

Budget information
problem based in
metroline travel
engineering
accounting essay...



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This report outlines a budget information problem based in Metroline Travel engineering and logistical function. The report also presents a discussion and analysis of a budget information problem with reference to the problem solving frame work.

The project also includes the 4 P's within the marketing mix, limitations of incremental budgeting, 10 criteria which are proposed for good-quality information and a financial analysis of the logistical function overtime cost.

These analyses are necessary for competent decision-making. In addition, the report concludes with an investigative examination of these problems and plausible recommendations to address the company's deficiencies. Also noteworthy, advantages and disadvantages using the SMART framework with recommendations and implications will also be outlined.

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B629/BZX629 Managing 2: Marketing and Finance 1

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TMA Part 1

Introduction

As senior material manager in a public bus company called Metroline Travel. A subsidiary company owned by the Singapore based ComfortDelGro Corporation. See Appendix for profit and loss account and other related financial information as of 31st march 2010. The world's second largest listed land transport company. The senior material manager supervises a team of 15 material support managers across London. These personnel are the logistical team and their core responsibilities are the supply, storage and procurement of parts to engineering (core activity). The logistical hierarchy is illustrated in figure 1.

Figure 1 Metroline Organisational Structure (Logistical Department)

Stakeholder Analysis

Stakeholder analysis is a useful technique used to identify the key people within the logistical function framework. These key personnel are very important to the organizational structure because they have tremendous power and influence which affects the performance and future resource planning allocated from senior management. “ Managers should consider the organisation’s responsibilities and commitment to all its stakeholders”. (Understanding marketing and financial information, P. 196) According to Mendelow’s matrix these can be grouped into to 4 categories which are illustrated figure 2 in Metroline Travel below:

Figure 2 Mendelow’s matrix

High

Low

C- Keep Satisfied

D- Key Players

A- Minimal Effort

B-Keep Informed

Low

HighPower

Level of Interest

A- Drivers

B- Operation, Suppliers

C- Finance department

D- Engineering (Core Activity)

Assumptions

To make the problem more bounded:

Material managers have complete autonomy over their overtime

Material manager received invoices on a Friday in May, June and July

Budgets are formed outside the control of the logistical function

Cost can be divided in to fixed and variable cost

The material manager's are constraint to 19 hours per week overtime

(limiting factor) in line with the EU working time directive

Problem Statement

Budgets are used for detailed planning in the allocation of resources in a business. This information is important to management and stakeholders alike in assessing the activities and performance of an organisation, illustrated in Figure 3. The logistical function overtime budget is based on an incremental budgeting principle with an absorption costing approach for allocating cost per material managers.

The incremental budgeting principle is based on 9% of their base salary plus current inflation. However, the material manger's overtime for May, June and July allowance were over budgeted which would affect workers' long term motivational level working on a weekend. This over-budget affects the

controlling, planning and decision-making of its activities. This overtime process is very important in maintaining a reliable service to engineering.

Figure 3 Information direction

Senior material support manager

Material mangers

Engineering

The value chain consists of a series of activities that create and builds significance in maintaining a bus. “ An organisation can consider the activities in its value chain and assess if they are value added activities or non-value added activities”. (Understanding marketing and financial information, P. 190) This is illustrated in figure 4.

Figure 4 Internal Engineering Value Chain Analysis

EQUIPMENT

ENVIRONMENT

OTHER

OTHER

INPUT

MACHINERY

OUTPUT

TOOLS

QUALITY CHECKS

REPAIR REPORT

ENGINEERS

BUS REPAIR

MANAGEMENT

PARTS

GARAGE

OVERTIME

OTHER

MATERIAL MANAGERS

OTHER

PROCESS

PEOPLE

As their line manager; I was tasked by the head of purchasing and logistics to investigate and place corrective actions to bring this over budgeting back under control. This over- budget is illustrated in figure 5.

Figure 5. Material Managers Overtime budget as of the 31 July 2010

MONTHS

January

February

March

April

May

June

July

USER

Material manager 1

£800

£900

£100

£100

£445

£520

£549

Material manager 2

£0

£220

£200

£220

£458

£612

£323

Material manager 3

£0

£100

£500

£461

£552

£144

£66

Material manager 4

£0

£50

£100

£110

£100

£222

£366

Material manager 5

£0

£60

£631

£100

£223

£141

£316

Material manager 6

£200

£100

£211

£250

£300

£44

£342

Material manager 7

£0

£600

£0

£54

£642

£335

£559

Material manager 8

£102

£0

£200

£0

£452

£500

£445

Material manager 9

£200

£0

£130

£0

£452

£900

£498

Material manager 10

£500

£0

£45

£0

£100

£626

£613

Material manager 11

£100

£200

£115

£225

£100

£225

£889

Material manager 12

£0

£200

£25

£445

£252

£225

£789

Material manager 13

£200

£0

£255

£235

£231

£995

£145

Material manager 14

£0

£120

£22

£122

£85

£452

£445

Material manager 15

£0

£100

£12

£144

£200

£100

£112

Total =

£2, 102

£2, 650

£2, 546

£2, 466

£4, 592

£6, 041

£6, 457

Budget

£4, 000

£4, 000

£4, 000

£4, 000

£4, 000

£4, 000

£4, 000

Cost variance

£1, 898

£1, 350

£1, 454

£1, 534

-£592

-£2, 041

-£2, 457

adverse

adverse

adverse

Total Budget- £48, 000

Monthly allowance £4, 000

Daily rate- £12. 60

Weekend rate- £20. 23

Analysis

Market segmentation is an important marketing task described by Bonomo and Shapiro (1983), cited by Sargeant (2009). It has a number of advantages which can be used to identify existing and potential customers. By placing customers into different groups by successful targeting their needs and managing their expectations.

Figure 5. Organisational market segmentation criteria (Operating variables)

Engineering (core activity) Heavy user

Suppliers Medium user

Finance department

Medium user

OTHER

Light users

After speaking with the material managers and investigating their overtime sheets for the months for May, June and July submitted to payrolls. “ The investigation using; the problem solving framework” (The Manager’s Good Study Guide, PG 69). I found that the material managers were working more on a weekend to incur the over budget this is illustrated in figure 6 in appendix, which the daily rate is £12. 60 while the weekend rate is £20. 23 “ The budgeting system can seriously influence the level of motivation and culture of an organisation, because budgets play a central role in” (Understanding marketing and financial information, P. 155).

This was because of an increase of activity; 40 plus financial invoices received from the finance department over May, June and July were received on a Friday and could not be completed that day because of day to day activities. These invoices needed to be resolved as soon as possible and took some time to process on the data base system for payment for the following week from finance illustrated in figure 7 . In addition, the limitation of the incremental budgeting, this budgeting type has inefficiencies and imperfections which were not noticed, until the increase of activity.

Figure 7 total financial invoice hours to completion

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Using the 4 P's-

Price- Was the increase in the usage of overtime to complete the receipt of engineering invoices which will affect the material manager's long term motivation coming into work " allocating resources and imposing constraints on activity" (Understanding marketing and financial information, P. 155).

Product- Was the volumes and frequency of the engineering invoices given on a Friday " identifying those areas that require corrective action" (Understanding marketing and financial information, P. 155).

Promotion- The finance manager; a senior manager requesting this activity be completed as soon as possible " assessing how well managers have carried out their responsibilities" (Understanding marketing and financial information, P. 155).

Place- Is material manager's working location " assessing how well managers have carried out their responsibilities" (Understanding marketing and financial information, P. 155).

Budgeting is needed to provide managers at different levels with useful information to keep on the right road. This is illustrated in 11. 2 the pyramid of purpose. This information is received for decision making.

Corporate level- Provide a bus service to Transport for London

Material manager overtime

Support engineering

Provide a bus service to Transport for London

Provide parts and technical information

Business level- Support engineering

Operational level-Provide parts and technical information

Operating Level-Material manager daily overtime

Analysis of information criteria not being met

There are 10 criteria which are proposed for good-quality information for decision-making; this is illustrated in figure 8. However the material manager's overtime sheets were being sent directly to payroll, which added to the budget information problem.

1 Relevant- Their line manager had no knowledge of Material manager's overtime

7 Timely- No Knowledge of Material managers overtime being over budget until at the end of the month

8 Communicated to the right person- Overtime sheets were sent directly to payrolls

Figure 8 10 criteria which are propose for good-quality information for decision-making

10

Less costly than the value of the benefits it provides

9 Communicated via the right channel

8 Communicated to the right person

7

Timely

6

Concise

5

Trustworthy

4

Complete

3

Sufficiently accurate

2

Clear

1

Relevant

Good-quality information for decision-making

Analysis of the absorption costing approach

From the cost analysis, the logistical function has a total budget figure of £48, 000. This is calculated by applying the normal budgeted hourly rate

of £12. 60 which is the budgeted man (direct labour) hours per manager according to normal capacity illustrated in figure 9, by the using the incremental budgeting principle.

Figure 9 cost assignment is both

Indirect cost- variable

Overtime brought on by finance invoices

Cost object

Bus repair

Direct cost- fixed

Weekly overtime to provide parts and technical information to engineering

The indirect and direct costs are equally distributed illustrated in figure 10, using the absorption costing approach which all cost is allocated to the main budget. This prevents monitoring of actual hours against the actual spend within the budget. The resulting variances should have enabled the logistical function to monitor the productivity and efficiency of all the managers.

Hopefully, you can then see if there is a pattern or a reason for persistent adverse variance. The analysis will provide you with some clues about incentivize or modify such behaviour via the budget building process.

Figure 10 Relationship between costs

Direct cost**Variable cost****Overtime brought on by finance invoices £20. 23****Fixed cost****Weekly overtime to technical information to engineering
£12. 60****Indirect cost**

Break-even analysis

Break-even analysis identifies the level of activity and risk at which an organisation can generate no surplus or deficit. In the case of an over-budgeting issue; it relates to the point where the logistical function is in budget and will not be penalized for being over spent illustrated in figure 11.

Total January

February

March

April

May**June****July**

£2, 102

£2, 650

£2, 546

£2, 466

£4, 592

£6, 041

£6, 457

Over BudgetNet Total = £26, 854

Total Budget-£ 48, 000

Monthly allowance £4, 000

= £48000-£26, 854 = £21, 146

21, 146(Fixed cost)/ 6 months = £3, 524 per month in overtime remaining

£3, 524/ 15 material managers= £234. 93 per manager

Direct cost £234. 93/ £12. 60 = 18. 64(Contribution) weekly hours per month

or

Indirect cost £234. 93/ £20. 23 = 11. 61(Contribution) weekend hours per month

Figure 11 Break-even analysis

Conclusion

From the analysis, there is a clear budget information problem within the logistical function; the problem solving frame work has identified several

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problem areas. By Using the 4 P's to illustrate Material managers working more on a weekend which has a higher premium rate than daily working. The limitations of the incremental budgeting; as an effective forecasting tool. 10 criteria; which are essential for good-quality information for decision-making. In which 3 criteria are not being met. In addition, not identifying true cost drivers within the budget. In which material managers that are working more on a weekend are not identified. These factors combined have affected the logistical function staying within their overtime budget.

Recommendation

Budgeting is part of the control process in organisations: the “ control loop” (Understanding marketing and financial information, P. 134). The setting objectives, planning and implementing tasks, monitoring progress, reviewing results and adjusting tasks are crucial in staying and planning budgets illustrated in figure 12. Based on the investigative examination and analysis of the problems; these recommendations should improve the over- budget situation and return productivity.

Figure 12 recommendations within the budget control loop

Check against overtime sheets past weeks

If not working- restart from the begin of the loop

Operational level

Provide parts and technical information

Use recommendation outlined in action plan to control material manger overtime budget- budget building process

Using the “ SMART” framework from (Understanding marketing and financial information, Pg 122) the action plan will be outlined as the following

Recommendation

Timeline

Strengths

Weaknesses

Opportunities

Threats

(Price)

Material manager weekly overtime sheets sent to senior material manager

1 week to start

Giving back control to the line manager by improving the Relevant,

Communicated to the right person and Timely elements of information

Increase of Senior material manager workload

To start a new process, which can be adapted throughout the company and monitor usage for next year budget review

Material managers might feel disempowered which might affect their motivation

(Place)

Weekend overtime needs pre-approval

1 week to start

Giving back control to line manager by improving the control element of the budgeting loop. In addition the material having to work on a weekend might increase their morale

Increase of Senior material manager workload

To start a new process, which can be adapted throughout the company and monitor usage for efficiency of material managers

Identification of cost drivers

Control of weekend working (indirect labour)

Material managers might feel disempowered which might affect their motivation

(Product) + Promotion

Finance manager giving the invoices on a Monday instead of a Friday

2 weeks to start

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Spread the work load of the material manager

Direct labour cost

Increase of material managers weekly workload

Weekend overtime can be used to complete other essential engineering task

Build up of daily work that carried over from day to day

Rolling budgets

Next financial year

Flexibility is built into the budgeting system to deal with any changes arising from day to day activities

Updated much more frequently increasing work load

It encourage a high level of learning and flexibility

Rolling budget can be expensive in terms of management and administrating time. Which might affect management morale and less time to manage

Activity based costing

Next financial year

Understand what and where is driving costs

Very time consuming, checking each material managers overtime sheet for cost drivers

Understand of cost drivers before an informed decision can be reached

If inappropriate drivers are selected. then it could lead to incorrect decisions resulting in loss of efficiency, de-motivation of staff and eventual failure of the business

Work shredding to engineering administration clerks

2 weeks

Reduce in material manager weekend overtime- It asserts, on quite strong evidence, that 80% of our results are generally produced by 20% of our effort – and that the remaining 80% of our effort is swallowed up in achieving that last 20% of our results

Increase in

administration clerks

workload

Training have to be provided- cost

Training and development

Increase in errors by new users. Responsibility still remains with material manager

1640 Words

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