Management Activities - Control

1 (2020)

Question			Possible Responses	Max Mark
7.			Write **True** or **False** after **each** of the following statements. 1. False 2. True 3. True 4. False or True 5. True	3,2,2,2,1

2 (2017)

			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. **Credit Limits** Set appropriate credit limits and credit periods: Draw up clear terms and conditions controlling the amount of credit and ensuring that payments are made on time. **Discounts** Offer incentives such as a cash discount for early or prompt payment. **Penalty** Policy for late payments/partial payments: agreeing on penalties for late payments and implementing them, e.g. charging interest on overdue accounts. **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. **No credit sales/cash sales only** Adopt a cash sales only policy with certain customers etc.	

C			Evaluate the effectiveness of the systems of management control in operation at *Atlantic Surf.* **Stock Control** Stock Control is concerned with keeping optimum stock levels so that *Atlantic Surf* doesn't have too much stock or too little stock. Effective stock control means that you have the optimum level of stock/adequate stocks in your business to meet the needs of your consumers, while at the same time keeping them to a minimum. Optimum stock levels leads to efficiencies because you have the right stock, in the right place, at the right time to meet production requirements and satisfy consumer demand. Stock control can achieve efficiencies by eliminating the costs associated with carrying too much or too little stock i.e. high storage and administration costs resulting from too much stock and production stoppages due to a lack of raw materials and components for production, and lost sales orders because of a lack of finished goods for sale. **Link** "While very pleased with the high stock turnover of the *Atlantic Surf* branded beach clothing......" **OR** "She had some concerns because the annual stock take revealed a high level of kite surfing equipment still unsold." **Evaluation required** **Quality Control** Quality control is concerned with checking/reviewing/inspecting work done to ensure it meets the required quality standards of the business. It could involve physical inspections, quality circles etc. As part of a quality control system Atlantic Surf may achieve a quality control symbol such as an ISO 9000 award. This symbol may be recognised worldwide and would be of major benefit to *Atlantic Surf* in marketing its products internationally.	30

Effective Quality control leads to efficiencies in business because consistently high quality products are being sold, resulting in repeat purchasing, consumer loyalty and the ability to charge higher prices.

Link:
"The shop sells high quality stock including wetsuits, surfboards, kite surfing equipment and *Atlantic Surf* branded beach clothing."

OR

Link:
"Karen believes quality development is key to business success and she is hoping to apply for Quality Standard Certification in the near future."

Evaluation required

Credit Control
Credit Control means controlling the amount of credit given to customers and the payment period given to customers. Good credit control ensures that payments are made in full and on time. It involves checking credit worthiness of customers, setting credit limit, credit periods and deciding on penalties for late payments. It seeks to minimise bad debts.

Link
"From the beginning Karen adopted a cash sales only policy with customers."

Evaluation required

Financial Control/Budgetary Control
The aim of financial control is to ensure overall business profitability and liquidity (ability to pay bills due). Financial control involves preparing Cash Flow budgets, ratio analysis, and employing cost control measures (e.g. utilities, wages etc). These can provide an early warning of possible financial problems.

Link
"To assist with cash flow, Karen decided to use the website to highlight offers such as '6 surfing lessons for the price of 5' if payment is made in advance."

OR

Link
"She negotiated a 30 day credit period…"

Evaluation required

(B) **Discuss <u>three</u> types of management control that you would recommend Liam put in place to secure the future of (RES) Ltd.**

(i) Stock Control

This is the monitoring of stock levels to ensure that there is enough stock to meet demand while keeping stock holding costs to a minimum. Establishing the optimum stock level reduces the costs associated with being over-stocked or under-stocked.

<u>Benefits of effective stock control</u>

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

Link to Text

Rising stock levels in the warehouse are also causing problems.

(ii) Quality Control

This is the process of checking the quality standard of the goods or services provided by a business to ensure they are up to required standards/meet expectations of the market. The quality of the goods and services provided is fundamental to the business reputation. Poor quality goods and services will result in loss of customers and sales.

<u>Benefits of Quality Control</u>

- Consistent quality – enhances the reputation of the business, helps maintain customers and wins new customers
- Reduces costs associated with faulty goods e.g. returns, refunds, court cases, damage to reputation of business, loss of customers etc.

Link to Text
A number of customers have recently returned solar panels, as a result of damage caused while in storage in the warehouse or in transit.

(iii) Credit Control

Cash flow is critical for business success. Credit control monitors:

- Debtors receiving credit/setting of credit limits
- Period of credit given
- Payments received on accounts of debtors

It involves checking credit worthiness of customers, setting credit limits and periods, deciding penalties for late payments in an effort to avoid or minimise bad debts. Goods are sold on credit and payment is not made until a future date. A trade debtor is created, leading to the possible risk of bad debts. The business will incur costs in the administration of credit accounts e.g. invoices, credit notes etc. Cash flow/liquidity will be adversely affected where credit control is not strictly monitored.

<u>Benefits of Credit Control</u>

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

Link to Text
Cash flow is tight and Liam is particularly concerned by the fact that two of his largest customers have not paid their bills on time.

(iv) Financial Control/Budgetary Control

The preparation of budgets is critical to both effective cost control and to financial planning. The preparation of a cash budget identifies:

- Timing and amount of Cash Inflows/Revenues
- Timing and amount of Cash Outflows/Expenses
- Periods where there may be a net Cash Outflow

This information highlights potential cash flow problems, thereby assisting management to plan, control and make decisions in relation to the financial management of the business.

Link to Text

Cash flow is tight.

In addition, the company is finding it difficult to raise short- term finance due to the current credit squeeze.

5 (2006)

(A) Management activities (discuss)

Planning involves selecting organisational goals or objectives and seeking out ways to achieve them. Plans reduce risk and uncertainty and give an organisation purpose and direction. These may include:

- Mission Statement
- Strategic plans
- Tactical plans, etc.

Possible links to text include:

Ruth's aim is to become a market leader

Market share and turnover low - penetrate the market by a further 50% within next five years

Organising involves getting things done through some form of organised structure so that a business, with its activities coordinated, has the best chance of reaching its objectives.

Possible structures are line organisation, line and staff organisation and matrix structure.

Possible links to text could include:

Introduce clearly defined lines of responsibility for staff in the areas of purchasing, sales/marketing

Retraining programme for existing staff

Controlling involves measuring the deviations from planned performance and taking action to correct them.

Elements in a business requiring control include:
Quality control, Stock (Inventory) control, Credit control, Budgetary control.

Possible links to text could include:

Expertise of staff – quality, stock, credit, budget

Rewards for achieving targets

6 (2001)

Section 2. Applied Business Question (ABQ) - 80 marks

(a) Two areas of control 2 at 15. (5 + 5 + 5) Reason plus **Illustration from text of the ABQ**

(b) Strategies for Change. 3 at 10 marks. (5+5) **Related to the text of the ABQ**

(c) Future of the enterprise
2 points at 10 marks each. (5+5) **Must have reference to text of ABQ**

(C)	**(i) Explain the term quality assurance as part of Total Quality Management (TQM).** 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/ 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. **(ii) Describe the benefits to a business of achieving a recognised quality standard/mark.** Quality symbols (i.e. Q mark) show consumers that a product can be trusted – quality has been approved – **products have met industry standards** which should result in increased customer loyalty/satisfaction. Can be used as a **marketing tool** to gain a competitive advantage/ increase sales/gain sales from competitors. Allows business to export more easily – quality symbols such as ISO9001 are **internationally recognised**/ improved reputation. 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. **Cost savings**-less wastage/mistakes. May ensure repeat sales of products/**source of competitive advantage.** **Better motivated employees/Job satisfaction**.	**20 marks (5m+15m)**

(C) Stock Control (evaluation /examples required):
This is the monitoring of stock levels to ensure that there is enough stock to meet demand while keeping costs to a minimum/stocks are at optimum levels. Every business should carry the minimum amount of stock.
Benefits:

- The firm will not lose sales.
- It will also help future sales and profits.
- The firm will not be under utilising storage space.
- Money (Cash) will not be tied up in having too much stock
- No Shortages of raw materials for production.
- The firm will identify which goods are selling, which goods are subject to deterioration, obsolescence and shrinkage (theft).
- Less insurance costs

Credit Control (evaluation /examples required)
Means controlling the amount of credit, the payment period given to customers and ensuring that payments are made on time. It involves checking credit worthiness of customers, setting credit limits and periods, deciding penalties for late payments, reducing bad debts. Goods are sold and payment is not made until some time into the future. A trade debtor is created, leading to possible risk of bad debts. There will be an increase in administrative expenses to the business eg. invoices, credit notes, etc.
There will be shortages of cash because the business is not getting paid by customers on time.
Benefits:

- Firm controls the amount of goods sold on credit.
- Debtors pay debts on time.
- Bad debts are kept to a minimum.
- The credit worthiness of potential customers is checked in advance.
- Good credit control will ensure that maximum cash is collected from debtors.
- Firms will not have to relay on bank overdrafts to deal with cash shortages.