TCS Online

Mini Mock – Suggested Answers

Operational Case Study – May 2022 / August 2022

Section 1

Stages to be followed to carry out a training and development program

Under the training and development plan, we could follow the following steps to establish training sessions for our employees in the packaging department.

Identifying training & development needs

Under this stage, we need to identify the training and development needs of the employees. Since we are focusing on packaging employees, we need to identify the issues with their performance and design training programs to bridge areas of underperformance.

Setting training & development objectives

We should set the objectives for our training and development program and these objectives should be in line with the achievement of efficiency in packaging operations. Thus, the objectives should be clear, specific and measurable.

Planning the training & development sessions

After setting the objective we could plan the training and development process. This will include plans pertaining to training methods, sources, budgets, the location and providers of training and division of responsibilities.

Delivering & implementing training & development initiatives

The execution or delivery process will include the combinations of formal, informal, internal and external training methods which are going to be used as planned. During the whole process, we need to examine training sessions to make sure that we are achieving our training objectives.

Evaluating training & development sessions

After the delivery of the training, the whole process needs to be evaluated to track the effectiveness. If there are any errors, we need to rectify them by listening to feedback from trainers and packaging staff members.

Evaluation of budgeting styles

Budgeting refers to the process of developing a quantitative plan. Under the process of preparation of budgets, we can use different styles for budgeting. Under that, we have two options: Imposed and Participative. Each option would generate various advantages as well as disadvantages for our company.

The imposed style of budgeting

Under the imposed style of budget preparation, it does not facilitate the budget holder (employees and the operational managers) to participate in the budget preparation process. As a result of that, it reflects that the budgets are imposed on these budget holders as per the opinion of top- level managers.

The main advantage of this style is that it is less time consuming since the decisions can be made relatively faster. Also, if our lower-level managers lack the skill to prepare budgets, then this style is suitable since this utilizes the expertise of higher-level managers.

Further, since top-level managers have an overall view and the vision of the organization, they are better poised to prepare budgets.

Considering the disadvantages of this budgeting style, the main disadvantage is that we won't be able to get local knowledge of operational managers and other lower-level employees since they don't participate in the budgeting process.

Since the budget does not consider the ideas of lower-level employees, we could face resistance when implementing budgets. This could also lead to demotivation among lower- level employees, as they would feel that their opinions are not considered or valued.

The participative style of budgeting

A participative style would facilitate operational managers and the lower-level employees to participate in the budget setting process. This ensures that the company can benefit from local knowledge, thus increasing the effectiveness of the budget setting process.

A participative style results in increased motivation among employees, which leads to greater commitment towards achieving budgets. Additionally, we won't face any resistance from our employees as well.

There are also disadvantages under this budgeting style. Mainly this style is much more time-consuming, given complexities in decision making. Further, a participatory style might lead to budgetary slack (also known as budget padding), since lower-level managers would try to set budgets which are easily achievable.

General analysis: When considering the most suitable style, we need to consider both benefits and drawbacks of each and consider Meals@Home's corporate objectives, before the best style is selected.

Relevant Cost Analysis

Relevant costs and revenues are those costs and revenues that change as a direct result of a decision taken. So, the disposal or keep decision of the machines will depend on the costs and revenues which are relevant to that decision. The costs and revenues which are relevant for a decision need to have the following characteristics.

They are future costs and revenues. As it is not possible to change what has happened in the past, then relevant costs and revenues must always be future costs and revenues. Incremental costs are relevant as well. Further, future costs and revenues (to be relevant), must be cash flows arising as a direct consequence of the decision taken. Relevant costs do not include items that do not involve cash flows.

Therefore, we could identify and analyze costs and revenues which are relevant in the decision-making process pertaining to these machines.

Book value and depreciation

The book value of these machines will be identified as a sunk cost, and that would not be relevant for the decision-making process since we have already incurred the cost of the machines at the point of the purchase. Further, the deprecation charge of these machines will not be recognized as a relevant cost, since it does not result in actual cashflows.

The present value and the quotation prices

The present value of future cash flows which arises from the use of the machines will be identified as a relevant cash flow under this decision, since we won't be able to obtain a value of N$ 1,200,000 if we sold our machines to ABC or XYZ. Therefore, this would be a relevant revenue for us.

The prices quoted by ABC and XYZ will also be relevant for us since we won't be able to generate those revenues unless we sell our machines to them. So those would be incremental cash flows that are relevant for the decision-making process.

Evaluation of the decision

According to the information provided in the document, I believe that it is financially beneficial for us to use the machines over its useful period since we could generate an additional positive cash flow of N$ 250,000, considering the best quotation provided by XYZ which is N$ 950,000 after reducing the cost of replacing rewinding shafts.

I hope that this information would satisfy your need. Please contact me if you need any further explanations.

Best Regards,

Finance officer

Section 2

Leasing – IFRS 16 Lease liability

Under IFRS 16 Leases, the lease liability is initially measured at the present value of the lease payments that have not yet been paid. This includes the fixed payments over the lease term and any other amounts expected to be payable such as amounts payable under residual value guarantees, the cost of options to purchase the asset and any termination penalties.

The discount rate used to calculate the present value should be the rate implicit in the lease or if this is not available, the entity's incremental borrowing rate. In this case, therefore, it will initially be measured at the present value of the lease liability of N$ 129,000.

On 31st December 2022, the lease liability will be included in the statement of financial position. The value of the liability will be the initial amount of N$129,000 plus five months' interest from August 2022 to December 2022.

The value of the liability will be split into a current liability, the amount of the liability that is related to the next 12 months, and a non-current liability. In subsequent years, the carrying amount of the lease liability is increased by the interest charge.

Interest is also recorded in the statement of profit or loss. The carrying amount of the lease liability is reduced by cash repayments each year of N$ 47,000.

The right-of-use asset

Under IFRS 16 Leases, the right-of-use asset is initially recognized at cost. The initial cost of the right-of-use asset comprises of the amount of the initial measurement of the lease liability; lease payments made at or before the commencement date; any initial direct costs and the estimated costs of removing or dismantling the asset.

The right-of-use asset will therefore be initially recorded at the present value of the lease payments of N$ 129,000 plus the lease payment made in advance of N$ 47,000 plus the lease arrangement fee of N$ 10,000. In the financial statements as of 31st December 2022, the value of the right of use asset will be measured at its initial cost less accumulated depreciation and impairment losses.

In this case, as ownership does not transfer to the lessee (Meals@Home), depreciation will be charged to the statement of profit or loss over the shorter of the useful life and the lease term.

This is therefore the lease term of five years. The depreciation charge for the first year will be for five months from August to December 2022 and will therefore be: ((N$ 129,000 + N$ 47,000 + N$ 10,000) / 5) * (5/12)). In subsequent years, the depreciation charge will be: (N$ 129,000 + N$ 47,000 + N$ 10,000) / 5, which will be deducted from the carrying amount of the right-of-use asset.

The benefits of using a digital costing system for our business

How a digital costing system would improve costing

A digital costing system involves linking our own digital systems with those of our suppliers, customers, and the market. In a digital costing system, data is gathered to give up-to date cost information which reflects current information.

Benefits of more accurate costings

Sourcing suppliers could be improved because we will be able to identify the best price or best lead times available by linking our production and packaging systems with the relevant supplier systems.

Further, digital costing can be implemented throughout our main sales channels such online and app-based sales. This enables the organization to keep record of any changes in prices of raw material supplies which could directly impact the selling prices of meal-kits, regardless of the platform they sell. Some digital costing systems can even make intelligent suggestions for supply options using artificial intelligence.

Standards can be regularly updated. By using a digital costing system, costing standards can be updated real-time (that is, reflect ruling market prices and current operating conditions). Knowing these up-to-date standards, managers will be aware of the current environment and should act accordingly in terms of operating decisions.

As a result of the standards being real time, there should be no planning variances. Any operational variances will arise because managers are not acting in accordance with the current environment. We can then hold managers accountable for performance against up-to-date standards.

In addition, it will allow us to better understand the factors or activities that drive costs, particularly overhead costs. The system will give us information that allows us to see where costs are being incurred, and where focus should be directed in managing cost.

A digital costing system would also give us better information to allow us to use dynamic pricing for our products so that we can change prices as soon as costs change or when markets change.

Key performance indicators

Sales volume growth: this can be calculated by comparing this month’s sales volume with last month’s or in later periods with the same period of the previous year. As market growth has slowed down, it is important to measure our sales growth and compare it to the market growth rate.

If our growth rate is lower than the market growth rate, then our market share will also be falling. Any fall in sales volume growth would trigger the need for an investigation to establish the reasons for the reduction.

Conversion rate: the conversion rate, measured as a percentage, is the rate at which our website customers are converting (or buying). This is calculated by dividing the total number of visitors (to the site, page, category, or selection of pages) by the total number of conversions. The number of customers visiting the specific pages of the website will indicates the level of interest in each product category, but it is essential that we are able to convert these potential customers into buyers.

A low conversion rate could indicate the need to make changes to our website to provide more product details to customers. A falling conversion rate could indicate that our prices are uncompetitive and that potential customers are purchasing from our competitors.

Shopping cart abandonment rate: the shopping cart abandonment rate will tell us how many users are adding products to their shopping cart but not checking out. It can be calculated as number of shoppers abandoning the shopping cart divided by number of shoppers adding products to the shopping cart. The lower this number, the better.

If the cart abandonment rate is high, this may indicate that there is too much friction in the checkout process or that potential buyers are not convinced about whether to go ahead with the purchase. It would suggest that either we need to make changes to the checkout process or provide further product details or carry out marketing to convince customers to make the purchase.

I hope that this information would satisfy your need. Please contact me if you need any further explanations.