

INFORMATION AND FINANCIAL MANAGEMENT

**Professional 1 examination
5 June 2003**

From 2.00 pm to 5.00 pm,
plus ten minutes reading time from 1.50 pm to 2.00 pm

Instructions to candidates

*Answer **all five** questions. The marks available for each question are shown in italics in the right-hand margin.*

All workings must be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examination room.

Where a question asks for a specific format or style, such as a letter, report or layout of accounts, marks will be awarded for presentation and written communication.

Formula sheets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.



1

Baldersdale Council operates a multi facility conference centre which has reported a deficit in the current year. This has come as a surprise to management since the budget monitoring system had indicated that income and expenditure were in line with forecasts up to the third quarter of the financial year.

Investigations initiated by the Management Team have revealed that one reason for the deficit is the practice of some managers of buying in stocks of materials on an opportunistic basis. This, in turn, has revealed a lack of guidance and control throughout the organisation in relation to stores management. Managers have attempted to justify their actions by arguing that they can often make savings through placing larger orders and avoiding expensive delivery charges.

This situation has brought the issue of stores management to the fore and the Management Team has decided to develop a more rational, cost effective approach which will provide clear guidance to managers. A number of options have been identified. They include the use of inventory management models and the option of running the organisation on a stockless basis.

One example of this stockpiling practice has been found in the Catering Department.

Catering operates to a consistent level of activity throughout the year. There are no significant peaks or troughs. The operation uses dishwasher powder and rinse aid liquid in significant but predictable amounts. Both are supplied in drums which can vary in size from 10 to 100 litres. The normal price of a 10 litre drum of dishwasher powder is £5.50 and rinse aid is £6.50. The annual consumption is estimated as being 4,000 litres of each of the supplies. Each order costs £50 which includes a fixed delivery charge of £45. This charge is fixed regardless of whether one or both items are included in an order. Where possible the items are ordered concurrently.

The Catering Manager has been offered a discount on the delivery charge for ordering a minimum of 2,000 litres of both supplies at a time, to be delivered in 100 litre drums. She has been taking advantage of this offer with the result that the kitchen supplies budget has been overspent. The discount provided to the Catering Manager is 20% of the delivery charge. The 100 litre drums are subject to a 2% discount on the equivalent 10 litre drum price.

Some work has been carried out on estimating stockholding costs. This has been based upon the cost of holding 10 litres of each of the supplies for a period of one year, and includes an estimate of storage costs, the cost of capital and loss through evaporation and spillage. This comes out at £4 for both dishwasher powder and for rinse aid. The cost of holding 100 litre drums will be higher as additional space will be required and there is more likelihood of loss. This has been estimated as being £55 per annum for each drum. On placement of an order it normally takes 4 days for delivery.

The Management Team has requested a report on the possibility of using inventory modelling techniques, using this case as an example, and also on the implications of adopting a stockless system. You are the management accountant who has been given the task of reporting back.

- **Requirement for question 1**

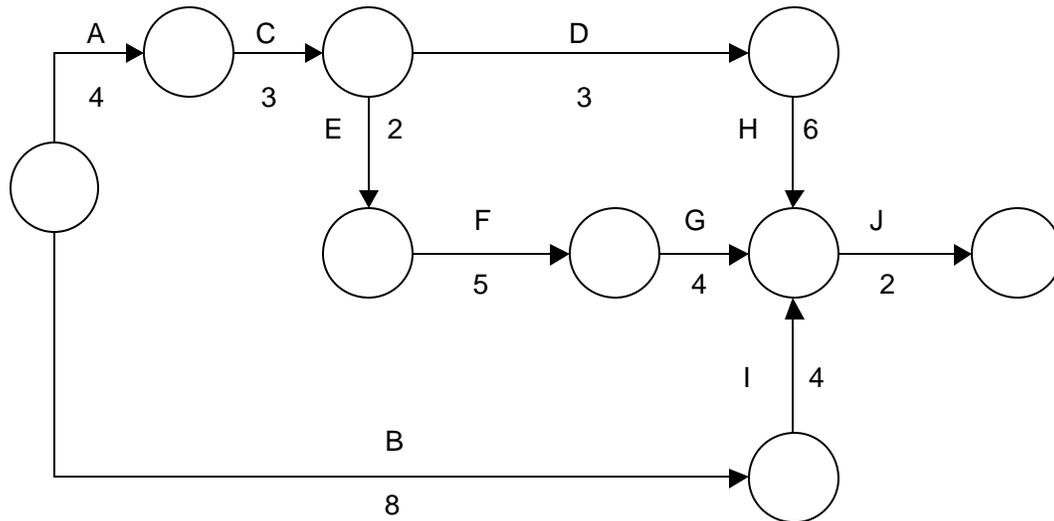
Prepare a report for submission to Management Team which includes:

- (a) a calculation of the implications of using Economic Order Quantities (EOQs) for the ordering of dishwasher powder and rinse aid; 4
 - (b) a comparison of the use of EOQs with the discounted arrangement being employed by the Catering Manager (assume minimum order); 3
 - (c) conclusions based upon the results of the calculations, and arguments for and against the use of EOQs in this instance and in relation to rolling out its use throughout the organisation; and 6
 - (d) a brief explanation of how a stockless system would be employed and a checklist that could be applied to stock items throughout the organisation in order to judge whether such a system could be beneficially employed. 12
- (25)**
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2

Trastevere Housing Association has decided to upgrade and refurbish the reception areas within its housing advice centres. A project plan has been produced in the form of a network diagram which was presented to the project team at a meeting convened by the project manager. One suggestion which came out of the meeting was that in future the information contained in the network diagram could also be shown in the form of a GANTT chart.

The network diagram is shown below, complete with estimates of activity times (in weeks).



• **Requirement for question 2**

- (a) Using information from the network diagram construct a GANTT chart for the refurbishment project. Ensure that the critical path is clearly shown on the chart. Explain the significance of the non-critical activities. 6
- (b) Explain how a GANTT chart could be used and suggest what advantages it might have over the use of a network diagram. What is a milestone? Provide an example from the chart that you have constructed. 5
- (c) There is a danger that network analysis can become a substitute for project management rather than a tool of it. What do you see as being the potential limitations of network analysis techniques? 4

(15)

3

In a relatively short space of time the Internet has had a huge impact upon both organisations and individuals within our society. This will continue to increase as technology improves and proliferates and as IT literacy develops within the population. Public service organisations need to embrace the new technology and Internet technology is seen as making an important contribution to the modernisation of the public sector.

The government has set an e-target that by 2005 all government services, local and national, will be on line. There is presently some scepticism as to whether the e-government targets can be met and whether it is possible to measure and determine whether they have been met. For example, one indicator which is currently being used calculates the number of types of interactions that are enabled for electronic delivery as a percentage of the types of transactions that are legally permissible for electronic delivery.

This is based upon information from Public Finance – Special Issue on Electronic Government, May 2002

• **Requirement for question 3**

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| (a) Briefly define what the Internet is and identify the main elements of Internet technology. | 3 |
| (b) Identify SIX ways in which public service sector organisations can use Internet technology. | 3 |
| (c) What do you see as the main dangers of using the Internet and what can be done to counteract them? | 4 |
| (d) What is e-government? Identify and describe FIVE activities that could be part of e-government. | 7 |
| (e) What do you see as being the main barriers to the development of e-government? | 3 |
| (f) How useful might an indicator such as that exemplified in the question introduction above be as a performance measure? Suggest THREE alternative or additional measures which could be used to measure progress towards e-government. | 5 |

(25)

4

Organisational management can be conventionally defined as operating at three levels: strategic, tactical and operational. These three levels and the information requirements at each level are often represented diagrammatically through the Anthony Model. As providers of financial management information accountants must be aware of the ways in which the information they are providing is to be used and the type of management function and decision making which is being informed.

- **Requirement for question 4**

- (a) Describe the main characteristics of information at each of the levels of management activity. 9
- (b) Identify one example of financial management information for each of the levels and explain how the above characteristics would apply. 6
- (c) What are the main features of good quality financial management information? During the process of developing and designing financial management reports, how can you be sure that the needs of information users are being met? 5

(20)

5

The Midearth Audit Consortium provides internal audit services for a number of NHS organisations within the region in which it is based. It has recently been extending into other markets, notably education, and has been involved in the production and submission of competitive tenders, some of which have been successful but the majority of which have not been. The General Manager of the Consortium is anxious to expand the work base of the organisation and is concerned that the continuing failure to win new contracts could ultimately have an effect on the quality and cost effectiveness of existing work.

He has set up a working group to carry out a review of marketing and tendering procedures and, to date, one of the key issues to arise out of their work is the Consortium's lack of quality assurance systems and, in particular, the lack of any form of quality accreditation such as ISO 9000. He has asked you, as a Senior Auditor and member of the group, to produce a report for the next meeting.

- **Requirement for question 5**

You are to produce a report for consideration at the next meeting of the group. The report should include:

- (a) A definition of quality. 2
- (b) An explanation of ISO 9000 which describes what it is, how it can be achieved and outlines its main advantages and disadvantages. 7
- (c) Consideration of alternative approaches to quality assurance which could be adopted by the Consortium. 6

(15)
