

APPENDIX 6

ASSIGNMENT AT A GLANCE

Please note that this assignment brief focuses on Element 3 (Case Study) of Component B only.

You are required to use **Global Ltd** as the core material for your assessment. This case provides you with the opportunity to evaluate the appropriateness of an organisation's control and performance and apply management accounting techniques to aid in its financial management and make recommendations for improvement. At the same time, you will be given the chance to develop your skills of critical thinking.

The case study presentation seeks to:

1. Encourage you to participate and share any practical experience so that the class as a whole benefits from the collective experience.
2. Support you in developing critical thinking within unfamiliar situations, such as being able to "evaluate the appropriateness of an organisation's control and performance measurement systems, apply management accounting techniques to aid in the financial management and make recommendations for improvement."
3. Further develop key (transferable) skills, such as being able to:
 - Communicate information, ideas, arguments, concepts, theories and development of an argument in a clearly and effectively organised **presentation**.
 - Use IT and computer skills **for presentation** in the identification of source material, capture and manipulation of data and support of research.
 - Develop team working, time management, communication and critical thinking skills.

CASE STUDY: GLOBAL LTD

IMPORTANT

This case study is used for **BOTH** your case study presentation (Element 3) and individual reflective report (Element 2). This case and the questions for presentation are attached as **Appendix A**.

Group Work

The purpose of this assessment is to allow you and your team members to discuss, debate and evaluate different perspectives on the issues raised in the case study, and in doing so to explore your critical thinking in the process of deriving your recommendation(s) in a group learning context.

Requirement for presentation

Group Size and Formation

This case study presentation is to be carried out in groups of **a minimum of THREE (3) and a maximum of FIVE (5) students**. If you have difficulty locating a group by **18 November 2010**, you can use the Discussion Group set up on Blackboard to contact other students who may also be looking for a group or e-mail the module leader (Eleimon Gonis).

Any group that fails to meet the required minimum and maximum number of members in a team will have 10% deducted from the mark awarded to the team's presentation (e.g. an original mark of 80% will be reduced to 70%). You need to get agreement from your module leader by **18 November 2010** if your team size does not meet the stated requirement.

You need as a group to:

1. Complete and answer the **TWO (2) questions** of Global Ltd
2. Hand in required documents (see page 3) **on Thursday 2 December 2010** during the lecture.
3. **Present** your answers to the questions, as a group, on either **7 or 9 December**, depending on the allocation of presentation slots.

You are given **20 minutes to make a** presentation on the case study and **10 minutes unseen questions** to assess your **oral defence**. The tutors will pose questions which relate to the case study to test your understanding and knowledge.

All members of the team are to contribute to the preparation of the presentation and deliver the actual presentation.

The presentation assessment criteria are set out on page 4.

All members of the group will receive the same mark unless the team asks for different marks to be allocated to each group member. If this is the case, the team should unanimously agree and inform the module leader by **2 December 2010**, indicating reasons and rationale for the mark allocation. This must be agreed between the team and the module leader. A mark allocation sheet will be given by the module leader if agreed. The marks allocated to individual members may not be higher than the mark allocated to the group. It is, therefore, important for the students to keep a record of the group meetings with regard to attendance, contribution and the level of input from each team member.

Each team is to submit the following documents at the lecture on Thursday, 2 December 2010:

1. A completed Bristol Business School 'Group Assignment Front Sheet'.
2. A one-page A4 outline/summary that provides a synopsis of your team's presentation.
3. **Two (2) copies** of the handouts of the presentation slides.
4. **Two (2) copies** your working calculations on the cash budget and assumptions made.
5. **One copy** of the Group Presentation Assessment Rubric.

Group Presentation Assessment Rubric

Group Name:

Team members

Student Number

- 1.
- 2.
- 3.
- 4.

Scoring Scale: **LOW 1** **2** **3** **4** **5 HIGH**

For each criterion, rate the presentation between 1 (very poor) and 5 (very good)

Criteria	Score	Weight	Total
Organisation Clear introduction Rationale presented to support arguments Conclusion logically drawn from rationale Logical flow of discussion		6	(30)
Content Topic addressed satisfactorily Reasoning clear with valid logic Evidence presented to support key points Critical evaluation of the case scenario in arriving at solution(s)/recommendations		8	(40)
Team work and Q&A section Clearly demonstrate each member has a part to play during the presentation and Q&A. Individual accountability demonstrated during Q&A Prompt answer, creative reasoning and persuasiveness		4	(20)
Visual aids and overall oral presentation Proper use of visual aids Engaging with the audience Volume, enunciation, eye contact, gesture		2	(10)
		20	100

What the scoring scale means

5	Excellent; all criteria (and some others) met, and leaves little scope for improvement.
4	Very good; covers all criteria clearly and thoughtfully and is generally accurate
3	Good; meets many of the criteria some often well, although some points could be developed.
2	Average; meets many of the criteria but rather sketchy at times and arguments/material require development.
1	A pass; meets sufficient of the criteria to merit a pass, but material very thin or given limited consideration, at times muddled.

Appendix A : Case Study

Global Ltd.

Susan Richardson (University of Bradford Management Centre)

This case study is adapted from Ducker, J., Head, A., McDonnell, B., O'Brien, R. and Richardson, S. (1998), *A Creative Approach to Management Accounting: Case Studies in Management Accounting and Control*, Sheffield Hallam University Press, ISBN 086339 791 3.

Global Limited is a small company which supplies quality inspectors to the pipeline industry. The company's clients include some of the major plcs in the UK, such as the major petroleum and gas companies. The inspectors are required by these companies to provide an independent certification that the steel used in the construction of the pipes, which channel the gas and oil, meets the required standard. Additionally, inspectors are required to provide an independent certification that the joinings (known as 'welds') made when laying the pipelines are also made in accordance with industry standards. The pipelines are either laid under the ground or on the sea bed. Some inspectors are therefore required to work in rolling mills, inspecting the quality of steel and the production of the pipes, whilst others are required to work on installation sites, checking the welds. These locations can be anywhere in the world.

The company is owned and managed by Alex and over the past few years the turnover has grown to £2.5 million. The company is financed solely by a bank overdraft. Alex operates out of offices within a prestigious Georgian property development in a northern town, on the basis of a sub-let from the company which rents the entire building. Since the operations of the company take place on clients' own sites, the building houses only the head office staff.

The head office staff consists of Alex, Tony the Operations Manager, Helen and Mary who work in the general office, and Tracy who acts as secretary and receptionist. Inspectors are recruited in response to clients' requirements and there are currently 50 inspectors working on various sites, although this number can fluctuate substantially depending on the contracts in operation. In order to operate this recruiting system, the company holds on file the CVs of inspectors with relevant skills and qualifications as a source of reference, and contacts (usually by telephone) inspectors with appropriate skills and qualifications to match clients' requirements, to ascertain if they are available for work.

Some of the inspectors are highly qualified and can command high salaries as well as being selective about the work they take on. Additionally, since many of the clients' sites are overseas, and sometimes offshore, salaries and subsistence allowances are generally high. Sites on the UK mainland are generally widely spread and in out-of-the-way places, and so transport is needed for the

inspectors (who may have to visit more than one site as part of a particular contract). The company therefore hires cars through a firm situated near to the head office for most inspectors working in the UK. Additionally, Tony is also supplied with a hire car. Sometimes the charges for car hire can be reclaimed from the client, but this depends on the terms of the contract.

The company requires little capital investment in fixed assets. However, it does supply specialist equipment to the inspectors for use on site. The cost varies between £200 and £1000 per item and often the company hires this in, rather than purchasing it.

The recently issued financial results have been rather disappointing for Alex (the company only just broke even), even though the turnover had been increased considerably. In addition to this, Alex is finding that the company is regularly short of cash and creditors are continually telephoning to find out when they are likely to be paid. One source of this cashflow problem over the past few years has been Alex's own spending habits - he has made some significant personal drawings from the organisation to fund his high standard of lifestyle. Marketing expenditure on client entertainment is also a significant cost and cash outflow source, although this type of marketing activity is standard for the industry.

Alex has recently approached the bank manager and asked for an increase in the overdraft facility in order to ease the situation. While the bank has agreed (subject to the provision of extra security for their support), it has insisted that Alex supplies them with regular information about the performance of the company. Alex has little experience of the accounting side of the business, since his background is more on the operational side, and he has realised that he needs someone with the relevant expertise to provide such information. Consequently, he has just recruited a management accountant.

In the past, the administration/accounting staff have been left to get on with things as best they could and no one in particular has been in charge of this part of the business. Alex tends to 'have a go' when he is in the office but a lot of his time is spent out on site checking on the operations or visiting clients in search of more business. As a result of this situation, systems for 'doing things' emerge rather than being planned and many of the jobs are duplicated or overlooked. Helen is a very efficient bookkeeper and does various other tasks which she feels need doing. Tracy is a very efficient secretary and maintains an orderly CV system. However, Mary is rather inefficient and ineffectual, even though she herself has rather a high opinion of her abilities. She tends to be rather bossy, has taken it upon herself to manage the office and is very protective of what she considers to be her responsibilities. She is particularly disdainful of Alex's managerial abilities and is often rude to him in front of other office staff. She is also resentful of the new accountant who has just arrived and the working environment in the office, on the whole, is not pleasant.

Over the past year Tony, the operations manager, has been absent 'sick' more than he has attended work. A major problem at the outset of a new contract is that of recruiting inspectors with the necessary qualifications and capabilities. Not unnaturally, this seems to have become more problematic as the organisation has grown its business. In the absence of the operations manager, most of this task of recruitment falls to Alex.

The inspectors send in time-sheets each week from their various locations, stating the number of days or hours worked on each contract. These time-sheets are counter-signed on site by a representative of the client and this acts as the basis for invoicing work to the client and payment of salary to the inspector.

Sales invoicing tends to be a somewhat ad hoc process. Mary sometimes prepares invoices and passes them to Tracy for typing. On other occasions Alex and Tony have a go. Salaries to the inspectors are paid monthly, but subsistence allowances and site expenses are paid weekly.

The company works for a number of well established clients and when decisions are made regarding how much to charge them for the services of the inspectors, Alex tends to give quotations 'off the top of his head', or bases them on what he has charged in the past. Alex often fails to pass on this sort of information to the office staff. Some inspectors and some customers clearly create profits but, equally clearly, some do not.

To date, the inspectors who have been recruited have proven to be highly capable and self motivated people who, once allocated to a project, more or less look after their 'own' contracts and clients. They do, however, press Alex for improved conditions of employment - particularly higher salaries and subsistence allowances. Alex often accedes to these demands in order to get a good job done and to keep the contract moving to the satisfaction of the customer. However, in the absence of appropriate management information systems, Alex is never sure about the effect that acceding to these demands has on the profitability of the contracts.

The company has just been given the opportunity to bid for a contract to supply a large number of inspectors to a new client over a two year period. Alex is keen to attract this order but, as usual, a number of competitors will be bidding for it.

Alex anticipates that this new contract could be worth in the region of £2 million over the two year period, which means that, if he can secure it, added to the work already obtained, the company should achieve a turnover of £2.7 million for the coming year. The first six months of the contract, however, requires 10 inspectors to work in the rolling mills in Japan. This would entail Alex finding ten inspectors willing to go out there at very short notice and prepared to remain for the six month period.

Japan's cost of living is very high and this will mean that the company will have to very quickly make available a great deal of cash in order to provide subsistence allowances on a weekly basis to the inspectors in Japan. The terms of the contract are monthly invoicing with payment one month later. Additionally, it is difficult to recruit inspectors to work in Japan because of the language barrier. Alex anticipates that to compensate for this, he will have to make the deal very attractive to them.

The new accountant is anxious that Alex does not make a bid for this contract based on his usual 'off the top of his head' approach and has become involved in the process of putting the bid together. She has perused the specification of the contract and Appendix 1 provides an extract for the first phase to take place in Japan.

APPENDIX 1

Extracts from the contract specification for the first six months

Rolling Mill - Japan - April to September

Services required:

- 1 highly qualified inspector to act as supervisor on site
- 9 suitably qualified inspector

Each inspector and supervisor will be expected to work 25 days each month

Additional Chargeable items:

Subsistence allowance for each inspector and supervisor for every day of each month whilst in Japan

A charge for equipment provided by the bidding company.

One return air journey for each of the 10 inspectors (cost + 10% to be included in invoice for work completed in April)

Travel costs to and from the rolling mill each working day

Invoicing and payment terms:

All chargeable items should be invoiced at the end of each month. The invoices must clearly itemise the various chargeable costs

Payment will be made at the end of the following month

APPENDIX 2

Forecast costs for the Japanese phase of the contract

Inspectors:

Rate per Inspector	£100 per day worked
Supervisor	£220 per day worked
Subsistence allowance	£80 per day for each inspector/supervisor
Daily travel in Japan	£3 per day worked for each inspector/supervisor
Return airfare	£1050 per person

Additional Costs:

Equipment costing £3000 would be purchased by Global especially for the contract and a hire charge of £400 per month would be invoiced to the client.

Forecast Revenues

Rates to be charged to Client:

Supervisor	£300 per day worked
Inspector	£180 per inspector per day worked
Subsistence allowance	£80 per inspector per day worked
Equipment hire	£400 per month
Travel expenses	£3 per inspector/supervisor per day worked

Additional information

1. The inspectors would be employed by Global Limited and would receive their salary on the last day of each month. The supervisor would work on a sub-contract basis for Global. He would invoice Global at the end of each month and receive payment at the end of the following month.
2. The flights would have to be booked and paid for in March.
3. The equipment would be acquired in March on one month's credit.
4. It is company policy to depreciate equipment on a straight line basis over 3 years. The equipment does not usually have any scrap value at the end of three years.
5. Global will set up a bank account in Japan and will advance one month's subsistence allowances to this account on the first day of each month. The supervisor, who will control this account, will then issue subsistence allowances weekly in advance to the inspectors and himself. These transactions will be subject to exchange rate fluctuations, the subsistence allowance being converted to Yen before being transferred from the UK.

Question 1

In the role of Global's new management accountant:

(a) Construct a forecast cash budget for the Japanese phase of the contract, commencing with the month prior to the start of the contract and continuing to the end of the first six months of the contract, stating the assumptions underpinning the budget. You should assume that no cash is available at the start.

(b) Present your findings to Alex, commenting on the cash budget you have prepared and explaining the rationale for the assumptions you have made. Your comments should also include:

- a critical evaluation of the data and information provided, bearing in mind the context of the company's current financial situation and operating conditions;
- an indication of any further evidence you would seek in order to arrive at appropriate recommendations to the company.
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Question 2

As a management consultant, advise Alex by critically evaluating the possible alternative courses of action available to Global Ltd to enable the company to be more competitive in the marketplace. Your evaluation should include a consideration of the implications of the company's current management structure and practices, internal controls and operating conditions. State your assumptions and highlight any limitations in your recommendations.