Chapter 12

Management Activity - Controlling

Higher Level

Past Exam notes (For this chapter)

WHAT IS CONTROLLING

CONTROL Def This refers to the monitoring and checking of results to see that they agree with the targets set out in the plan. It is the continuous monitoring to make sure goals and target will be meet. It involves setting targets, measuring the performance against targets set and take and corrective action needed

The principles (Steps) of a good control system

Control involves the following -

1. Setting targets or standards
2. Measuring performance against the targets
3. Compare the performance with the target set and investigating any variance.
4. Correcting problems identify in step 3.

TYPES OF CONTROL

There are 4 different types of control that a company needs to keep a good eye on. These are -

1. Stock
2. Quality
3. Credit
4. Financial

Past Exam Questions
2014 ABQ C

WHAT IS STOCK CONTROL

Past Exam Questions
2022 Q5 B

Stock Control Def This is making sure that the firms have the right quantity and type of goods in stock at the right time without incurring stockholding costs such as insurance, security and rent or

Def It is one of the management activities to make sure that the business doesn't have too much or too little stock but the optimum level of stock.

Buffer stock Def This refers to the minimum level of stock that should be held once stock falls below this level more stock should be ordered.

Optimum stock level Def This is the ideal level of stock that a business should have. It can vary for time to time depending on the busy periods.

Re-order Def This is the level of stock at which a new order for stock should be placed. The lead time should also be taken into consideration.

Economics of Sales This is when a firm benefits form buying raw materials or finished products in bulk. For this they will receive a discount when will reduce the cost of buying the product resulting in more of a profit

METHODS OF STOCK CONTROL

1. *Manual Stock Take*

This is when employees count and record the stock in a business. A Company can use EDI (Electronic Data Interchange) and JIT (Just in Time) to help with this.

2. *Electronic Data Interchange*

The is when computers communicate with each other using special software – one in the business and one in the suppliers. It prevents the need for human involvement as all orders, invoices and payment are completes electronically one the software it set up.

Benefits of EDI

1. Reordering of stock is quicker.
2. Lower wage costs
3. Lead time are easier managed.

3. Just In Time (JIT)

Just in Time Def This is a type of stock control system in which stocks of raw materials or finished products are delivered when they are just needed and no sooner.

Lead Time Def Lead time is the amount of time it takes a supplier to fulfil an order

The main features of a JIT system include the following.

1. The business should never run out of stock, and they receive regular deliveries making sure to have the minimum number of materials and products
2. The business uses the same suppliers, so they know the quality of the product they are getting and build up s strong relationship with the suppliers.
3. Goods are finished JIT to deliver to the customer so there is no holding of stock.

4. This can help reduce the business expenses such as Security, Rent and Insurance
5. This system must be planned very carefully because if it doesn't run to the plan disruptions can be very costly – not meeting deadlines

Brexit will have an impact on this is companies are imports goods and raw material from England. This will be due to check s and ports which may lead to a delay in the company receiving what they have ordered.

EFFECTIVE STOCK CONTROL

Stock control is important for a business as it means that it has the right amount of stock – not too much or too little (Optimum level). This makes sue that the business has the right amount of stock in the right place at the right time.

The following are some of the advantages of having too much stock or too little stock

Having too much stock can lead too	Having to little stock can lad too
1. Lower Profits (Increased expenses)	1. Loss of sales (go somewhere else)
2. Stock becoming obsolete (out of Date)	2. Loss of economics of Scale
3. Theft (opportunity to take stock)	3. Increase expenses (Storage, Insurance)
4. Cash tied up in stock	4. Delays (Not meeting orders)

BENEFITS OF STOCK CONTROL

1. Ensures adequate stock levels to satisfy customer demand thus avoiding potential loss of sales
2. Minimises storage costs, while making effective use of storage space available
3. Identifies slow moving stock.
4. Reduces risk of stock going out of date/becoming obsolete/goods being damaged/stolen
5. Aids working capital management – less money tied up in stock
6. Reduces insurance costs.

WHAT IS QUALITY CONTROL

Quality Control Def This Means that the quality standards expected by customers are meet.

Past Exam Questions
2022 Q5 B

Quality control is important for a business and if done correctly it can lead to the following -

1. Reduce waste and costs.
2. Increase customer satisfaction.
3. Help promote a quality image.
4. Meet legal responsibilities.

BENEFITS OF A QUALITY MARK

Benefits to a business of achieving a recognised quality standard/mark.

Past Exam Questions
2016 Q5 C (ii)

1. Products have met industry standards - Quality symbols (i.e. Q mark) show consumers that a product can be trusted – quality has been approved –which should result in increased customer loyalty/satisfaction.
2. Used as a marketing tool - Can be used as a marketing tool to gain a competitive advantage, increase sales or gain sales from competitors.
3. International Recognition - Allows business to export more easily – quality symbols such as ISO 9001 are internationally recognised and can improved a business reputation.
4. Charge a higher price - By becoming associated with a high level of quality a business may be able to charge a higher price for its products leading to higher profits.
5. Cost savings – due to less wastage and mistakes happening.
6. Competitive advantage - May ensure repeat sales of products/source of competitive advantage.
7. Better motivated employees/Job satisfaction.

QUALITY CAN BE ACHIEVED BY

Quality control can be achieved by

1. Regular inspections of goods (random sampling, 100% sampling, Continuous Sampling)
2. Recruiting and training

3. Facilitating teamwork
4. Quality circles

Quality Circles Def These are discussion groups made up of employees who meet regularly to discuss and resolve quality issues.

For Examples, ISO (International Standards Office) 9000 and the Q marks

QUALITY ASSURANCE AS PART OF TQM

Past Exam Questions
2016 Q5 C (i)

1. Quality Assurance is a system that guarantees customers that detailed systems are in place to govern quality at every stage in production from design right through sales
2. It refers to the maintenance of a desired level of quality in a service or a product, by means of attention to every stage of the process of delivery or production.

WHAT IS CREDIT CONTROL

Credit Def This Credit means selling goods now but being paid form them later.

Credit control Def This tries to minimum the risk of bad debts form customers who can't pay. It means monitoring which customer are given credit and for how long.

Credit Controller Def This is the person responsible for managing credit given to debtors and collecting payment on time.

Bad Debts Def These are the customers who bought on credit but and not able to pay their bill. They may be bankrupt.

PREVENTING BAD DEBTS

Past Exam Questions
2022 Short Question 11

Managing credit is important for a business and if it is done correctly it can lead to a business having more money and better cash flow.

The following can be used to improve the credit control in a company and prevent bad debts

1. Assess Credit History / Credit Worthiness - The credit worthiness of potential customers is checked in advance, e.g. asking for bank references, trade references, credit bureau, Stubbs Gazette (a magazine that has a list of people who have not paid back a debt)

2. Credit Limits - Set appropriate credit limits and credit periods. Draw up clear terms and conditions – This means controlling the amount of credit and ensuring that payments are made on time.
3. Discounts - Offer incentives such as a cash discount for early or prompt payment.
4. Penalty Policy – This could be used for late payments/partial payments: agreeing on penalties for late payments and implementing them, e.g. charging interest on overdue accounts.
5. Issue invoices in an efficient manner - Have an efficient administrative system where invoicing, payment demands and follow up phone calls and visits occur promptly to ensure payment.
6. No credit sales/cash sales only - Adopt a cash sale only policy with certain customers

Benefits of Credit Control

1. Firm controls amount of goods sold on credit
2. Firm controls to whom goods are sold on credit – credit worthiness of potential customers is checked
3. Debtors pay debts on time x Reduces risk of bad debts
4. Reduces cost of credit e.g. interest/administration
5. Assists Cash Flow Management

WHAT IS FINANICAL CONTROL

Financial Control Def This is used to monitor the financial affairs of the business to ensure it is profitable and always has enough money to pay its bills.

The lack of this, results in companies not being able to pay their debts or get finance thus going out of business. Good financial control can be achieved by

1. Cash flow budgets – monitor income and expenses.
2. Ration analysis – monitor financial performances.
3. Cost control – cost do not rise above a certain level.
4. Break even analysis – The min level of sales to make a profit.

BENEFITS OF FINANICAL CONTROL

1. Timing and amount of Cash Inflows/Revenues
2. Timing and amount of Cash Outflows/Expenses
3. Periods where there may be a net Cash Outflow
4. This information highlights potential cash flow problems,
5. thereby assisting management to plan, control and make decisions in relation to the financial management of the business.

WHY IS CONTROL IMPORTANT TO MANAGEMENT?

Control is important to managers because:

1. **Correction:** A good control system allows management to detect and correct problems before they get out of control. If Barings Bank had better control systems; Nick Leeson would not have been able to bankrupt the company.
2. **Quality:** The control system will ensure service to the customer's remains at the highest level. This may be achieved by creating a total quality management system in the organisation and by the introduction of quality awards.
3. **Efficiency:** Waste is reduced in all areas of the organisation when corrective action is prompt.
4. **Profits:** Profits should increase due to a reduction in costs associated with waste and defective products. Sales revenue may increase due to the ability to charge a premium price for a high-quality product.
5. **Keeps bad debts to a minimum.**
6. **Control:** It controls and reduce waste and identifies is they are on target or deviating from the plans. The tighter the control the less likely there is for serious errors.

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Past Exam Questions (For this chapter)

SHORT QUESTION

2023 – Question 2

In the context of business, what do the following letters stand for ?

Write each answer in the space provided

TQM	
ISME	
JIT	
EDI	
ROI	

2022 – Question 10

Outline two ways to minimise bad debts for a business.

(i)
(ii)

2020 - Question 7

Write True or False after each of the following statements.

	Statements	Ture or False
1	Electronic Data Interchange (EDI) involves a business exchanging its customer's data with other business	
2	Just in Time (JIT) production allows manufacturing business to reduce costs by keeping stock of raw materials to a minimum	
3	Lead time is the amount of time it takes a supplier to fulfil an order	
4	Economics of scale increase costs when a business buys large quantities of raw materials in bulk at a discount	
5	Optimum stock levels is the ideal amount of stock a business should have at any given time	

2017 – Question 6

Outline two methods a business may use to minimise bad debts.

(i)
(ii)

LONG QUESTIONS

2022 – Question 5

M6 Motors

Alna Naughton is an entrepreneur who set up M^ Motors in 2011. The business is now one of the leading car sourcing companies sin Ireland. As the business grew Alan expanded his workforce. The company specialised in high specification cars at competitive prices.

(B) Discuss how stock control and quality control achieve efficiencies for a business such as M6 Motors. (20)

2016 - Question 5

(C) (i) Explain the term quality assurance as part of Total Quality Management (TQM).

(ii) Describe the benefits to a business of achieving a recognised quality mark standard. (20)

2014 – ABQ

(C) Evaluate the effectiveness of the systems of management control in operation at Atlantic Surf. (30)

2020 – Question 4

Read the information supplied and answer the questions which follow.

Good4U

Good4U is a family run health snacks business based in Sligo. In 2004 the business's original pro duct was a sprouted seed. The Good4U goal was to become a market leader in the healthy snack s industry. The business now has over 40 products, including seed snacks and energy balls. Goo d4U recently launched a new salad topper range.

(B) (i) Illustrate, by means of a diagram, a functional organisational structure for a manufacturing business such as Good4U

(ii) Outline the benefits of a functional organisational structure. (20)

2016 – Question 4

(C) Discuss the benefits and challenges for a business of developing a matrix organisation structure (team structure) to complete specific projects in a business. (20)

2015 – Question 4

(B) Outline the benefits to a business of a functional organisational structure. (15)

2013 – Question 4

(B) Outline the benefits and challenges for EducaPrint Ltd of a matrix organisation structure (team structure) for the development of the eBook products. (20)