

Final Level

Management Accounting –
Information Strategy

14

FLIS

25 November 2004

Thursday morning

INSTRUCTIONS TO CANDIDATES

Read this page before you look at the questions

You are allowed three hours to answer this question paper.
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Answer the ONE question in Section A.

Answer TWO questions ONLY from Section B.

SECTION A – 50 MARKS
ANSWER THIS QUESTION

Question One

Company overview

The JA Company (JA) manufactures large containers known as vats, and stirrers used in the mixing of various liquids including chemicals and dairy products. Vats vary in size from 1 metre in height with a 1 metre diameter to 15 metres in height with a diameter of around 8 metres. The vats are manufactured from a variety of materials including sheet metal, rubber and high quality plastics. Each vat is made to specific customer order and JA manufactures around 650 vats each year.

Purchasing and production systems

As each vat is made to order, purchasing and production do not take place until the order is confirmed. Customer information is maintained on a Customer Relationship Management (CRM) system, which also tracks the progress of each order. Sales representatives in JA maintain the CRM. They are also responsible for contact with customers, initial pricing of each order, and informing customers of the progress of each order through the production system.

When an order is confirmed, an email with the order details is sent to the Central Purchasing Department (CPD). The routing for the email is via an external Internet Service Provider as the CRM and CPD systems are maintained on separate servers and JA does not, at present, maintain a Local Area Network (LAN). At this stage, the CPD checks availability of materials to make the vat with JA Company stores and then with suppliers for any materials not currently in stock. The necessary materials are then ordered and a detailed costing for each individual vat produced.

When all the necessary materials to manufacture a vat are available, the manufacturing process commences. Manufacture is carried out by a CAD / CAM system, which sends information to the CRM.

When manufacture is complete, the vat is delivered to the customer. An email is sent from the CRM system, confirming despatch, to the accounts department. This acts as a trigger to commence the invoicing process.

The directors recognise that there are some deficiencies in this system, and hope to revise it in the near future.

Executive Information System (EIS)

The EIS relies mainly on the CRM for details of orders, production and sale of vats. The directors realise this is not ideal and a budget has already been approved to provide a new EIS which will be linked to the other operational systems in the company. An example of the output from the current EIS is shown below:

<i>Contract number</i>	<i>Cost £</i>	<i>Stage of production</i>	<i>Delivery date</i>
10761	10,000	Q	23.11.04
11094	23,060	M	11.11.04
2367a	49,362	M	12.12.04
0924	101,026	Q	15.01.05
10762	47,006	D	08.03.05
30608	43,226	D	02.04.05
89696	39,000	Q	25.01.05

The EIS was written 8 years ago by JA's IT department. However, since then, the department has been reduced in size and its function is now limited to enforcing company hardware and software standards, with all applications being purchased "off the shelf". Given the lack of knowledge in-house, the directors are considering different methods of producing a new EIS.

Another company, MDD, has already been contacted. MDD has suggested that the most cost-effective approach would be to use off-the-shelf software with minimal amendments to JA's specific systems. The managing director is inclined to agree with this view.

Other issues

Overall, staff in JA understand the weaknesses in the current Transaction Processing Systems (TPS) and EIS, and are realistic regarding what is currently available on the market for those systems. Staff have been particularly concerned with the delays in processing resulting from inadequate hardware and a centralised system.

MDD has also been asked to advise on the necessity for system change for the TPS. Initial indications are that an off-the-shelf system will be recommended. Staff will be involved in system design just prior to implementation to ensure that work practices can be amended to complement the new system.

Required:

- (a) Explain the characteristics of information expected from an EIS, evaluating whether the information available from JA's current EIS satisfies those characteristics.
(12 marks)
 - (b) Using appropriate sections of the value chain as a framework for your answer, discuss the weaknesses of the current information systems in JA.
(15 marks)
 - (c) Evaluate whether outsourcing the development of the new EIS is appropriate for JA.
(12 marks)
 - (d) Discuss whether staff are likely to accept the changes to work practices likely to be brought about by new TPS and EIS.
(11 marks)
- (Total = 50 marks)*
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End of Section A

SECTION B – 50 MARKS

ANSWER TWO QUESTIONS ONLY

Question Two

The NLE organisation sells a range of leisure products on the Internet including books, CDs, DVDs and computer games. The organisation's mission statement is *to be the most reliable and cost efficient supplier of books and CDs on the Internet*. It was formed six years ago, and has grown quickly. Two years ago it became one of the first Internet companies to report a net operating profit. NLE is recognised as being one of the market leaders on the Internet, and its share price is increasing at 20% per annum. In a recent market survey, 80% of people between the ages of 20 and 45 identified the NLE brand name as one they would use when ordering goods from the Internet.

The company now has a positive cash flow, with no outstanding loans. The directors are investigating alternative investments. One possibility is the purchase of 25 bookshops located in major cities in one country. These shops would be re-branded with the NLE name, and offer a similar range of products to the NLE Internet site. However, as no shop could hold the 2.5 million items currently available on the NLE site, a next-day "collect from shop" option would be made available. This means that customers could order goods from the Internet, or by visiting an NLE bookshop and then collect those goods on the next working day. Goods would be despatched overnight from NLE's main warehouse to fulfil these orders.

Required:

- (a) Assuming that the Board of NLE decides to purchase the bookshops, advise them on the Information Strategy issues that they should consider, clearly explaining the information required when considering each issue.

NOTE: You are not required to advise on alternative sources of finance.

(15 marks)

- (b) Identify and explain **two** Critical Success Factors and their supporting Performance Indicators that can be used to determine the success or otherwise of the purchase of the bookshops, should this acquisition go ahead.

(10 marks)

(Total = 25 marks)

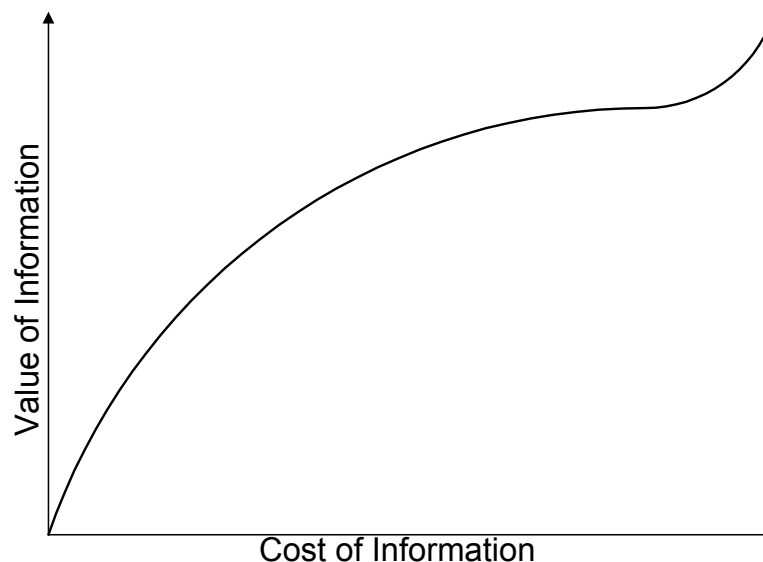
Question Three

TT sells computer games on the Internet. The organisation has been trading for four years and has a customer base in excess of 700,000 names and addresses located in 10 different countries. Sales are made via an Internet site or by telephone ordering, with orders being taken by customer service staff. The ordering process is hindered slightly by lack of real-time integration between the stock and sales system on TT's computer systems.

Customer information is recorded within the sales ledger itself, making access and analysis difficult. The sales ledger database does not include the necessary relational features to enable full analysis of customer history information or to identify overall trends in purchases.

Now that the organisation is more financially secure, the directors have decided to implement a new sales ledger system, which will include a more detailed customer database. Features available in the database in addition to "normal" recording of sales invoices will include order history, unfilled order details, delivery time, customer payment options and total sales analysis by product, customer and country. This information will now be directly accessible by customer service representatives, rather than through the production of special reports on customer accounts by the new sales ledger system. The system will also interface directly with the stock management software providing some time savings in terms of input of data.

For an additional fee, the database will include the suppliers "Sales Agent" Software called DataFind. DataFind will provide an additional analysis of customer information with the aim of predicting future sales to individual customers. The promotional material on DataFind includes the following graph, showing the cost and value of information.



As a junior management accountant in TT you have been asked to perform the tasks outlined below.

Required:

- (a) Evaluate the relationship between the cost and value of information, with specific reference to the graph above showing the benefit of the DataFind software.

(9 marks)

- (b) Discuss the costs and benefits that would help to determine whether the purchase of the sales software should proceed.

NOTE: You are not required to state any financial information for inclusion in the CBA.

(16 marks)

(Total = 25 marks)

Question Four

The VG organisation has 24 offices in various locations within one country; its main activity is selling replacement windows and doors. Each office maintains its own information systems but sends financial summaries to Head Office on a daily basis. Information provided by Head Office includes financial targets and summaries as well as updates on products for onward transmission to sales representatives.

Each VG office employs up to 50 sales representatives. The method of selling is for the representative to visit a potential customer and produce a detailed specification for windows and doors for their property. Details for the specification are obtained either from paper-based reference material maintained by each representative, or by telephoning technical design specialists at Head Office prior to the specification being completed. Completed specifications for each customer order processed are sent back to Head Office in the post. All companies in the industry use a similar approach.

Sales representatives work from home. They visit their office only for occasional training courses and to obtain updates on their reference material for windows and doors.

Delays in producing the specification document can occur due to:

- The paper records maintained by the sales representatives being out of date.
- Poor communication and misunderstanding between the sales representatives and the Head Office design specialists.

While 98% of specifications are produced on time, the remaining 2% are delayed resulting in poor customer relations and publicity. Removing the delays would therefore be appropriate.

The IT department in the VG organisation has suggested that various IT systems could be used to assist communication and provide access to databases on windows and doors. However, no firm proposals have yet been made.

Required:

- (a) Discuss the barriers in the VG organisation to achieving effective communication and to using IT in order to provide access to databases in the VG organisation.

(10 marks)

(b)

- (i) Discuss how IS / IT can be used to obtain competitive advantage in the VG organisation.

(10 marks)

- (ii) Explain the factors the Board needs to consider in order to determine whether or not to upgrade the system.

(5 marks)

(Total for requirement (b) = 15 marks)

(Total = 25 marks)

Question Five

You have joined a rapidly expanding company as a trainee management accountant. Your job is to report to the senior management accountant on the production activities of the company on a weekly basis. However, this is a new job and you are the first person appointed to it. As a result there are no existing information systems available to you.

Required:

- (a) Discuss how you will determine the information requirements for your new job. Use examples from your own employment or appropriate industry examples to support your answer.
(12 marks)
- (b) The senior management accountant has indicated that the company has no effective IS strategy. Discuss the problems of setting an IS strategy in a rapidly expanding company.
(13 marks)
- (Total = 25 marks)

End of paper