



ACCA

Paper P5

Advance Performance Management

Tuition Mock Examination

December 2011

Question Paper

Time Allowed	15 minutes	Reading and planning
	3 hours	Writing

This paper is divided into 2 sections:

Section A – BOTH questions are compulsory and **MUST** be attempted

Section B – TWO questions **ONLY** to be attempted

During reading and planning time only the question paper may be annotated. You must **NOT** write in your answer booklet until instructed by the supervisor.

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Section A – BOTH questions are compulsory and MUST be attempted

- 1** An organisation has two divisions A and B which make sole use of the output of a service division which provides printing and stationery services. Estimated information for the divisions for the year ending 31 December 20X7 is as follows.

(i)

	Division A \$m	Division B \$m	Service division \$m
Capital employed	40	25	14
Profit (before service division costs)	10	8	
Total costs			7

- (ii) Each division has a 15% target return on capital employed.
- (iii) An activity based costing study has revealed the following additional analysis for the service division.

Service provided to:	Cost driver	Division		Service cost \$m
		A	B	
Sales	Number of customers	10,000	5,000	1.8
Advertising	Number of product types	8	12	2.4
Production	Number of batches	60,000	60,000	0.8
Administration	Number of employees	800	200	2.0

- (iv) Management at each division has determined independently that the stationery and print service could be obtained from external suppliers for a fee per annum of \$2m and \$4.5m for division A and division B respectively.

Required:

- (i) Prepare a summary which shows the return on capital employed reported at each of divisions A, B and the service division for each of the following transfer price bases from the service division.**

(1) Total cost on 50/50 basis

(2) Total cost on 50/50 basis plus profit mark-up of 30%

(3) Total cost using an activity based cost approach

(4) External supplier prices

(14 marks)

- (ii) Discuss the acceptability of each of the charge bases in (a) to the management at each division and to the organisation as a whole.**

(6 marks)

- (iii) The service division is located in premises for which the lease expires on 31 December 20Y1. Central management have negotiated with a single external supplier of stationery and print services.

Additional information is available as follows.

- (1) The external supplier contract fee will be \$5m for each of the first two years. Fees will then rise by 10% above the 20X8 level. Fees will also increase in proportion to any change of level of service required but will not allow any fee reduction where demand for the service falls.
- (2) The service division annuals costs of \$7m are analysed as follows.

	\$m
Variable cost	4.2
Fixed cost (depreciation)	0.6
Fixed cost (lease of premises)	1.2
Fixed cost (others)	1.0

- (3) 75% of leasing costs to the end of the contract must be paid in the event of early exit from the contract.
- (4) Non-current assets could be sold for \$0.5m at 31 December 20X7 with nil residual value at 31 December 20Y1.
- (5) Other fixed costs will increase or decrease by a step function of 10% where the service division activity increases or decreases by more than 10% respectively.
- (6) The probabilities of the level of service provision required during the four years to 31 December 20Y1 have been estimated as follows.

Current (20X7) level	0.5
Increase of 20%	0.2
Decrease of 20%	0.3

Ignore taxation and the time value of money.

Required:

- (1) **Determine whether the optimum strategy on financial grounds is closure of the service division on 31 December 20X7 or 31 December 20X1. Your answer should include expected value information and should comment on how the level of service activity may influence the decision.**

(10 marks)

- (2) **Suggest additional financial and non-financial factors which could influence the decision strategy.**

(5 marks)

(35 marks)

- 2** SG is a long-established food manufacturer which produces semi-processed foods for fast food outlets. While for a number of years it has recognised the need to produce good quality products for its customers, it does not have a formalised quality management programme.

A director of the company has recently returned from a conference, where one of the speakers introduced the concept of Total Quality Management (TQM) and the need to recognise and classify quality costs.

Required

- (a) Explain what is meant by TQM and use examples to show how it may be introduced into different areas of SG plc's food production business.** (12 marks)
- (b) Explain why the adoption of TQM is particularly important within a Just-in-Time (JIT) production environment.** (5 marks)
- (c) Explain four quality cost classifications, using examples relevant to the business of SG.** (8 marks)

(25 marks)

- 3** Ochilpark has identified and defined a market in which it wishes to operate. This will provide a 'millennium' focus for an existing product range. Ochilpark has identified a number of key competitors and intends to focus on close co-operation with its customers in providing products to meet their specific design and quality requirements. Efforts will be made to improve the effectiveness of all aspects of the cycle from product design to after sales service to customers. This will require inputs from a number of departments in the achievement of the specific goals of the 'millennium' product range. Efforts will be made to improve productivity in conjunction with increased flexibility of methods.

An analysis of financial and non-financial data relating to the 'millennium' proposal is shown in the Millennium Proposal Schedule at the end of the question.

Required:

Prepare an analysis (both discursive and quantitative) of the 'millennium' proposal for the period 20X0 to 20X2. The analysis should use the information provided in the question, together with the data in the Millennium Proposal Schedule. The analysis should contain the following.

- (a) A definition of corporate 'vision or mission' and consideration of how the millennium proposal may be seen as identifying and illustrating a specific sub-set of this 'vision or mission'. (4 marks)**
- (b) Discussion and quantification of the proposal in both marketing and financial terms. (6 marks)**
- (c) Discussion of the external effectiveness of the proposal in the context of ways in which (i) Quality and (ii) Delivery are expected to affect customer satisfaction and hence the marketing of the product. (4 marks)**
- (d) Discussion of the internal efficiency of the proposal in the context of ways in which the management of (i) Cycle Time and (ii) Waste are expected to affect productivity and hence the financial aspects of the proposal. (4 marks)**
- (e) Discussion of the links between internal and external aspects of the expected trends in performance. (2 marks)**

Millennium Proposal Schedule

	Estimated statistics		
	20X0	20X1	20X2
Total market size (\$m)	120	125	130
Ochilpark sales (\$m)	15	18	20
Ochilpark – total costs (\$m)	14.1	12.72	12.55
Ochilpark sundry statistics			
Production achieving design quality standards (%)	95%	97%	98%
Returns from customers as unsuitable (% of deliveries)	3.0%	1.5%	0.5%
Cost of after sales service (\$m)	1.5	1.25	1.0
Sales meeting planned delivery dates (%)	90%	95%	99%
Average cycle time (customer enquiry to delivery) (weeks)	6	5.5	5
Components scrapped in production (%)	7.5%	5.0%	2.5%
Idle machine capacity (%)	10%	6%	2%

(20 marks)

- 4 (a)** Moby is a company that manufactures mobile phones. This market is extremely volatile and competitive and achieving adequate product profitability is extremely important. Moby is a mature company that has been producing electronic equipment for many years and has all the costing systems in place that one would expect in such a company. These include a comprehensive overhead absorption system, annual budgets and monthly variance reports and the balanced scorecard for performance measurement.

The company is considering introducing the following.

- (i) Target costing
- (ii) Life cycle costing systems

Required:

Discuss the advantages (or otherwise) that this specific company is likely to gain from these two systems. (15 marks)

- (b) Explain what Six Sigma is and identify a management tool or technique used in conjunction with Six Sigma.** (5 marks)

(20 marks)

- 5** The Chemical Services Group plc (CSG), which operates a divisionalised structure, provides services to industrial and domestic customers in Swingland, a country whose economic climate is subject to significant variations. There have been a number of recent changes at board level within CSG and therefore the managing director called a meeting of the board of directors at which each of four recently appointed directors put forward their view as to what their primary focus should be. These were as follows:

The research and development director stated that 'my primary focus is upon ensuring that we continue to develop the products and services that satisfy the requirements of our existing and potential customers'.

The finance director stated that 'my primary focus is upon keeping our investors satisfied'.

The human resources director stated that 'my primary focus is upon ensuring that we take all the steps necessary to establish and maintain our reputation as a responsible employer'.

The corporate affairs director stated that 'my primary focus is upon the need to ensure that we are recognised as a socially responsible organisation'.

Required:

- (a) Discuss the criteria that should be considered in deciding upon suitable performance measures in respect of the primary focus of each of the FOUR directors of CSG providing THREE appropriate quantitative measures for each primary focus.**

Note: your answer may include financial or non-financial quantitative measures. (12 marks)

- (b) Explain how growth may be assessed, and critically discuss the advantages and issues that might arise as a result of a decision by the directors of CSG to pursue the objective of growth.**

(8 marks)

Note: your answer should refer to financial and non-financial factors.

(20 marks)