justification	1	
for a clear justification	2	
to a maximum of		16
for use of different ratios/measures to assess each company:		
1 mark for each ratio/measure specific to one company		
to a maximum of	4	
	20	
Available		
Maximum		16

Candidates were expected to indicate how the chosen ratio or measure would assist in assessing whether the particular company would be likely to meet the objectives of Duplex, or to assess the specific performance of the particular company.

For example, the fact that the most important resource for Softconsult is the team of consultants and designers means that asset utilisation ratios are of little significance. Rather assessment should focus on the productivity of staff (revenue per employee, operating profit per employee).

On the other hand, measures of asset utilisation would be relevant to the assessment of Harcon as a key task for management is to maximise use of the production resources.

(c) 1 mark for each valid comment to a maximum of	24	
For linking ratios/measures to enhance analysis, or developing		
analysis by consideration of further ratios/measures		
2 marks for each occurrence to a maximum of	6	
	30	
Available		
Maximum		24

(d) Shareholder value measures		
1 mark for each valid comment to a maximum of	6	
Balanced scorecard		
1 mark for each valid comment to a maximum of	6	
Available	<u>12</u>	
Maximum		8

In considering these approaches, candidates would be expected to discuss points such as:

Shareholder value

Profit and profit growth

These measures would need to be considered in relative terms. This may be the levels of profit which pertain in the industries in which the companies operate, the overall investment in the company or the budgeted profit.

Earnings per share is a useful measure for assessing whether performance is improving or deteriorating, but once again must be set in context. The shares issued by the two companies have different par values and different market values. These values may also be different for other companies in the same industry.

Return on assets is perhaps more useful as it relates the returns to the overall investment. Even here care must be taken with regard to how the investment is valued (book value, cost value, fair value?).

Balanced scorecard

The key benefits of the balanced scorecard are that it incorporates both financial and non-financial performance measures, and that the measures used are derived from the company's strategy.

This may be a problem if, for instance, the company's strategy is inappropriate.

Consequently there is a need to consider the extent to which the strategy fits with the external environment.

Also, the performance measures selected may not be defined clearly, although it could be argued that both of these problems exist independently of the use of the balanced scorecard.

The successful application of the balanced scorecard requires a high degree of commitment from senior managers, so that it is not seen as 'just another initiative'.

(e) mark per valid point to a maximum of		18
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Discussion could include:

Although the fact that both companies operate in broadly the same sector (technology) they occupy distinctly different positions within it. This leads to distinctive differences in issues such as:

the culture within the companies

the key activities in each company

the skills which staff need to develop

critical success factors

the extent to which the use of appropriate performance targets could be integrating mechanisms

the possibility of developing a common customer base, by providing a 'technology package' as a solution to customers' problems

cost savings through centralised administration

benchmarking of common activities.

(f) For each measure, up to 3 marks to an overall maximum of		22
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Marks awarded as follows:

for identifying a valid measure of performance 1

for providing some justification for use of the measure +1

for providing a clear justification for use of the measure +1

(g) Marks awarded for overall quality of the report		
Up to		4

(100 marks)