

**UNIVERSITY OF BOLTON**

**INSTITUTE OF MANAGEMENT**

**MSC ACCOUNTANCY AND FINANCIAL  
MANAGEMENT**

**SEMESTER TWO EXAMINATION 2021/22**

**ADVANCED PERFORMANCE MANAGEMENT**

**MODULE NO: ACC7505**

Date: Monday 16 May 2022

Time: 10.00 – 1.00pm

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**INSTRUCTIONS TO CANDIDATES:**  
paper.

There are **THREE** questions on this

**SECTION A** consists of **ONE** question  
which is **COMPULSORY**

**SECTION B** consists of **TWO**  
questions, both are **COMPULSORY**

This is a closed book exam.

You must hand in the exam paper  
with your answer booklet.

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## **SECTION A**

### **QUESTION 1**

MBC is a public service radio and television broadcasting organisation. Its Board of Directors stated in its latest annual report that the main objectives of the organisation are to:

- remain a public service broadcaster
- provide a comprehensive range of distinctive programmes and give excellence in providing a public broadcasting service
- make and broadcast television and radio programmes which inform, educate, and entertain.

MBC is mainly funded through television licence fees, which are paid by the residents of the country in which it is based. The television signal is currently broadcast through transmitters located on land rather than via satellite. The Board of Directors is held responsible by the government for ensuring that best value is obtained by the licence-fee payer.

#### **Competition**

The main competition for MBC comes from commercial broadcasters who are funded through advertising revenue. Some of these broadcasters use earth-bound transmission media for both television and radio programmes, and others transmit via satellite. MBC has achieved an improvement in its market share of the viewing the viewing and listening audience in recent years despite this competition. One of the most distinguished services provided by MBC is its world radio service, which is renowned for its unbiased and uncensored news broadcasts relating to national and international events. None of its competitors can provide a parallel service of the same quality and reputation.

#### **Accountability and editorial policy**

MBC is accountable through its Board of Directors to the licence-fee payers and to the government.

It regularly consults with representatives of its audiences for both television and radio programmes and has established independent panels of viewers and listeners to review and advise on programmes.

In terms of editorial policy, the Board of Directors tries to ensure that there is as little interference as possible on the creativity of programme makers. Nevertheless, the Board aims to ensure that programmes are fair, accurate and impartial, and meet the highest standards of good taste and decency.

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### **Question 1 continued**

#### **New developments**

Recently, MBC has introduced a 24-hour television news service. In addition, the organisation has entered a joint venture with a television subscription channel provider which allows the subscriber to access television programmes at any time to suit themselves rather than when they are broadcast. The additional income earned through subscriptions to this facility is re-invested by MBC in its main public service. Another potential development is the connection of the television to the telecommunications network which would allow greater efficiency in the delivery of programmes.

#### **Financial efficiency**

The Board of Directors has entered a four-year licence-fee agreement with the government. The terms of this are that the licence fee will increase at a compound rate of 2% per annum both this year and next year. The licence fee will then remain at this level for the remaining two years of the agreement.

The total licence fee income received in the last financial year was \$2,147 million. The Board of Directors expects the number of licences sold to remain at the same level as last year for the full four-year period.

The Board of Directors is proud that MBC exceeded the efficiency savings target set by the government by 2% in each of the last three years. Over this period, MBC has outsourced its financial processing functions and sold its transmission service to an independent company, which has guaranteed the maintenance of a high-quality service at a reduced cost. The Board of Directors has placed much emphasis on the elimination of duplication of effort and reduction in waste from surplus capacity or over-staffing. An internal market has been introduced into MBC with programme-makers given the freedom to buy from producers who may be employed by the organisation or who may be external and completely independent of it. The savings achieved have been re-invested in programmes and services.

Despite these efficiency measures, MBC has experienced a steady average compound rate of growth of 3.7% in its expenditure over the last five years, and this is expected to continue at the same level over the next four-year period.

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### Question 1 continued

The following estimated levels of income and expenditure for the four-year period of the licence fee agreement are as follows:

	<i>Income</i>	<i>Expenditure</i>
	\$ million	\$ million
Year 1	2,190	2,114
Year 2	2,234	2,192
Year 3	2,234	2,273
Year 4	2,234	2,357

### Future targets and developments

The government has congratulated the Board of Directors on its record of achieving efficiency savings and has set a Return on Capital Employed (ROCE) target of 6% per annum.

Its current ROCE is 9%, which has been calculated as follows:

$$\frac{\text{Excess of income over expenditure} \times 100}{\text{Average capital employed}} = \frac{\$108 \text{ million}}{\$1,195 \text{ million}}$$

with average capital employed here equalling  $\frac{\$1,250\text{m} + \$1,140\text{m}}{2}$

It is assumed that the value of capital employed by MBC will change only by adjustments in its operating reserve.

There has been continuing debate on the funding mechanism used for MBC through the licence fee. Some members of the government have questioned the fairness of this. They argue that commercial broadcasters cannot rely on a regular and guaranteed source of income and that the licence itself is a form of tax giving no discretion to the fee payer. One suggestion being considered by the government to reduce MBC's dependence on the licence fee is to separate the radio and television services. The radio services may then be financed by advertising revenue but would remain within the overall group alongside the television service. The rationale for this is that the licence fee is charged only on television receivers and therefore MBC does not obtain any direct income to support its radio services.

### Financial extracts

Extracts from MBC's accounts reveal an increase in the overall surplus transferred to the operating reserve in the last financial year. Comparative extracts from the accounts over the last two years are as follows:

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**Question 1 continued**

	<i>Last year</i> \$ million	<i>Previous year</i> \$ million
<b>Income and expenditure account</b>		
Excess of income over expenditure	108	82
	————	————
<b>Statement of financial position</b>		
Total assets less current liabilities	1,355	1,240
Long-term creditors and provisions	105	100
	————	————
	1,250	1,140
	————	————
Represented by:		
Capital reserve	700	698
Operating reserve	550	442
	————	————
	1,250	1,140
	————	————

MBC's total expenditure in the last financial year was \$2,039 million, compared with \$1,700 million five years ago. The breakdown of these costs in the last financial year was as follows:

	<i>Last year</i> \$ million	
Broadcast expenditure:		
Television services	1,265	
Radio services	423	
Non-broadcast expenditure	351	
	————	
	<b>2,039</b>	
	————	

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**Question 1 continued**

Required:

**Write a report to the Board of Directors of MBC addressing the following:**

- (a) **MBC's major stakeholders are the public, the government, its employees and management.**
- (i) **Outline the main risk areas that will concern each stakeholder group.**
  - (ii) **Explain how the Board of Directors can obtain the views of MBC's major stakeholders in determining the future strategic development of the organisation.**
- (12 marks)**
- (b) (i) **Calculate MBC's ROCE for each of the four years of the licence fee agreement.**
- (ii) **In the light of your findings, discuss what action MBC's management could take.**
- (15 marks)**
- (c) **Discuss the implications for MBC's performance management if the television and radio services are separated.**
- (10 marks)**
- (d) **Explain what financial and non-financial information should be provided to the Board of Directors of MBC on the performance of the radio subsidiary following its separation from the television service.**
- (9 marks)**
- Professional marks will be awarded in for appropriateness of format, style, and structure of the report.**
- (4 marks)**
- (Total: 50 marks)**

**END OF QUESTION 1  
END OF SECTION A**

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## SECTION B

### QUESTION 2

Swift Shifters (SS) is considering changing some of the vans it uses to transport crates for customers. The new vans come in three sizes: small, medium, and large. SS is unsure about which type to buy. The capacity is 100 crates for the small van, 150 for the medium van and 200 for the large van.

Demand for crates varies and can be either 120 or 190 crates per period, with the probability of the higher demand figure being 0.6.

The sale price per crate is \$10 and the variable cost \$4 per crate for all van sizes subject to the fact that if the capacity of the van is greater than the demand for crates in a period then the variable cost will be lower by 10% to allow for the fact that the vans will be partly empty when transporting crates.

SS is concerned that if the demand for crates exceeds the capacity of the vans, then customers will have to be turned away. SS estimates that in this case goodwill of \$100 would be charged against profits per period to allow for lost future sales regardless of the number of customers that are turned away.

Depreciation charged would be \$200 per period for the small, \$300 for the medium and \$400 for the large van.

SS has in the past been very aggressive in its decision-making, pressing ahead with rapid growth strategies. However, its managers have recently grown more cautious as the business has become more competitive.

#### Required:

- (a) Discuss the principles behind the maximax, maximin and expected value criteria that are sometimes used to make decisions in uncertain situations.

(9 marks)

- (b) Prepare a profits table showing the SIX possible profit figures per period.

(6 marks)

- (c) Using your profit table from (b) above discuss which type of van SS should buy taking into consideration the possible risk attitudes of the managers.

(10 marks)

(Total: 25 marks)

END OF QUESTION 2  
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### QUESTION 3

Dancify is a small company operating several dance schools. The owner of the company, who also acts as managing director, spent many years working in schools for the arts, such as dance schools, music schools and art schools, in both the public and private sector of the economy, and he is well-known and well-respected in the profession.

Dancify was established eight years ago, and the company has performed reasonably well during that time. Students come from many parts of the country, and many are referred from state-owned schools and private schools. The ages of students range from 14 to 18, and students are given a normal academic education as well as specialising in dance.

The owner/managing director would like to open more schools, but he believes that before he can do this, he needs to improve various aspects of the current schools and make them better managed. He is interested in the idea of benchmarking.

#### Required:

- (a) Describe the different methods of benchmarking that might be used to assess the performance of the schools explaining how benchmarking might be used to help the company improve performance.  
(10 marks)
  - (b) Explain the steps that management should take to establish a benchmarking programme.  
(10 marks)
  - (c) Identify some potential problems and shortcomings associated with benchmarking.  
(5 marks)
- (Total: 25 marks)

END OF QUESTION 3  
END OF SECTION B  
END OF QUESTION PAPER