

UNIVERSITY OF BOLTON
SCHOOL OF BUSINESS AND CREATIVE
TECHNOLOGIES
ACCOUNTANCY PATHWAY
SEMESTER 2 EXAMINATIONS 2009/2010
BUSINESS MANAGEMENT
MODULE NO: ACC2510

Date: Monday 7th June 2010

Time: 10:00 – 13:00

INSTRUCTIONS TO CANDIDATES:

There are SIX questions on this paper.

Answer FIVE questions.

Questions ONE and TWO - COMPULSORY questions.

Questions THREE to SIX – answer ANY THREE questions.

Calculators may be used.

You may bring notes on the previously issued case study but not text books or class handouts.

School of Business and Creative Technologies
Accountancy Pathway
Semester 2 Examinations 2009/2010
Business Management
Module No. ACC2510

Case Study

This report has been compiled to establish the current status of Milton Limited. The information is provided to enable proposals for improvement to be made.

Milton manufactures a range of home furniture.

Location

The business is carried out at three locations.

Bolton
Hull
Clitheroe

The company started as a family firm in Clitheroe in 1912. It later acquired larger premises in Bolton. Around 10 years ago it took over a rival competitor based in Hull. Each site has a factory and administrative centre.

The Clitheroe site is fully utilised and transport networks are not particularly good.

The Bolton operation which was acquired in the 1950s and has good motorway links. The plant and equipment are in need of upgrade. There is no spare capacity on the site but there is a plot of land currently rented out to a Road Haulier, J Jones and Sons adjacent to the site.

The Hull site most recently acquired is on a large plot with ample room for expansion, although transport links are not as beneficial as the Bolton Site.

**Case Study continued over
PLEASE TURN THE PAGE...**

School of Business and Creative Technologies
Accountancy Pathway
Semester 2 Examinations 2009/2010
Business Management
Module No. ACC2510

Case Study continued

Products

Group product sales over the last 12 months are as follows

| | £000s |
|-----------------|---------|
| Beds | 22,264 |
| Wardrobes | 19,264 |
| Chairs | 15,067 |
| Suites | 20,917 |
| Dining Suites | 36,512 |
| Coffee Tables | 12,648 |
| Fitted Kitchens | 26,514 |
| Cabinets | 9,465 |
| Total | 162,651 |

The business has suffered in line with the recent world wide economic crisis. Sales of Wardrobes and Dining suites have fallen sharply from the level three years ago.

The reduction in production has been achieved by not replacing leavers and not renewing short term contracts.

Also there has seemed to be a large number of machine breakdowns during the year which has resulted in a reduction in production.

The lines where there has been a substantial build up of unsold stock is Chairs and Coffee Tables.

The stock build up on chairs is due to a problem with a large order from Sunshine Deserts, the High Street retailer, but the order is being renegotiated and it is hoped that these stocks will be cleared within 2 months.

Because of the general state of the market Milton have kept their prices down to a minimum over the past year in order to sell products. Management believe that if they increased prices, business would be lost to competitors.

The best selling lines are beds and suites. Management expect that they could sell more of these at the current selling price, but the production lines running at the moment cannot realistically increase output.

As more houses are built Management believe that sales of built in wardrobes will increase.

**Case Study continued over
PLEASE TURN THE PAGE...**

School of Business and Creative Technologies
Accountancy Pathway
Semester 2 Examinations 2009/2010
Business Management
Module No. ACC2510

Case Study continued

Workforce

The company employs 3,509 people over the three sites. This number was just over 3,800 a year ago, but because of the poor economic situation some staff reductions have taken place during the year. However, so far Management has not resorted to making staff redundant. Most production workers are members of the Guild of Cabinet Makers Union (G.C.M.U.).

A mixture of unskilled and skilled labour is required on each of the production lines. The more modern the technology the less unskilled labour is required.

It is possible to retrain unskilled workers to do skilled workers jobs.

At the present time the most high tech site is Hull which has the most highly skilled workers. Clitheroe with the oldest machinery has the least skilled workforce.

Any further capital investment in new machinery at any one of the sites would undoubtedly result in a change in the required mix of workers which would follow the following effects:

- 1 Fewer Unskilled Workers would be required
- 2 More skilled workers would be required
- 3 If a large capital investment programme is undertaken (replacing more than 50% of the old machinery) overall staff losses would be required forcing redundancies.

It is the opinion of Management that a programme of redundancy could provoke industrial action.

In Clitheroe redundancies could lead to 70% of staff taking Industrial action.

In Bolton it could lead to 50% and in Hull 30%.

Redundancies at one site are not likely to cause Industrial Action at other sites.

The costs of Industrial Action are estimated at between £500,000 to £2,000,000. depending on the type and duration of the action.

**Case Study continued over
PLEASE TURN THE PAGE...**

School of Business and Creative Technologies
Accountancy Pathway
Semester 2 Examinations 2009/2010
Business Management
Module No. ACC2510

Case Study continued

Any new capital expenditure would also result in decommissioning costs of the old machines , but these could be expected to be recouped by the increased productivity achieved from the new machines within about the first six months of production.

The work force has generally received very little training in the last 5 years . This has resulted in an increase in wastage of materials on production lines , currently estimated at 5 % on average. A normal level of wastage in the industry is 3 %.

An instance of a particularly high level of wastage due to inadequate staff training occurred at Bolton this year.

Management estimate that the implementation of a comprehensive training programme at all sites would cost up to £180,000 in the first year and £100,000 per annum thereafter.

Staff morale is generally quite low, and rumours of impending job losses circulate from time to time.

Management Structure

The organisation structure of senior management is shown in the Appendix.

All major decisions are taken by the Board Of Directors at Head Office in Bolton and implemented by the Operational Managers.

There appears to be very little consultation between staff at Head Office and line management at the factories.

Each factory has its own management team, headed by an Operational Manager, but at the present time they have little decision making authority.

Budgets are set centrally once a year with each factory expected to achieve the same level of productivity.

The Hull plant appears to be able to achieve productivity but the other two plants have not met their monthly targets for two years.

**Case Study continued over
PLEASE TURN THE PAGE...**

School of Business and Creative Technologies
Accountancy Pathway
Semester 2 Examinations 2009/2010
Business Management
Module No. ACC2510

Case Study continued

The attitude of staff who are supposed to be monitoring performance against budget is very poor at these two plants, and they appear to have given up trying to achieve their targets.

Profit and performance related incentives are paid to Directors; all other employees have fixed salaries.

Overtime is paid if necessary to production workers if authorised by their supervisors, but very little overtime has been worked in the last year due to low demand for products.

Some overtime was worked at the Clitheroe plant following leaks in the roof which destroyed some stock, premium payments amounted to £60,000.

Other Income

In addition to the core business there are two other sources of income:

Rental Income from J.Jones Limited at the Bolton site.

Sale of extended warranties on products sold.

Milton has been offering extended 5 year guarantees with its products for two years now and it appears to be extremely profitable.

Last year costs of repair under the scheme were only 35% of the income received and the year before costs were only 20%.

The above supports Managements view that that this is going to be a profitable side of the business in the future.

At the moment about 30% of purchasers take out these guarantees on purchase, and the cost of such guarantees on average is about 25% of the purchase price of the item.

Milton has received rental income from J. Jones Road Hauliers of Bolton. This is in respect of rental income from an area of land adjoining the Bolton Site which is owned by Milton but not used by them at the present time. Last year they paid £148,000 the facility which is the market rent.

**Case Study continued over
PLEASE TURN THE PAGE...**

School of Business and Creative Technologies
Accountancy Pathway
Semester 2 Examinations 2009/2010
Business Management
Module No. ACC2510

Case Study continued

The lease on this land expires in six months time and will be renegotiated in the next few months.

J. Jones Limited are willing to continue the lease at the same annual rate but they have also offered to buy the land for £520,000.

The operations manager at Bolton is opposed to the idea of selling the land as it would preclude any possibility of further expansion.

He has also been advised by a local valuer that they could expect to raise £650,000 if the land was sold on the open market.

Premises

The factory at Hull had a minor fire 5 years ago but the damage was fully covered by insurance and all repairs were carried out.

Hull is therefore in a good state of repair.

Due to economic pressure Management decided that all non essential repairs and maintenance should be deferred, therefore Bolton and Clitheroe are in need of attention.

It is estimated that Bolton needs £100,000 and Clitheroe £125,000 spending on routine repairs within the next six months.

Impending Legal Action

Milton is currently being sued by a former employee who lost three fingers of his right hand while operating on a machine on the production line in Clitheroe for which he was not trained for.

The matter has been reported to the Health and Safety Executive and Milton have just commenced their own internal investigation.

It has been common practice for workers to operate on machines they have not been trained for so Milton is extremely concerned at the fine that may arise if this comes to light.

**Case Study continued over
PLEASE TURN THE PAGE...**

School of Business and Creative Technologies
Accountancy Pathway
Semester 2 Examinations 2009/2010
Business Management
Module No. ACC2510

Case Study continued

Management consider that spending money on training is a waste of money in the present economic climate.

There is also a potential Equal Pay Claim for women who have not been receiving a bonus that has historically been paid to men.

Also causing concern is the fact that the female Financial Accountant is currently being paid less than her counterpart the male Management Accountant.

Cash Position

Milton currently has a positive cash balance of £500,000. They have also arranged finance of up to £10,000,000 if required, but they would pay 3% above the bank base rate in interest(currently 2%).

If Milton were to invest in completely modernising the production lines in their factories , the costs including retraining would be in the region of £10,000,000 Clitheroe, £34,000,000 Bolton and £ 42,000,000 Hull.

The savings that would be expected to accrue would be a reduction in staff Costs of 10% and a reduction in material costs of 2%.

**Case Study continued over
PLEASE TURN THE PAGE...**

School of Business and Creative Technologies
 Accountancy Pathway
 Semester 2 Examinations 2009/2010
 Business Management
 Module No. ACC2510

Case Study continued

Management Accounts

| | Hull £ 000s | Clitheroe £ 000s | Bolton £ 000s | Total £ 000s | Total |
|---------------------------|----------------|---------------------|------------------|-----------------|-------|
| <u>Income</u> | | | | | |
| Sales | 79,903 | 41,621 | 41,127 | 162,000 | |
| Rent | | | 148 | 148 | |
| Guarantees | 6,190 | 3,224 | 3,186 | 12,150 | |
| Total | 86,093 | 44,845 | 44,461 | 174,298 | |
| <u>Expenditure</u> | | | | | |
| Materials | 61,714 | 31,456 | 32,094 | 125,288 | |
| Employees | 22,440 | 12,320 | 11,984 | 46,744 | |
| Energy | 586 | 306 | 295 | 1,181 | |
| Rates | 230 | 125 | 155 | 510 | |
| R and M | 60 | 46 | 62 | 168 | |
| Bad Debts | 142 | 70 | 86 | 298 | |
| Training | 5 | 0 | 0 | 5 | |
| Damaged Stock | 121 | 50 | 409 | 580 | |
| Other | 672 | 277 | 256 | 1,205 | |
| Total | 85,970 | 44,651 | 45,341 | 173,947 | |
| Profit(Loss) | 123 | 194 | (880) | (563) | |

Case Study continued over
 PLEASE TURN THE PAGE...

School of Business and Creative Technologies
 Accountancy Pathway
 Semester 2 Examinations 2009/2010
 Business Management
 Module No. ACC2510

Case Study continued

| Hull | Clitheroe | Bolton | Total | |
|----------------------------------------|------------------|---------------|--------------|-------------|
| Number of Emps | 1,700 | 820 | 980 | 3,500 |
| Average Wage | £13,177 | £14,988 | £12,179 | £13,321 |
| Amount Spent on New Mach. In last year | £70,246 | £55,107 | £23,046 | £148,399 |
| In Last 5 Years | £452,768 | £726,459 | £ 155,468 | £ 1,334,695 |

Profit By Product Line

| | £ 000 s | £ 000 s | £ 000 s |
|-----------------|---------|---------|---------|
| Beds | 44 | | (103) |
| Wardrobes | | | (198) |
| Chairs | | | (579) |
| Suites | 15 | 56 | |
| Dining Suites | 31 | | |
| Coffee Tables | 33 | | |
| Fitted Kitchens | | 93 | |
| Cabinets | | 45 | |
| Total | 123 | 194 | (880) |

PLEASE TURN THE PAGE...

School of Business and Creative Technologies
Accountancy Pathway
Semester 2 Examinations 2009/2010
Business Management
Module No. ACC2510

Question 1 - COMPULSORY Question

After having given due consideration to the information presented in the case study give your recommendations with appropriate reasons as to whether:

- A. Which of the operational centres should be closed?
- B. Which of the products should cease to be sold?
- C. Where any future investment should be made

N.B. Detailed calculations are not required for any part of this question.

TOTAL 20 MARKS

Question 2 – COMPULSORY Question

Using established management principles and processes which could include “PESTEL”, “SWOT” and “9 Ms”, undertake an analysis of the company’s position with regard to any internal and external challenges it is facing.

TOTAL 20 MARKS

Answer ANY THREE questions from the following

Question 3

The organisation in the case study employs various resources (e.g. Finance , Human Resources, Raw Materials, Plant and Equipment, Technology) in order to achieve its objectives. Discuss the role of management in an organisation and assess the relative importance of management as a resource.

TOTAL 20 MARKS

Question 4

Identify and analyse any social or ethical issues that can be identified from the case study and discuss the benefits or otherwise of a robust system of corporate governance.

TOTAL 20 MARKS

PLEASE TURN THE PAGE...

School of Business and Creative Technologies
Accountancy Pathway
Semester 2 Examinations 2009/2010
Business Management
Module No. ACC2510

Question 5

Discuss and evaluate how Change Management principles and processes can assist companies to continually improve and be sustainable in the market place.

TOTAL 20 MARKS

Question 6

In addition to those described in the Case Study identify other challenges that businesses may face and describe and evaluate the processes that can be embedded into the organisation to mitigate the impact of those challenges.

TOTAL 20 MARKS

END OF QUESTIONS

Top Level Drawing

Appendix
Senior management
organisational structure

