Question s1 Chapter 4

Which THREE of the following correctly describe the advantages of organisations using budgets?

- Capacity
- Responsibility
- Understanding
- Motivation
- Performance
- Telling
Question s2 Chapter 4

Brian is the treasury accountant for Chuck Ltd. Brian is concerned that the company’s working capital situation is poor, and is considering implementing more aggressive working capital management policies.

Which of the following is a potential consequence of a more aggressive working capital policy?

- Increased inventory obsolescence
- Increased material costs
- Increased sales from longer credit periods
- Increased bad and doubtful debts
Question s3 Chapter 4

Which of the following correctly describes the scope of Internal Audit departments?

- Acting independently
- Given an opinion on the truth and fairness of the financial statements
- Reporting the effectiveness of risk management procedures
- Reviewing the effectiveness of the audit committee
Question s4 Chapter 4

Which TWO of the following describe the symptoms of fraud?

- Staff morale being low
- Staff not taking holiday
- Domination by powerful staff members
- Complex corporate structures
- Lavish lifestyles of staff, not in keeping with their salary
Question 5 Chapter 4

Molly has worked in the Internal Audit department of Theta plc, a company listed on a major stock exchange for three years. Molly has just heard that her father has been appointed as a non-executive director of the company, and plans to join the audit committee.

Which of the following limitations of Internal Audit arises from the situation described above?

- Threat to independence
- Organisational constraints
- Poorly qualified or experienced staff
- Self-interest threat
Question 6 Chapter 4

In Transaction Cost Theory which of the following is NOT an aspect of the ‘make or buy decision’ per Williamson?

- Uncertainty
- Frequency
- Standardisation
- Asset specificity
**Question s7 Chapter 7**

B plc is considering whether to make or buy a vital component. If B plc wishes to manufacture the component themselves, they will need to build a specialist lathe to machine the part to the specification required.

**Which of the following is most relevant to this ‘make or buy’ decision?**

- Physical asset specificity
- Human asset specificity
- Temporal specificity
- Site specificity
Question s8 Chapter 7

Which of the following is NOT a reason why organisations invest in process designs?

- Increased efficiency
- Increased bureaucracy
- Increased opportunities offered by IT
- Increased competitiveness
Question s9 Chapter 9

Mimi has taken on the lead purchasing role in Renford Ltd, a manufacturer of medical suppliers. In her previous role working for a competitor firm, Blyth Ltd, Mimi was instructed to select buyers based upon best price, and value for money. In her new role Mimi is keen to use single suppliers for core components so that Renford’s products can be designed to best meet the needs of the market.

Which of the following statements is correct?

- In both of Mimi’s roles she favours the collaborative approach
- In her current role Mimi favours a collaborative approach, in her previous role she favoured an adversarial approach
- In her current role Mimi favours an adversarial approach, in her previous role she favoured a collaborative approach
- In both of Mimi’s roles she favours the adversarial approach
Question s10 Chapter 9

The concept of ‘zero defects’ was championed by which of the following writers on quality?

- Cousins
- Juran
- Deming
- Crosby
Question s11 Chapter 10

Which TWO of the following statements about service companies are correct?

- Service companies deliver a transfer of property to their customers
- Service companies have to overcome the issue of homogeneity
- Service companies deliver intangible outputs
- Service companies must overcome the issue of no storage
- Service companies have issues of separation to overcome
Question s12 Chapter 10

Travel, luxuries, home improvements are most likely to be purchased by which segment of the family lifecycle?

- Bachelor
- Full nest (i)
- Full nest (iii)
- Empty nest (i)
Fernando is concerned about the levels of motivation amongst his workforce. Having consulted with some long-serving employees he is thinking of offering his staff the choice of working longer, but fewer days each week.

Which form of flexible working is Fernando considering?

- Flexitime
- Shift system
- Compressed week
- Part-time
Question s14 Chapter 12

Megan works as a research scientist, and during one experiment accidentally created a new form of water-resistant but breathable fabric. Unfortunately, Megan did not grasp the significance of her discovery, so her sample, and the details of her experiment are sitting in her company’s archives.

Which of the following best describes the situation outlined above?

- Megan has created new data
- Megan has created tacit knowledge
- Megan has created information
- Megan has created explicit knowledge
Solutions

Q1

Feedback

The correct answers are: Responsibility, Motivation and Telling.

The CRUMPET acronym is useful for remembering the advantages of the budget process:

- **Co-ordination** – Budgets help managers to organise their departments by ensuring that the work efforts undertaken are consistent in helping the organisation to achieve its objectives.
- **Responsibility** – Budgets provide the organisation’s managers with authority to undertake expenditure in accordance with wider organisational plans.
- **Utilisation** – Budgets help to ensure that managers have better visibility over the resources that they are responsible for using.
- **Motivation** – Budgets, if set appropriately, can have a motivating effect on managers as they may be more inclined to work within the budgets that have been set for them.
- **Planning** – Budgets help to focus the attention of managers as they require them to be forward-looking in terms of how best to use the resources that they have been allocated, considering relevant opportunities and threats.
- **Evaluation** – Budgets provide a helpful point of reference during the process of assessing the performance the manager responsible for that budget.
- **Telling** – Budgets are a useful communication tool as they set out the expectations of the organisation in terms of the level of performance that managers are required to deliver over a period of time.

Q2

Feedback

The correct answer is: Increased material costs.

A more aggressive policy will see payments to suppliers being delayed. This may result in the loss of prompt payment discounts or higher prices.

Aggressive policies will see inventory holdings reduced, so obsolesce should fall. Credit periods to customers will be reduced, potentially reducing sales, and hence bad and doubtful debts should also fall.

Q3

Feedback

The correct answer is: Reviewing the effectiveness of risk management procedures.

Roles that come within the scope of internal audit include:

- Reviewing internal controls, risk management systems and financial reports
- Managing the data used by management to identify risks
- Identifying methods for prioritising and managing risks
- Reporting on how effective risk management controls are
- Prevention and detection of fraud and intentional misstatements in financial statements
Whilst internal auditors should ideally act independently this is not a function of the scope of their work. Opinions on the truth and fairness of the financial statements are given by the external auditors. The audit committee reviews the effectiveness of the IA department.

Q4
Feedback
The correct answers are: Staff not taking holiday, and the lavish lifestyles of staff, not in keeping with their salary.

The symptoms of fraud include:

- Staff not taking leave or holiday – may be a sign that staff do not want others to find out what they have been doing
- Strange transactions – for example, cash payments to staff or transfers to unnamed bank accounts may be a sign that the transaction is fraudulent
- Payments being made out of proportion to work done – this may be a sign of fraud
- Lavish lifestyles of employees – staff living beyond their means may mean they are defrauding the company, or may need to do so in future if their funds run out

Low staff morale, domination by powerful staff members, and complex corporate structures are causes of fraud, rather than symptoms.

Q5
Feedback
The correct answer is: Threat to independence.

As the audit committee oversees the work of the IA department the appointment of Molly’s father will threaten her independence.

Organisational constraints refer to the difficulty in smaller firms in adequately segregated the IA department from other functions. Molly has three years’ experience, and there is no information to cast doubt on her qualifications or experience. The self-interest threat would arise if Molly, or the IA department started to act in their own interests rather than Theta’s.

Q6
The correct answer is: Standardisation.

Williamson (1981) identified three aspects to the make or buy decision:

- Uncertainty – Uncertainty in the business environment makes it difficult to arrange long-term contracts and therefore it is more likely for a process to be undertaken in-house.
- Frequency – Work is more likely to be outsourced if it is infrequent or unlikely to reoccur.
- Asset specificity – Where the assets required are specific to the transaction then the process should be taken on in-house as the corresponding transaction costs will be high.

Whether products are standard or non-standard is a consideration in TCT as it impacts upon transaction costs, however, it is not a specific element of Williamson’s make or buy decision.
Q7
Feedback

The correct answer is: Physical asset specificity.

Physical asset specificity refers to customised assets, or those with limited other uses, and thus have lower alternative use values. This means they are more specific to the task, as in the case of needing to build this lathe.

Human asset specificity refers to workers acquiring knowledge or skills that are specific to their role. This knowledge or skill has a higher value within the activity (and therefore within an organisation) rather than outside it.

Temporal specificity refers to activities involving perishable goods, that are so time specific that an alternative processor is unlikely to be found in time if the current supplier fails.

Site specificity refers to certain sites, such as factories, that are immobile and therefore specific to a certain location.

Q8
Feedback

The correct answer is: Increased bureaucracy.

Process redesign is typically undertaken to reduce bureaucracy. Benefits of more streamlined processes will include increased efficiency, lower costs and increased competitiveness. These process improvements are sometimes made possible by improvements in IT.

Q9
Feedback

The correct answer is: In her current role Mimi favours a collaborative approach, in her previous role she favoured an adversarial approach.

In Mimi’s previous role she focused on price, this is indicative of the adversarial approach. In her current role she is looking to work with suppliers on joint product development which is indicative of a collaborative approach.
Q10
Feedback
The correct answer is: Crosby

Crosby’s introduced the concept of zero defects, arguing that prevention is key – the cost of prevention is usually lower than the cost to fix. He also argued that workers should be involved in quality projects, and should be motivated to do something about quality.

Cousins described the strategic supply wheel. Deming favoured continual improvements via worker engagement and training. Juran drew on the Pareto principle, arguing that 85% of quality issues derive from systems weaknesses rather than worker carelessness.

Q11
Feedback
The correct answers are: Service companies deliver intangible outputs, and Service companies must overcome the issue of no storage.

The specific features of service organisations that marketing departments must pay attention to include:

- Intangible outputs – it is harder to give potential customers assurances over quality. Customer testimonials may be useful for this
- No storage – services cannot be stored, thus meeting customer needs on demand is vitally important. It is better to ‘under sell and over perform’
- Heterogeneity – maintaining consistent service quality is a real challenge in the absence of standardised process that can be employed by manufacturers. Extra care must be taken with training and development.
- Inseparability – as the product cannot be separated from the service delivery it is vital that service quality is maintained at all times
- No transfer of property – as there is nothing for the customer to ‘hold’ it can be hard to sell the benefits of the service they are buying. This can be overcome to a degree by using tools such as certificates or awards.

Q12
Feedback
The correct answer is: Empty nest (i)

Consumers in this group are generally satisfied with their financial situation, and typical purchases made include travel, luxuries, home improvements.
Q13
Feedback
The correct answer is: Compressed week.

Flexibility can be achieved in the following ways:

- Remote working – using the internet to allow employees to work from home
- Flexitime – hourly targets can be achieved in a pattern to suit workers
- Shift system – allowing staff to work outside of the ‘normal’ workday
- Compressed week – working fewer, longer days
- Job sharing – two employees combine to perform a full-time job between them
- Part-time – allowing staff to work a reduced number of hours

Q14
Feedback
The correct answer is: Megan has created tacit knowledge.

Tacit knowledge refers to knowledge that the organisation has, but, is unaware of, or, is unable to use; for instance her new discovery which lies untapped. If this discovery is brought to light, and its significance grasped then it would become a form of explicit knowledge. Data is raw facts and figures, and information is processed, organised data that has some value.