

INFORMATION AND FINANCIAL MANAGEMENT

**Professional 1 examination
4 December 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 The newly appointed Chief Executive of the housing association in which you are employed is concerned that a number of recent projects within the organisation have been perceived to have fallen short of expectations. His worry is that the organisation may begin to accept failure as the norm and he is anxious to ensure that this does not occur.

The organisation is a small one and, as you are a finance expert, your professional background is respected and you are regarded as being capable of troubleshooting problems across the organisation. You have been asked to look into this problem and, initially, produce a report for the Chief Executive. He has specified the content of the report in general terms and suggested one issue which has been concerning him, namely the lack of project management experience and training

- **Requirement for question 1**

Write a report addressed to the Chief Executive covering the following areas:

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| (a) The common causes of project failure in organisations in general with an indication of the most likely causes within a small organisation such as the housing association. | 8 |
| (b) Action which could be taken to address potential causes identified above. | 5 |
| (c) Steps which can be taken to improve the training of staff and to help them to build up their experience of project management. | 2 |
| | (15) |
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2

All organisations, whether they be large or small, public or private sector, need to have effective financial and accounting systems. There is growing evidence that many organisations feel that their systems are less than satisfactory.

Tony Sparks (Conspectus, April 2002) quotes research carried out by the Standish Group which revealed that in the sector studied (small to medium sized businesses) only just over a quarter of new systems had been considered successful, that 28% had been cancelled and 46% had been challenged on the grounds of time, cost and/or functionality.

He says that "...the average package which is up and running costs a staggering 214% of budget, takes 222% of the time originally allocated to the project, and yet ultimately only delivers 54% of the promised system functionality".

The research found that there are likely to be many reasons for this problem but that four stood out above the rest as being the most significant. They were:

1. Lack of user input
2. Incomplete requirements
3. Changing requirements
4. Lack of executive support

• **Requirement for question 2**

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| (a) Briefly outline the stages of the Systems Development Lifecycle (SDLC – Waterfall model.) | 7 |
| (b) Choose one stage and explain how and why the problems referred to above could occur at this stage and what could be done to avoid them. | 6 |
| (c) Explain briefly what is meant by Rapid Applications Development (RAD) and suggest why this might offer better results than the more traditional approaches to systems development. | 4 |
| (d) What concerns should the finance manager have in respect of the design and development of finance and accounting systems? | 3 |

(20)

3

Middleway plc manufactures kitchen products which it sells to a number of retailers of varying sizes. The company has had a problem with late payment of debts for some time but the position has been worsening and action is now urgently needed to bring about an improvement.

Debtor receipts for the last year were £50m. Priority is to be given to the reduction of the company's working capital requirements through the achievement of a better debtor collection performance.

The aged debtors profile shows the following:

Average Collection Period (days)	% of total debtor receipts (by value)
30	10
45	22
60	18
75	32
90	10
120	8

The current invoicing terms are that payment is required within 30 days of the issue of the invoice.

Weighted average cost of capital (WACC) is 9%.

Middleway has been considering a number of options and some work has been carried out on the possibilities of introducing either an early settlement discount or the use of a debt collection service.

The company's Management Accountant has suggested that a 2% discount could be offered to customers who comply with the current invoicing terms. He estimates that this would have the following effects:

Existing payment period	% of debtors attracted by discount
45 days	95
60 days	75
75 days	70

(These percentage figures all refer to value and it can be assumed that the average period for these payments would be 30 days).

Quotes have been received from a number of debt collection agencies. The best agency quote is to charge 0.75% of total sales receipts and has estimated that they could reduce the average debtor collection period to 35 days.

- **Requirement for question 3**

- (a) Calculate Middleway's overall average debtor collection period, the resulting working capital requirement and the cost of this to the company assuming a cost of capital of 9%. 4
- (b) Calculate the likely financial effect on Middleway of the two options described (ie the early settlement discount and the use of a debt collection service) and suggest which option appears to be more cost effective. 11
- (c) What procedures should Middleway review as a means of trying to improve the efficiency of their debt collection? What could they be doing in respect of credit vetting? 5

Middleway plc has not implemented the Late Payments of Commercial Debts (Interest) Act 1998.

- (d) Briefly outline the main provisions of the Act and suggest one reason why the company should consider using the Act and one reason why it should not. 5

(25)

4

Public sector organisations are frequently responsible for providing services, usually on a not-for-profit basis. It can be difficult for them to define and quantify outputs and outcomes and yet, in recent years, there has been an increasing emphasis placed upon the need for performance measurement.

- **Requirement for question 4**

- (a) What are the main differences between the public and private sectors in relation to performance measurement? 4
 - (b) Why is it important for public sector organisations to measure performance? Identify and describe SIX reasons, taking care to differentiate those arising within the organisation from those which arise outside the organisation. 6
 - (c) Benchmarking can be used as a tool of performance management. Explain what is meant by benchmarking and outline the main advantages and disadvantages. 5
 - (d) Performance measurement is one element of performance management. Using your knowledge of control system theory, explain how a performance management system should operate, identifying the principal elements of such a system. 5
- (20)**
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5

You are a newly qualified accountant working in the finance department of a medium sized public sector organisation. The Director of Finance has been in post for six months and has already begun to carry out a fundamental review and re-organisation of the finance function. She has made a point of consulting with other departments and listening to their complaints and concerns, and she is determined that the finance department will shake off its current image of being out-dated, remote and unapproachable. The main problems appear to be in respect of financial, and particularly budget control, information.

The Director has set up a working group to review the provision of financial information. You have been chosen to be a member of the group which will also include representatives from other areas of the Finance Department and from other departments within the organisation. The group will be seeking to assess existing and proposed financial information against a framework of agreed quality features and will also be looking at how some of the existing problems can be avoided in the future.

- **Requirement for question 5**

You have been asked to prepare a report for the first meeting of the working group. In the report you will:

- (a) Establish a framework of characteristics against which the design of financial information can be assessed. 10
- (b) Demonstrate how the framework can be applied to the design of budgetary control information. 5
- (c) Identify the main groups of internal users of financial information within the organisation. Explain, with examples, how their interests may be in conflict and suggest how this conflict might be resolved. 5

(20)
