

UNIVERSITY OF BOLTON

INSTITUTE OF MANAGEMENT

MSC ACCOUNTANCY AND FINANCIAL MANAGEMENT

SEMESTER ONE EXAMINATIONS 2022/2023

STRATEGIC BUSINESS LEADER

MODULE NO: ACC7530

Date: Wednesday 11 January 2023

Time: **1.00 – 5.00**

INSTRUCTIONS TO CANDIDATES:

There are **Four** questions on this paper.

Answer **ALL** questions.

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WARNAM BROS

You are Jordan Daniels, a recently qualified ACCA. You work in the business advisory section of a firm of accountants and management consultants.

Your firm has been commissioned to provide advice on the future strategic direction for a new client, Warnam Bros (WB) and to advise on a number of issues that the company is facing. Responsibility for this work has been given to your manager, Rona Burns, who has asked for your assistance.

WB is a film production company based in Norgan, formed in April 1999 by three individuals who had previously worked in various aspects of the film and DVD/video industry and who came together to set up the business. Between them they have a wealth of broadcast and creative experience having previously worked for the country's major television network, the Norgan Broadcasting Company (NBC) – as well as time spent abroad working for major film companies and broadcasters.

You have been presented with a number of pieces of information:

Exhibit 1: Meeting notes with new client Warnam Bros (WB)

Exhibit 2: Extracts from the financial statements of WB

Exhibit 3: Extracts from an internal report on quality control issues in WB

Exhibit 4: Email and attachment from WB Finance Director

Exhibit 5: Copy of a press article from The Echo Business News

Exhibit 6: New opportunity with BUNAM

The case requirements are included in the tasks shown below.

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Question 1

At the initial meeting between the firm and the new clients, the founders were particularly concerned that as owner managers, they had concentrated too much on the running of the business and need an up to date position analysis in the light of recent industry changes.

Required:

Prepare briefing notes that analyse how changes in the industry environment are impacting on WB business model. (16 marks)

Professional skills marks are available for demonstrating analytical skills relating to Warnam Bros's strategic position and financial performance. (4 marks)

(Total: 20 marks)

Question 2

The weaknesses identified in the control procedures in the quality control laboratory represent a significant challenge to the success of sales of merchandising within Warnam Bros.

Required:

(a) **Prepare a report which explains the internal control weaknesses that led to the increased product failures at WB and suggest how these could be mitigated. (12 marks)**

Professional skills marks are available for professional scepticism related to the allegations made against the company. (2 marks)

(b) **Discuss the importance of Corporate Governance. (6 marks)**

Professional skills marks are available for illustrating communication skills in conveying relevant information to the directors in an appropriate tone.

(2 marks)

(Total: 22 marks)

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Question 3

The lack of understanding about the need for risk assessment, identified by the risk consultants, represents a significant weakness in the strategic planning for WB. The MD has requested that you prepare briefing notes for the board to explain the need for these assessments and how to mitigate the risks identified.

Required:

- (a) **Prepare a section of a business advisory consultancy report which explain to Peter Drummer whether the risk management approach currently used by WB is appropriate, taking into account the dynamic nature of the risk. (10 marks)**

Professional skills marks for evaluation skills in assessing the appropriateness of risk management approach. **(2 marks)**

Prepare a section of your briefing note that evaluates the proposed risk register with regards to the adequacy of risk impact assessment and suitability of the mitigation activities. (8 marks)

Professional skill marks for demonstrating scepticism skills with regards to completeness of the risk register, assessment of risk impact and suitability of risk mitigation activities.

(2 marks)

- (b) **As part of the briefing note provide guidance to the Board of WB on how they could improve risk awareness throughout the organisation.**

(4 marks)

(Total: 26 marks)

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Question 4

The MD has expressed concern that recent decisions taken by WB demonstrate a lack of appropriate evaluation. This represents a significant weakness in strategic planning for WB. The MD has asked that as part of the consultancy exercise, you demonstrate (for future strategic purposes) how such evaluations should be undertaken.

Required:

- a) **Prepare a briefing note which evaluates whether WB should outsource the activities of story writing, staff scheduling and the DVD production process. (12 marks)**

Professional skills marks are available for commercial acumen skills in assessing the implication of outsourcing decision on WB. **(4 marks)**

- b) **Prepare a confidential email which evaluates the potential link up with BUNAM and provide a recommends whether it should proceed. (12 marks)**

Professional skills marks are available for demonstrating scepticism skills in questioning the reasons for potential collaboration with BUNAM. **(4 marks)**

(Total: 32 marks)

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EXHIBIT 1

NOTES TAKEN BY RONA BURNS AT INITIAL MEETING WITH NEW CLIENTS WARNAM BROS (WB)

Background

- WB began by working on the creation of advertisements for corporate clients to be broadcast on television and in cinemas.
- WB's corporate film output includes high-impact promotional films and educational DVDs, as well as the filming and production of training presentations. WB has established a reputation for high-quality work and has frequently bid for and won contracts to produce films and DVDs against strong competition in what is seen to be a highly competitive market.
- WB has attracted some top-quality brands as corporate clients. This work combines the special talents of the creative teams within WB, together with an observant eye and ear for the message which the client wants to deliver. Increasingly, many companies are simply re-running old campaigns and have not been commissioning new work.
- More recently work has included online advertising with short films and animations produced for websites or search engines, which catch the eye of web-browsing customers. Commercially WB has had to develop the skill to deliver a succinct visual and audio corporate message to capture the attention of a viewer in the very short time-span during which a webuser scans for items on the web.
- WB has extensive experience in production work across all aspects of broadcasting. It has a state-of-the-art digital media facility tailored towards broadcast production and corporate video services including editing services and post-production. When the company is busy, it requires extra teams of freelance animators to create the images.
- WB owns a modernised warehouse in the country's capital where it has the space for administration and film production, together with some storage space. The company also rents a second warehouse nearby which is used for inventory purposes and as a second studio for film production and post-production editing when needed.

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Exhibits continued

Developments

- WB became the creator of a number of thin wire-based characters (called 'Goseoos'), which were used in an educational campaign for the country's road safety department. Children seemed to like these strange-looking characters, which attracted positive reactions, especially from younger viewers. Because of their clean, positive image parents accepted them as well. Gradually a whole happy Goseoos community was created – with a distinctive cheerful logo to go with it.
- Because of the Goseoos safety series, WB established an excellent reputation for creativity and technology as well as a growing fan-base amongst younger viewers. Apart from sales of the Goseoos safety series to Norgan schools, WB retained the rights to the profits on all subsequent sales to other customers in Norgan and abroad, of both the safety DVDs and all other Goseoos output.
- WB have also developed a wide range of Goseoos merchandise. WB did not realise the full potential of this aspect of the business until audience demand, from its younger viewers, forced it to become more aware. WB retains the rights on all aspects of Goseoos merchandising, and those rights are very clearly established in all of its contracts. WB is heavily dependent on the success of the Goseoos output, because most of the merchandise sold is associated with the Goseoos animation series – whilst it remains popular, so will the merchandise.
- WB also sells DVDs of Goseoos episodes. WB have found the business to be rather seasonal – with over half of all sales coming in the two months leading up to Christmas last year. WB are unsure about how successful this revenue stream might become as buyers move towards digital downloads and parents become more inclined to store recordings on their set-top boxes rather than buy new DVDs.
- Twelve months ago, WB was commissioned by NBC to create a series of four short films. Based on the Goseoos characters, they ran over a period of four weeks. The series proved fantastically popular and has led to NBC requesting the production of 22 more episodes for next year.
- The Goseoos product has become a great success for the company and WB is determined to protect its success and also to avoid any over-exposure which may shorten the characters' useful life. It will be vital to remain appealing to children and to retain the trust of parents in order to continue to win new commissions and the revenue from merchandising that is likely to follow from that.

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Exhibits continued

Industry

- WB operates in a crowded market where competition is constant and where being well-known and well-connected is often as important as being technically skilled. That, coupled with the fact that at the lower end of the market almost anyone with a digital camera can attempt to make their own film, means that the technical barriers to entry in this industry can appear very low.
- The whole film and DVD industry has suffered from changes in technology such as online content, MP4 files stored on hard drives and the growth of streaming services such as Netflix has resulted in DVD players becoming obsolete. WB, along with all other commercial enterprises in this sector, has been adversely affected.

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EXHIBIT 2

Figure 1: Extracts from the statements of profit and loss (2018 – 2020) (all figures in £000)

	2018	2019	2020
Revenue			
Corporate work (including advertising production)	15,357	16,348	17,555
Commission work (for NBC)	1,000	0	0
Merchandising and DVD	8,742	2,657	487
Cost of sales	8,619	5,124	4,144
Gross profit	15,480	12,881	12,898
Administration expenses	6,142	5,887	5,664
Other expenses	245	665	212
Finance costs	612	458	314
Profit before tax	8,481	5,871	6,708
Income tax expense	2,120	1,514	1,622
Profit for the year	7,361	5,357	6,086

Figure 2: Extracts from statements of financial position (all figures in \$000)

	2018	2019	2020
Non-current assets	26,472	22,316	19,874
Work-in-progress	3,869	3,379	3,731
Retained earnings	25,283	20,512	17,244
Long term borrowings	7,455	7,120	6,263

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EXHIBIT 3

EXTRACT FROM INTERNAL REPORT ON QUALITY CONTROL ISSUES

Introduction

A recent review by the director responsible for operations highlighted that there had been an increase in Goseos products failing final quality checks. These checks were carried out in the quality control laboratory, which tested finished goods products before being released for sale. After an investigation it became apparent that quality control failures were due to the fraudulent activities of staff rather than the problems in the manufacturing process.

The product failure rate had risen from 1% of items two years ago to 4% now, and this meant an increase of hundreds of items of output a month which were not sold on to Warnam Bros (WB)'s customers.

The failed products had no value to the company once they had failed quality control as the rework costs were not economic. Because the increase was gradual, it was not recognised that the failure rate had risen.

A thorough review of the main production operation revealed nothing that might explain the increased failure and so attention was focused instead on the laboratory. For some time, despite the growth in merchandising sales, the quality control laboratory at Warnam Bros (WB), had been marginalized in the company, with its two staff (Manager – Peter Clebb and Assistant Manager Sarah Easten) working in a remote laboratory well away from other employees.

The Operations director (David Charles), who had designed the internal control systems in Warnam Bros (WB), rarely visited the laboratory because of its remote location. Robyn never asked for information on product failure rates to be reported to him and did not understand the science involved in the quality control process. Robyn relied entirely on the two staff employed in the laboratory, both of whom did have relevant scientific qualifications.

The two staff in quality control considered themselves to be low paid. Whilst in theory they reported to the Operations Director, in practice, they conducted their work with little contact with colleagues from other parts of the business. The work was routine and involved testing products against a set of compliance standards. A single signature on a product compliance report was required to pass or fail and these reports were then filed away with no-one else seeing them.

It was eventually established that Peter Clebb had found a local buyer to pay him directly for any of Warnam Bros (WB)'s products which had failed the quality control tests. The increased failure rate had resulted from him stamping products as having 'failed QC' when, in fact, they had passed. The proceeds from the sales were paid direct to Peter Clebb who also paid his assistant, Sarah Easten a proportion of the proceeds from the sale of the failed products.

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EXHIBIT 4

Email

From: Rona Burns

To: Jordan Daniels

Date: Today

Subject:

Warnam Bros

Hi Ross

Please see attached an email from the FD at Warnam Bros (which is self-explanatory) along with an initial risk assessment provided by our risk team.

They (WB) are keen to have some feedback on this as soon as possible. Rita.

Email

To: Rona Burns

From: WB Finance Director

Date: Today

Subject: Risk Assessment

Following on from the issues in the quality control department, the board of Warnam Bros (WB) recently discussed its need for timely risk information.

The consensus of the meeting was that the newly appointed consultants are requested to review the risks facing the company as part of their brief.

The MD, Peter Drummer, said that he felt that this would be a waste of money as the company needed to concentrate its resources on improving organisational efficiency rather than on gathering risk information. He said that many risks 'didn't change much' and 'hardly ever materialised' and so can mostly be ignored.

The rest of the board, however, believed that a number of risks had recently emerged whilst others had become less important and so the board wanted a thorough assessment carried out. They believed that they had historically concentrated too much on running the business so any previous assessments might now be outdated.

As part of your commission could you please carry out a review of risk currently facing WB.

Thanks FD

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Risk Register of Warnam Bros

Warnam Bros	Risk Matrix		
	Likelihood		
		Low	High
Impact	Low	Loss of new work for NBC	Legislative change
	High	New product launch activity	Reduction in corporate work due to austerity measures

Four potential risks (A, B, C, D) were identified and assessed and the following information was discussed when the findings were presented to the Warnam Bros (WB) board:

Risk A (loss of new work for NBC) was assessed as unlikely and low impact whilst Risk B (further reduction in corporate work due to austerity measures) was assessed as highly likely to occur and with a high impact. The activities giving rise to both A and B, however, are currently seen as marginal by some board members in that whilst the activities do have value and are capable of making good returns, neither is as strategically vital as much as the need for new products given the changes in technology.

Risk C (new product development projects) was assessed as low likelihood but with a high potential impact and also arises from an activity that must not be discontinued although alternative arrangements for bearing the risks are possible. These activities giving rise to Risk C were recently introduced by Warnam Bros (WB) as a result of the new product launch for Goseos.

Risk D (legislative changes) was assessed as highly likely but with a low potential impact, and arose as a result of a recent change in legislation. It cannot be insured against nor can it be outsourced. It is strategically important that the company continues to engage in the activity that gives rise to Risk D although not necessarily at the same level as is currently the case.

In the feedback session for the initial assessment, the consultants commented that Warnam Bros needed to develop a culture of risk awareness and that this should permeate all levels of the company.

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EXHIBIT 5

ARTICLE FROM THE ECHO BUSINESS NEWS

ECHO BUSINESS NEWS

5th March

BUSINESS DECISIONS UNDER SCRUTINY

By Nick Griffiths

“A recent road safety film featuring the well-known Goseos characters has been criticised in the media and on social networks for its inappropriate storyline (in one scene a character was thought to have exhibited an element of sexism).

A source inside WB has advised that Warnam Bros’s managing director immediately ordered a thorough investigation of the production of this episode. The Norgan has been informed that his over-riding conclusion was that many of the problems were caused by a decision taken two years ago by the company to outsource many elements of its activities. The Norgan has established that a decision had been taken to outsource storyline production to reduce the workload on existing writers (who could concentrate on corporate adverts) as these staff can be quite expensive and utilise instead the experienced, freelance writers available who offer writing services.

WB had also outsourced the scheduling of staff, cameras, and facilities etc. to a specialist operational planning business. Although scheduling had never been a difficult task for the business, the offered services were seen to be quite cheap. However it led to many issues with staff turning up on the wrong days, cameras not being available at appropriate times and facilities bookings clashing with other programmes.

In a frank interview with this newspaper, an insider who wished to remain anonymous, expressed a view that outsourcing of activities should be abandoned completely. He was particularly concerned about the decision to outsource the production of merchandising as this has become a core area of revenue for the business”.

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EXHIBIT 6

NEW COMMERCIAL OPPORTUNITY

WB has received an approach from The Norgan Cereal Company (BUNAM) with a proposal regarding the use of Goseos characters in an advertising programme, scheduled for the first quarter of 20X9.

BUNAMS are a popular children's cereal brand and are the country's second largest cereal supplier. BUNAM wants to launch a new chocolate breakfast cereal for children. It will be supported by new television adverts featuring the Cluckoo characters as well as having free Cluckoo themed gifts inside each box of cereal purchased.

The production of the adverts would be carried out by WB and would be worth \$250,000 of contribution to WB. Merchandising would be performed by WB's existing supply chain and BUNAM would pay a fee (based on a 25% mark-up) for each advert produced.

The work would have to be carried out within the next few months and, if the launch was successful, BUNAM would then want to extend the campaign beyond Norgan and into the international market. WB are a little concerned as work on the BUNAM contract will coincide with planned work on the NBC commissions – though they hope to be able to fit both projects into their schedule.

END OF QUESTIONS

PAST EXAMINATION