

INFORMATION AND FINANCIAL MANAGEMENT

Professional 1 examination 13 June 2002

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.

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



1

Mochrum College of Arts and Technology has recently made a number of employees redundant, including an accountant. All employees were given a generous redundancy package, a promise of a fair reference, and outplacement assistance. The deal negotiated with the trade unions was in accordance with the College's redundancy policy and was felt to be fair. Prior to her departure, the accountant had downloaded some software from the Internet to help her in her job.

• **Requirement for question 1**

- (a) However, since the departure of the accountant a number of events have occurred which – after investigation – have been traced back to the former employee. In the Commercial Services Division, the name of an important customer had been amended. The amended name is abusive. The customer has complained directly to the Chief Executive of the College and the incident was reported in the local newspaper. Although the redundant accountant had no access to the information, it is suspected she may have 'hacked' into the computer system.
- (i) Describe briefly what is meant by the term 'hacking'. 2
- (ii) If the subsequent investigation finds the accountant guilty, what offence has she committed? What legislation exists to protect the college in this instance? Justify your answer. 3
- (b) Identify and describe *three* types of computer virus. 6
- (c) Explain how computer viruses might be transmitted. 2
- (d) How can an organisation detect and prevent virus infection? Identify *four* measures the organisation might take. 2

(15)

2

- **Requirement for question 2**

- (a) Describe and distinguish between the following systems. Illustrate your answer with an example.
 - (i) Deterministic (or mechanistic) and probabilistic (or stochastic) systems. 4
 - (ii) Hard systems and soft systems. 4
 - (b) Explain the notation of the entity-relationship model (or logical data structure). Illustrate your answer with an example. 5
 - (c) Identify and briefly describe the *seven* stages in the systems development life cycle (or waterfall model). 7
- (20)

3

Mr Quadbike Limited sells quadbikes to a UK market. The business was set up four years ago by its proprietor, William Thomson. Despite the difficulties encountered by the agricultural sector, who make up Mr Quadbike's main customers, the business has expanded rapidly. This expansion reflects aggressive marketing and a focus on creating a quality product. Turnover is forecast to grow to £4 million in the next financial year (to 31 March 2003).

The company's start-up was funded in part by the local enterprise company who are generally pleased with the development. However, they have indicated to William Thomson that they are a little concerned at the lack of financial control that has accompanied the development of Mr Quadbike. To this effect, William Thomson has requested some consultancy from Beech Grove & Co. who have some expertise in the agricultural machinery business. At present, Mr Quadbike has no financial controller, relying on two accounting technicians and consultancy support from a local firm of accountants.

Mr Quadbike's balance sheet and an extract of its profit and loss account are appended for your reference. You have also been provided with some data from the UK agricultural equipment industry. Assume all sales are made on credit, and stock is valued at cost.

• **Requirement for question 3**

You are employed as a consultant at Beech Grove & Co. Prepare a report in an appropriate format for Mr Quadbike which:

- (a) (i) Analyses the liquidity of Mr Quadbike, using two ratios of your choice.
 - (ii) Examines and discusses the management of working capital of Mr Quadbike, using appropriate activity ratios. 20
 - (b) Recommends ways in which the financial management of Mr Quadbike can be improved. 5
- (25)

Mr Quadbike Limited – Balance Sheet as at 31 March 2002

	2002		2001	
	£000	£000	£000	£000
<i>Fixed assets</i>				
Equipment	300		150	
Motor vehicles	84		70	
Leasehold property	75		75	
	<u>459</u>		<u>295</u>	
Less: depreciation	<u>(90)</u>	369	<u>(43)</u>	252
<i>Current assets</i>				
Stock	110		45	
Trade debtors	223		118	
Cash	5		9	
	<u>338</u>		<u>172</u>	
<i>Less: Current liabilities</i>				
Trade creditors	(70)		(54)	
Sundry creditors	(28)		(22)	
Hire purchases	(40)		(16)	
Short-term leases	(52)		(25)	
Overdraft	<u>(155)</u>		<u>(49)</u>	
	<u>(345)</u>		<u>(166)</u>	
<i>Net current assets</i>		<u>(7)</u>		<u>6</u>
<i>Net assets</i>		<u>362</u>		<u>258</u>
<i>Less: creditors due after more than one year</i>				
<i>Leases</i>		<u>(60)</u>		<u>-</u>
		<u>302</u>		<u>258</u>
<i>Financed by:</i>				
Share capital		125		125
P&L account		<u>177</u>		<u>133</u>
		<u>302</u>		<u>258</u>

**Mr Quadbike – Profit & Loss Account for 12 months ending 31 March 2002
(extract)**

	2002	2001
	£000	£000
Turnover	796	442
Cost of sales	404	228
Gross profit	392	214
Net profit	44	22

PTO

Other information:

Quadbike industry norms:

Trade debtor turnover:	78 days
Inventory turnover:	25 days
Trade creditor turnover:	55 days
Current ratio:	1.2: 1
Acid test ratio:	0.85: 1

4

- **Requirement for question 4**

- (a) You work in the innovation and research office of a local authority in the Midlands. The local authority is planning to develop a new facility (FAME) to deliver a range of short courses and accredited programs in music and creative media. The FAME project – the setting up of the new facility – will employ a project team of initially 20 staff and will have a budget of £15 million. It is hoped to develop the project in partnership with a number of other local organisations (eg a university, a further education college and regional arts organisations). The Chief Executive, aware of your CIPFA studies and with a keen interest in the project, has become interested in PRINCE. You are required to write a note to the Chief Executive, describing PRINCE and assessing its appropriateness in such a project. 10
- (b) It has been suggested that the project is managed to ensure the taxpayer receives Best Value for the project. Identify what is meant by Best Value, the performance management framework associated with it, and its relevance to the proposed FAME project. 12
- (c) It has also been suggested that the new campus (FAME) develop its own Balanced Scorecard. Describe the benefits that should accrue from the use of the Balanced Scorecard framework. 3
- (25)

5

Donsley Fire Brigade is reviewing its financial information management systems and has entered into a consultative exercise involving the finance department of the Brigade, as users of financial information systems.

- **Requirement for question 5**

- (a) Consider the following financial information management packages and explain how they may be used to provide financial information to good effect.
 - (i) Spreadsheets. 2
 - (ii) Accounting packages. 2
 - (iii) Financial modelling packages. 2
 - (iv) Enterprise resource planning applications. 2
- (b) Financial support staff play a critical role in the provision of internal financial information. What factors do accountants look for in accounting and financial modelling packages? Which are the most important factors and why? 4
- (c) Define the terms intranet and local area network and explain the relationship between the two. 3

(15)