TCS
Online

Mini Mock – Suggested Answers

Operational Case Study – November 2021 / February 2022

Section 1

<u>The stages which need to follow on our training and development program</u>

Under the training and development plan, we could follow the following steps to establish training sessions for our retail store employees.

Identifying training & development needs

Under this stage, we need to identify the training and development needs of the employees. Since we are focusing on retail store 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 the outlets. 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, the division of responsibilities.

Delivering & implementing the training & development

The executing or delivery process will include the combinations of formal, informal, internal, external training methods which are going to be used as planned. During the whole process, we need to examine 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 retail store staff members.

Evaluation of budgeting styles

Budgeting refers to the process of developing a quantitative plan for the future. 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 for 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 the top- level managers.

The main advantages of this style are 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 the 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 the lower-level employees, we could face resistance when implementing budgets. This could also lead to demotivation among the lower-level employees, as they would feel that their opinions are not considered or valued.

The participative style for budgeting

A participative style would facilitate the 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, 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 also consider TreadCushy'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 delivery vehicles 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 be future costs and revenues.

Further, incremental costs are considered to be 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 vehicles.

Book value and depreciation

The book value of the vehicles 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 vehicles at the point of the purchase. The deprecation 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 vehicles will be identified as a relevant cash flow under this decision, since we won't be able to obtain a value of K$1,200,000 if we sold our vehicle to ABC or XYZ. Therefore, this would be a relevant revenue for us.

The quoted prices of ABC and XYZ will also be relevant for us since we won't be able to get those revenues unless we sell our vehicles 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 given in the document, I believe that it is financially beneficial for us to use the vehicle over its useful period since we could generate an additional positive cash flow of K$ 250,000, considering the best quotation provided by XYZ which is K$950,000 after reducing cost of replacing the gearbox.

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

Best Regards,

Finance officer

Section 2

<u>Capitalization of expenditure on new delivery vehicles: Criteria for capitalization</u>

IAS 16 states that in order to capitalize the expenditure incurred as part of property, plant and equipment (PPE) an asset must have been created. There are two criteria that must be met in order to recognize an asset. Firstly, it is probable that the expenditure will result in future economic benefits to our business and secondly, the expenditure can be reliably measured. Both of these are met since the delivery vehicles will generate future economic benefits in the form of profit and as the expenditure is cash related it can be reliably measured.

IAS 16 further states that the asset must be held for the supply of goods and services and will be held for more than one accounting period. Clearly, the vehicles are to be used for delivery purpose by our company and we intend to keep them for more than a year.

Treatment of items in the schedule

IAS 16 also states that expenditure associated with an item of property, plant and equipment can be capitalized if it is either part of the purchase price (including import duties) or directly attributable to getting the asset ready for its intended use. From the schedule, the purchase price of the vehicles clearly falls into this first category. As TreadCushy is not VAT registered, the purchase price of the vehicles that can be capitalized should be the inclusive of VAT.

The costs that can be said to be directly attributable costs include the building costs required to adjust parking capacity to accommodate the added vehicles and essential modification costs. The building costs are necessary in order to prepare the parking lots to enable the holding of the vehicles. Similarly, some of the vehicles need to be modified before they can be brought into use. Therefore, this cost will be capitalized.

The training costs are unlikely to be incurred in order to get the asset ready for its intended use. The vehicles are likely to be ready for its intended use, even if staff need to be trained to use or maintain them. These costs will therefore be treated as revenue expenditure and charged to profit or loss.

Ongoing costs of maintenance and servicing of vehicles cannot be capitalized as they are not directly attributable to getting the asset ready for its intended use. These costs will be treated as revenue expenditure and charged to profit or loss. Similarly, the interest costs will also not be capitalized as it is merely a cost of financing the asset and therefore, this should also be charged to the profit or loss.

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.

The benefits of more accurate costings

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

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

Standards can be regularly updated. By using a digital costing system, costing standards can be updated to be appropriate for the 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 and any operational variances will arise because the manager is not acting in accordance with the current environment. We can then hold managers accountable for performance against the up-to-date standard.

In addition, it will allow us to better understand the factors or activities that are driving cost, particularly overhead costs. The system will give us information that allows us to see where cost is being incurred and therefore 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 costing changes or the market changes.

KPIs

Online sales growth rate: This can be calculated by comparing this month's shoe sales that were made online with last month's or in later periods with the same period of the previous year. As this is a dynamic market it is important to measure this and compare it to the market growth rate as a whole. If our growth rate is lower than the market growth rate, then our market share will also be falling. Any fall in sales 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. 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 website pages for product information indicates the level of interest in the product, but it is essential that we are able to convert these potential customers into actual customers. A low conversion rate could indicate the need to make changes to our website to provide more details or promotions to customers. A falling conversion rate could indicate that our prices are uncompetitive and that potential customers are diverting towards our competitors or other substitutes.

Bounce rate: The shoe purchasing abandonment rate will tell us how many users have considered or initiated a purchase and then decided not to proceed to checkout. It can be calculated as number of purchasing abandonments divided by number of converted sales. The lower this number, the better. If the bounce rate is high, this may indicate that there is too much 'friction' in the checkout process or that potential customers 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 marketing to convince the customers.

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Best Regards,

Finance officer