

## **B<sup>2</sup> Inc. - Sustainable Restaurants**

**Practice questions based on B<sup>2</sup> Inc. Sustainable Restaurants case study – outline ideas for suggested solutions.**

**Note: These are ideas that could be included within answers to the questions. In strategy there is often no one right answer, so these should not necessarily be taken as the only correct solution.**

### **Contents**

<b>Practice question 1 – topic areas of environmental analysis .....</b>	<b>2</b>
<b>Practice question 2 – topic of SWOT analysis .....</b>	<b>4</b>
<b>Practice question 3 – topic of stakeholder analysis and stakeholder mapping.....</b>	<b>6</b>
<b>Practice question 4 – topic of Customer Profitability Analysis.....</b>	<b>8</b>
<b>Practice question 5 – topic balance scorecard .....</b>	<b>12</b>
<b>Practice question 6 – topic investment appraisal .....</b>	<b>15</b>
<b>Practice question 7 – topic competitive strategies .....</b>	<b>17</b>
<b>Practice question 8 – topic investment appraisal .....</b>	<b>18</b>
<b>Practice question 9 – topic ABC question.....</b>	<b>20</b>
<b>Practice question 10 – topic benchmarking .....</b>	<b>24</b>
<b>Practice question 11 – topic sustainability and costs of quality.....</b>	<b>26</b>

## Practice question 1 – topic areas of environmental analysis

### Practice question 1 – topic areas of environmental analysis

**(a) Discuss how undertaking an environmental analysis can assist the management of Sustainable Restaurants Inc. in developing its future strategy.**

Points may include but are not restricted to:

- Enables the Board to identify the key elements in the environment that could affect the achievement of their strategy
- Enables the Board to identify the key drivers for change emanating from the environment that could change the industry in the future
- Enables the Board to identify the differential impact of the environmental changes, i.e., the potential impact on Sustainable Restaurants Inc. as opposed to its competitors
- Based on the above environmental analysis enables the Board to identify opportunities and threats that form part of the SWOT analysis

**(b) Utilising models and frameworks of your choice, prepare an environmental analysis for Sustainable Restaurants Inc.**

PESTEL is a useful model for analysing the general environment whilst Porter's Five forces help management to understand the forces operating on the industry that will impact on profitability.

Points may include but are not restricted to:

Ideas using PESTEL:

- Political policies by local authorities (states) to attract businesses to cities can affect demand (e.g., business lunches)
- The industry is susceptible to fluctuations in the economy affecting the level of business, particularly recession impacting on fine dining
- Trends in eating habits such as healthy eating, business lunches etc., which could impact on menus and clientele
- Demographic changes in local populations can affect demand for fine dining
- Fine dining as a form of evening entertainment is affected by economic cycles and social/demographic trends
- Technology in relation to farming impacts on the cost base of ingredients and supply of produce for restaurants, i.e., a related impact on food production costs, particularly sustainable farming techniques
- Wastage rates and growing awareness of sustainability by consumers has an impact on the food industry generally with a knock-on effect on restaurants. Can be used positively as Sustainable Restaurants has attempted to do
- Health and safety legislation – could have cost implications
- Minimum wage and cost implications, also the image of restaurants due to bad press on exploitation of low paid staff

Ideas using 5 forces:

- Restaurant business is highly competitive
- Cost of entry is low but high failure rate
- Customers have lots of choice which means competition is on more than price, e.g., total experience
- Supply of labour could be an issue, e.g., part time staff versus full time staff, poor staff retention increases costs, e.g., training and re-training
- Good relationships with suppliers can be a bonus – reduces potential supplier power
- Substitutes include home cooking, takeaways, and convenience foods

**(c) Critically evaluate how the management accountant can contribute to an environmental analysis.**

Points may include but are not restricted to:

- Assisting in the collection and provision of information on external factors, e.g., industry statistics, interest rates, economic data
- Evaluating the financial impact of environmental influences on Sustainable Restaurants, e.g., changes to minimum wage rates, introduction of new H & S legislation, interest rate rises
- Linked to the above, assisting in assessing Sustainable Restaurants ability to deal with changes in the environment to ascertain whether changes are opportunities or threats
- Competitor analysis e.g., assessment of key competitor financial performance for comparison to Sustainable Restaurants
- Assisting in the development of scenario analysis to evaluate the impact of strategic options and the potential impact on the environment, e.g., the trend towards healthy eating or business lunches could be actively promoted by Sustainable Restaurants to increase the market for sustainable foods

## Practice question 2 – topic of SWOT analysis

### Practice question 2 – topic of SWOT analysis

**(a) Prepare a corporate appraisal (SWOT analysis) for Sustainable Restaurants Inc. that will help them formulate a future strategy to develop the company.**

Points may include but are not restricted to:

This solution gives bullet point ideas only. Ideally these would explain why they are strengths, weaknesses, etc.

SWOT analysis can be subjective, so often an aspect of the operations could be a strength or a weakness depending on your perspective and viewpoint. Also, opportunities and threats depend on your individual risk profile, so you may have included elements within different headings. The key is to be able to justify your opinion.

#### Strengths

- Skills of Buck and Bethan
- Expertise of management team
- Reputation
- Part of diversified business supported by parent company
- Good geographic coverage in US
- Chef reputation
- Supply relationships – local quality food
- Locations – buildings
- Highly trained staff
- Autonomy to react locally
- Good staff relations
- Good links with related business, e.g., taxis, hotels
- Up-to-date equipment

#### Weaknesses

- High establishment costs
- High training costs, but also linked to strength of highly trained staff
- High staffing levels raises costs (but see strengths)
- High number of suppliers to manage (but see strengths)
- Lower margins since recession
- Becoming less busy of late
- Beginning to lose reputation in the industry
- Financial performance becoming weaker e.g., operating profit reduced in 2015, but dos have backing of parent company
- Staff morale could suffer from recent job cuts or non-replacement of leavers

Opportunities – these can be closer to strategic options for Sustainable Restaurants so award marks for ideas related solely to SR

- Refurbish the restaurants
- Rebrand as a chain restaurant

#### Threats

- Competition responding to SR's problems and attacking on price/service
- Economy not fully recovered and could slip back to recession

**(b) Critically evaluate the contribution that the management accountant of Sustainable Restaurants Inc. is able to make to the development and evaluation of strategic options.**

Points could include but are not restricted to:

- The accountant can evaluate strategic options from a financial viewpoint.
- The use of sensitivity analysis within an investment appraisal process also aids management in making decisions based on an acceptable level of risk.
- The accountant can make an estimate of the likely financial impact of environmental changes by using scenario analysis – the scenarios will usually be developed by a team of functional specialists which will include the accountant.
- Competitive strategies such as cost leadership and differentiation can also be supported by the accountant – particularly if the market is becoming more cost led then techniques such as activity-based costing can provide management with a much better understanding of the cost structure to evaluate whether this is a viable strategy.
- Allied to activity-based costing in assessing the viability of a cost led strategy or maintaining a differentiation strategy, models such as the value chain can be utilised to assess where SR's strengths and weaknesses might be enhanced or addressed.
- It must, however, be remembered that most of the scenarios discussed above will rely on estimates and incomplete information, therefore the figures will not provide a definitive answer, but provides support for the decision.
- The accountant will also be working with other professionals such as the marketing staff, and therefore being able to discuss and present information in a way that potentially non-accounting professionals will understand, and be able to use, is also important.

Frameworks such as SAFeR – Suitability, Acceptability, Feasibility and Risk can be used to evaluate strategic options. The accountant is possibly more able to help with the suitability in terms of meeting profit targets, feasibility in terms of being able to finance the strategy, and risk in terms of financial risk.

## Practice question 3 – topic of stakeholder analysis and stakeholder mapping

### Practice question 3 – topic of stakeholder analysis and stakeholder mapping

- (a) Critically discuss the components and process of a stakeholder analysis and the benefits that would accrue to B2 Inc. from applying such an analysis.**

Points could include but are not restricted to:

- Definition of stakeholders
- Reference to Internal, Connected, External
- Representation of stakeholder analysis the Mendelow diagram of stakeholder mapping
- Concept of stakeholder mapping and its importance in highlighting power and interest differentials among stakeholder groups
- Expansion of power into discussion of short term versus long term influence and individual versus collective influence
- Mention of benefit of stakeholder analysis in relation to a specific strategic decision, e.g., rebranding of restaurants
- Importance of identifying key players. Also explain other categories of stakeholders and how they could be affected by B2 Inc.'s decision
- The benefits of understanding stakeholders' potential reactions and the company's response
- Highlight that the Board of Directors should understand that stakeholder power could be vested in the degree of disruption, the ability to create uncertainty and ease of replacement arising from a decision
- Illustration of how the management of B2 Inc. can manage stakeholder power (e.g., supported with illustrations of what resistance or support the Board of Directors could experience in respect of its decision)
- Strategies to manage stakeholders such as communication, participation, education, direction and intervention are also relevant and can be discussed.
- A discussion regarding the subjective nature of the mapping and those individuals could belong to more than one group, or could change allegiance, e.g., recognising that stakeholders can be individual or collective group and that treating each group as homogenous may be problematic.
- Stakeholder groups can include subgroups, which makes the process difficult to manage

**(b) Undertake a stakeholder analysis by identifying the principle stakeholders in the decision to open a leisure park and hotel complex being contemplated by B<sup>2</sup> Inc. Justify their level of interest and significance in influencing the decision of the Board of Directors of B<sup>2</sup> Inc. and recommend a suitable strategy for managing each stakeholder group you discuss.**

Answers should include a range of stakeholders and discuss their potential level of interest and degree of power. This can be subjective so there is not necessarily only one correct answer. The key is to justify your viewpoint.

A mapping to the grid would be useful, but not essential for the answer.

Stakeholders might include (note this is for B<sup>2</sup> Inc.'s planned complex):

- Shareholders
- Employees – current and potential employees
- Local community
- Local authorities and relevant agencies, e.g., Forestry commission if there is one.
- Potential suppliers of equipment and construction
- Potential customers

Answers should also indicate the strategy that could be adopted by the Board for managing each stakeholder group.

## Practice question 4 – topic of Customer Profitability Analysis

**(a) Critically evaluate CPA as a technique for the management of a customer portfolio, i.e., a mix of customer categories.**

Points may include but are not restricted to:

- Some customers are more profitable than others due to the differing demands made on a company's resources in providing the product or service
- Provides insight in to the extent to which specific customers consume the firm's resources and can generate new opportunities for the firm in three areas: cost management, revenue management and strategic marketing management
- Analyse revenue streams generated by customers relative to their service costs to identify the most profitable customers
- May change resources being allocated to customers
- Could change marketing strategy to attract more profitable customers and deter the non-profitable customers
- May use different technique depending on customer type, e.g., CLV for large regular customers, customer segment analysis for customer groups
- Quantify impact to customer profitability from changes in product specifications or product mix
- Evaluate & (re)direct marketing resources
- Consider all relevant costs & revenues for certain customers, e.g., charge for extras



- Develop innovative ways of charging
- Can utilise ABC to aid analysis, but suffers from same issues as ABC in terms of data collection and resources required to undertake analysis
- CPA is only justifiable if the cost-benefit analysis is favourable and information generated is useful for strategic decision-making
- CPA often involves collecting non-financial data that is not normally collected
- Cannot just stop supplying non-profitable customers – need to take account of strategic factors as well
- Analysis may produce results that management were not expecting thus difficult to accept results – management may not believe the analysis

- (b) Utilising the information provided a part of the question in relation to the planned Hotel and Conference Complex planned by B<sup>2</sup> Inc. demonstrate how customer profitability analysis could be used in identifying the potential profitability of different customer groups, i.e., calculate the relative profitability of the customer groups identified. Comment briefly on the results.

**Allocation of overheads**

	Holiday	Business	Conference	Total
	\$	\$	\$	\$
Reservation and reception front desk costs	202,579	126,612	40,810	370,001
Cleaning	666,000	166,500	277,500	1,110,000
Laundry	2,220,000	555,000	925,000	3,700,000
Transport, garage and parking	277,500	34,688	57,813	370,001
Guest room suppliers, toiletries	277,500	34,688	57,813	370,001
Food and beverage (restaurants and bars)	10,515,789	1,752,632	4,381,579	16,650,000
Marketing	1,110,000	444,000	666,000	2,220,000
Gift shops - costs, including cost of goods	1,597,122	119,784	133,094	1,850,000
	16,866,490	3,233,904	6,539,609	26,640,003
Admin not allocated				10,360,000
Total				37,000,003

<b>Customer profitability</b>				
	\$	\$	\$	\$
Revenue from room hire	18,615,000	2,084,880	3,102,500	23,802,380
Revenue from extras	3,723,000	279,225	310,250	4,312,475
Revenue from meals consumed	7,818,300	2,792,250	3,723,000	14,333,550
Conference centre hire charges	-	-	2,500,000	2,500,000
<b>Total revenue generated</b>	<b>30,156,300</b>	<b>5,156,355</b>	<b>9,635,750</b>	<b>44,948,405</b>
Allocated overheads	16,866,490	3,233,904	6,539,609	26,640,003
Specific costs for conferences centre			2,200,000	2,200,000
<b>Total costs</b>	<b>16,866,490</b>	<b>3,233,904</b>	<b>8,739,609</b>	<b>28,840,003</b>
<b>Profit</b>	<b>13,289,810</b>	<b>1,922,451</b>	<b>896,141</b>	<b>16,108,402</b>
<b>Profit as % of total revenue</b>	<b>44%</b>	<b>37%</b>	<b>9%</b>	<b>36%</b>

### Comment

The results contradict the assumption that the Business and Conference centre customers will be the most profitable customer group. This may make the management think again about the pricing strategy and the target customer groupings. It is not too late to re-think the focus of the complex and place more emphasis on targeting the holiday customer. Or alternatively look at ways of making the other customer groups more profitable.

Some sensitivity analysis may be useful on the numbers and basis of allocation where this is subjective.

## Practice question 5 – topic balance scorecard

### Practice question 5 – topic balance scorecard

**(a) Critically evaluate how the Balanced Scorecard model, developed by Kaplan and Norton, will assist the Board of Directors of Sustainable Restaurants Inc. in evaluating the company's performance**

Answers could logically provide a description of the balance scorecard and the four quadrants put forward by Kaplan and Norton.

Discussion of the use of the objective, performance measures, target and initiative are also relevant.

Other points could include:

- Use of leading and lagging indicators
- Use of interlinkages between elements
- The use of different levels of balance scorecard throughout and organisation to ensure consistency in objectives
- Can be used as a communication mechanism to communicate goals

Criticisms are also valid:

- Too many measures cause confusion
- Not always possible to identify the linkages
- Managers focus on measures rather than the business
- Difficult in measurement, e.g., customer satisfaction
- Weighting of measures can be difficult – focus on wrong measures

**(b) Develop a Balanced Scorecard for Sustainable Restaurants Inc. which reflects its strategic objectives, particularly those relating to sustainability. You must include:**

**(i) Specific objectives (minimum of eight objectives and at least one objective per perspective) together with a performance indicator (measure) for each objective.**

**(ii) Appropriate initiatives for each perspective to help achieve the objectives.**

Ideas could include:

Financial perspective

Objective	Measure	Initiative
Increase profit per restaurant by 5% in the next financial year	Profit % for each restaurant compared to previous year	Undertake a cost reduction exercise to see if inefficiencies could be reduced or eliminated
Maintain cost base at current level	Cost as percentage of revenue (or costs) this year compared to last year	Undertake a value chain analysis to look for areas where costs can be reduced

		and value added
Increase average spend per customer	Average spend per customer this year compared to last year	Undertake training of service staff to recommend and sell high value meals without annoying customers
Increase ROCE	ROCE this year compared to last year	

Customer perspective

Objective	Measure	Initiative
Increase customer satisfaction levels so that 95% of customers would recommend to a friend	Customer satisfaction index (based on survey responses) and number of customers saying they would recommend to a friend	Introduce customer loyalty scheme and 'Friends of Sustainable Restaurants' website to market initiatives, such as free bottle of wine, or special themed nights
Increase customer retention at restaurants by encouraging repeat visits to at least once a month	Number of customers who say they have visited at least once a month in survey data	Implement customer satisfaction survey once a year
Reduce number of complaints or negative comments	Number of complaints received compared to previous years and number of negative and positive media reports in year	Actively promote positive public relations by recruiting a media specialist within the market department

Internal business perspective

Objective	Measure	Initiative
Reduce wastage by 5% in next financial year	Monitor food wastage and inventory destroyed due to out of date items, compared to last year  Also monitor inventory days and inventory turnover of high value and perishable items	Instigate more active inventory management systems  Undertake benchmarking exercise with other restaurants or companies with perishable inventory items
Maintain staff retention levels to at least 80%	Staff turnover and average length of service	Continue training and investment in staff

Improve supplier relationships with local suppliers again and move away from national suppliers	Monitor number local suppliers compared to national suppliers  Other supplier analysis indicators such as, monitoring deliveries made on time and lead time from order to delivery	Develop positive links with local suppliers of seasonal produce for mutual benefit and utilise in marketing of restaurants.
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Learning and Growth

Objective	Measure	Initiative
Introduce at least two new menu items each month	New items that achieve average number of orders per month, i.e., not just number of new items but new items that sell	Link to customer loyalty and website information promoting new menu items  Link to suppliers to promote local and sustainable produce
Ensure training days are maintained within restaurants for all staff	Number of training days provided within each restaurant per annum	Link to internal business process initiative

## Practice question 6 – topic investment appraisal

- (a) Utilising the information provided as part of the questions prepare a financial evaluation using a NPV calculation of the proposal to rebrand the restaurants as a restaurant chain.

	No of restaurants		0	1	2	3	4	5
		\$	\$	\$	\$	\$	\$	\$
Investment in refurbishment	41	100,000	4,100,000					
Investment in rebranding	41	2,500	102,500					
Investment in technology	41	5,000	205,000					
Training costs 1st Year	41	20,000		820,000				
Training costs subsequent years	41	5,000			205,000	209,100	213,282	217,548
Move back to local suppliers	41	25,000		1,025,000	1,045,500	1,066,410	1,087,738	1,109,493
Marketing			500,000	250,000	255,000	260,100	265,302	270,608
Total costs			4,907,500	2,095,000	1,505,500	1,535,610	1,566,322	1,597,649
Increase in Revenue	41	50,000		2,050,000	2,255,000	2,480,500	2,728,550	3,001,405
Saving in salaries	41	50,000		2,050,000				
Total increase in revenue			0	4,100,000	2,255,000	2,480,500	2,728,550	3,001,405
Net cash flows			(4,907,500)	2,005,000	749,500	944,890	1,162,228	1,403,756
Discount factor 7%			1.000	0.935	0.873	0.816	0.763	0.713
Discounted cash flow			(4,907,500)	1,874,675	654,314	771,030	886,780	1,000,878
NPV								280,177

**(b) Discuss what other information of a non-financial nature you would require to provide a full strategic evaluation of the proposal before making your final recommendation**

Points could include but are not restricted to:

- Impact on customers, i.e., reputation as a fine dining restaurant changing to a branded chain restaurant – do the public realise the difference, the comment was from an industry expert. Is this just a knee jerk reaction?
- Impact on suppliers – suppliers used to benefit from being associated with Sustainable Restaurants - to what extent is this still the case, or has the change in operating strategy towards a more cost-efficient strategy affected this
- Employee morale – job losses will affect morale. Knock on effect on customer service
- Reaction of competitors and their potential response
- Are restaurants in the right location for chain restaurants, e.g., business lunches and evening customers – are they attracted to chain restaurants? Will the change in strategy work in the current locations?
- What are the market trends – is fine dining picking up now that the economy is improving or are chain restaurants likely to be able to compete more effectively with the convenience life style of many customers
- Views of other shareholders, e.g., the Venture Capital company

**(c) Utilising Ansoff's growth matrix as a theoretical framework critically evaluate the merits of rebranding the restaurants as a growth strategy compared to the strategy of diversification if the leisure park and hotel option is approved.**

Points could include but are not restricted to:

- Ansoff matrix application; difficulty of application in practice, e.g., rebranding could be viewed as product development or sticking to what they know. However, they are potentially shifting the market from fine dining to chain restaurant which might shift customer base, so could be viewed as a dual strategy of product and market development.
- In contrast the leisure park and hotel is diversification, it is debatable whether it is related or unrelated
- A discussion around the merits of product/market development and diversification would form the basis of the answer, e.g., degree of associated risk, knowledge of the business, size of the potential market, understanding of the potential market, etc.



## Practice question 7 – topic competitive strategies

### Practice question 7 – competitive strategies

- (a) **Critically evaluate the competitive strategies of differentiation and cost leadership with reference to their suitability for Sustainable Restaurants Inc., particularly if the rebranding option is approved. Include examples of how Sustainable Restaurants could achieve either cost leadership in its chosen market or differentiate itself from the competition.**

Points could include but are not restricted to:

- Definition of cost leadership and differentiation in the context of the Sustainable Restaurants Inc.
- The discussion could bring out the difficulty of applying the model directly e.g., elements of rebranding suggest an element of differentiation, but rebranding to a chain restaurant indicate elements of cost leadership
- The company is changing strategy and therefore it may be a medium to long term strategy to change from a fine dining to chain restaurant
- There will be marketing costs to incur as this will be a marketing led change rather than a resource driven strategy
- Examples of how cost led, or differentiation could be achieved by Sustainable Restaurants Inc. – see YouTube video of PowerPoint presentation from website

- (b) **It is suggested that the management accountant is able to support the executive management of a company by applying management accounting techniques and strategic planning models/frameworks.**

**Critically evaluate any ONE of the techniques and models/frameworks listed below illustrating how they will help support the Board of Sustainable Restaurants in developing and executing its future strategy. You should briefly explain the technique before evaluating its usefulness to Sustainable Restaurants.**

Answers should explain the technique, model/framework and provide an evaluation, e.g., advantages and drawbacks, as well as illustrate how it could be applied to Sustainable Restaurants.

## Practice question 8 – topic investment appraisal

- (a) Utilising the information provided in Appendix C prepare a financial evaluation, using NPV, of the Leisure Park and Hotel option. (State any assumptions made)

Estimated visitor numbers									
1,000,000	0.3	300000							
1,250,000	0.6	750000							
1,500,000	0.1	150000							
		1,200,000							
Entry fees			\$		No of extras	Hire	\$15	Food	\$20
Family	0.4	480000	75	\$36,000,000	1,920,000				
Adults	0.6	720000	25	\$18,000,000	720,000				
				\$54,000,000	2,640,000		£39,600,000		\$52,800,000

Year			1	2	3	4	5	6
Building costs hotel			(50,000,000)					
Initial marketing costs			(2,500,000)					
Outdoor facilities			(10,000,000)					
Trails etc			(1,000,000)					
Equipment			(5,000,000)					
Visitor fees				54,000,000				
Extras - hire charges				39,600,000				
Extras - food				52,800,000				
Hotel revenue				44,000,000				
Conference centre revenue				2,500,000				
Total revenue				192,900,000	198,687,000	218,555,700	240,411,270	264,452,397

Costs								
Leisure facilities			(140,000,000)					
Hotel			(37,000,000)					
Conference centre			(2,200,000)					
Total costs			(179,200,000)	(182,784,000)	(186,439,680)	(190,168,474)	(193,971,843)	
Net cash flows		(68,500,000)	13,700,000	15,903,000	32,116,020	50,242,796	70,480,554	
Discount factor 7%		0.935	0.873	0.816	0.763	0.713	0.666	
Discounted cash flow		(64,047,500)	11,960,100	12,976,848	24,504,523	35,823,114	46,940,049	
NPV							68,157,134	

**Part (b)**

**(b) Discuss other factors of a strategic nature that you would take into account when evaluating this potential option.**

Points may include but are not restricted to:

- The strategic significance for B<sup>2</sup> Inc. for it to expand into leisure pursuits (strategic fit – suitability) does it build on strengths, address weaknesses, grasp opportunities and avoid or minimise the threats
- Credibility of sustainable objectives and reputation and whether the leisure park and complex will aid these. Will the project be seen as cosmetic and an expensive folly on the part of Buck and Bethan? i.e., is it just an expensive pet project – these tough questions need to be asked.
- Stakeholder views and strategy to deal with stakeholders (acceptability)
- Feasibility – ability to finance, attract employees, manage the facility
- Degree of risk – impact on risk profile of B<sup>2</sup> Inc. Link to acceptability to stakeholders, particularly shareholders
- Competitor reactions, degree of competition in the area, not just leisure but business as well
- Reliability of the estimates, i.e., carry out some sensitivity analysis
- Plans for development by local authority, e.g., new homes and types of people the local authority wishes to attract to the area

## Practice question 9 – topic ABC question

### Part (a)

No of days per year	365
Average no of covers per day	65
Total number of covers	23725
Average number of tables per year	4745
Number of persons per table	5

Calculation of overheads	
Total overheads	\$775,000
number of covers (meals)	23725
Overhead cost per cover (meal)	\$32.67

		Low cost meal		High cost meal	
		\$		\$	
Price		50		100	
Material cost		10	20.0%	35	35.0%
Gross Profit		40	80.0%	65	65.0%
Overheads		32.67	65.3%	32.67	32.7%
Profit		7.33	14.7%	32.33	32.3%

Typical profit per table		\$
2 low cost meals		14.66
3 high cost meals		96.99
Profit per table		111.65

**Part (b)**

ABC version

time per meal - prep and cooking hours	
Low cost	0.5
High cost	1.5
Total hours - low cost	4745.0
Total hours - high cost	21352.5
Total prep and cooking hours	26097.5

No of days per year	365
Average no of covers per day	65
Total number of covers	23725
Average number of tables per year	4745
Number of persons per table	5

Allocation of overheads	\$	Basis	\$ cost per driver
Total per hour	185,472	26097.50	7.11
Total per cover (meal)	470,528	23725	19.83
Total per table	119,000	4745	25.08
Total	775,000		

		\$		\$
Price		50		100
Material cost		10		35

Gross margin		40		65
Overheads				
Costs per hour		3.56		10.67
Cost per cover (meal)		19.83		19.83
Contribution per meal		16.61		34.50
share of cost per table		5.02		5.02
profit per meal		11.59		29.48

Can calculation profit per meal but not required if contribution used to calculate profit per table. (see below)

Typical profit per table		\$
2 low cost meals (contribution)		33.22
3 high cost meals (contribution)		103.50
Total contribution per table		136.72
Less cost per table		25.08
Profit per table		111.94

**(c) Critically evaluate ABC as a method of costing for the restaurant highlighting the key benefits to the management of Sustainable Restaurants Inc that may be gained from using the method and any difficulties that may be encountered during the implementation.**

Points may include but are not restricted to:

**Reported benefits**

- ABC provides a more sophisticated method of costing of products and services
- It allows for a better and more comprehensive understanding of overheads and what causes them to occur

- It makes costly and non-value adding activities more visible, so allowing managers to focus on these areas to reduce or eliminate them
- It supports other management techniques such as continuous improvement, scorecards and performance management

#### **Reported drawbacks**

- ABC can be difficult and time consuming to collect the data about activities and cost drivers
- It can be costly to implement, run and manage an ABC system
- Even in ABC some overhead costs are difficult to assign to products and customers. These costs still need to be arbitrarily applied to products and customers
- In relation to the restaurant – detailed records would need to be kept. The mix of meals makes it difficult to establish what would be the best basis. The need to keep menus up to date and changed regularly means that the current basis of calculation is quick and easy and probably gives a good enough guide to recovering overheads.
- ABC relies, as does the current method, on estimating the level of activity, and with ABC this is more complex and prone to error. In practice the current basis is probably better.

## Practice question 10 – topic benchmarking

### Practice question 10 – topic Benchmarking

**(a) Critically evaluate benchmarking as a technique for improving the profitability of Sustainable Restaurants Inc.**

- Discussion of advantages and disadvantages in relation to Sustainable Restaurants
- Definition or mention of benchmarking as an improvement exercise not a copying exercise
- Could be used to help identify strengths and weaknesses

Typical advantages and drawbacks include:

#### Advantages

- Establish aspirational business performance targets (linked to strategy)
- Aids the internal position audit e.g., strengths and weaknesses
- Encourages innovation
- Motivational
- Inclusive and participative process

#### Drawbacks

- Increases diversity of information
- May reduce managerial motivation, if keep missing targets
- Danger of confidential data being compromised
- May force focus on existing business
- May become trapped by benchmarks, e.g., may lose customer focus
- Could lose opportunity to differentiate if everybody does the same thing, hence is not a copying exercise

**(b) Provide advice to the management of Sustainable Restaurants Inc. on the types of benchmarking that could be used. Illustrate your answer with examples of areas of the business or activities that could be benchmarked.**

Types could include:

- Internal – comparing one operating unit or function with another in the same company, e.g., restaurant against restaurant, but beware of like for like, e.g., different areas could create difference – could be used to compare activity or function relevant to Sustainable Restaurants
- Functional / activity – internal functions are compared with the best external practitioners regardless of industry, e.g., inventory control with supermarket as both stock fresh produce, or booking systems with theatre, or cinema
- Competitive – with direct competitors, including reverse engineering techniques, i.e., direct competitors of Sustainable Restaurants



- Strategic – aimed at strategic action and organisational change, e.g., opening new locations compared with a retail company selecting strategic locations. Or recruitment policies compared with business that also have key positions or reputational element to success.
- Industry – against industry standards, e.g., average time to serve from taking order

**(c) Provide advice on the stages of conducting a benchmarking exercise in the context of Sustainable Restaurants Inc.**

Typical benchmarking process is given below. Any process that follows a logical series of steps.

1. Establish benchmarking objectives
2. Established mixed skills benchmarking team
3. Develop relevant KPIs
4. Choose organisation or business unit against which to benchmark
5. Measure own and partner's performance
6. Analyse data & discuss results
7. Implement change
8. Monitor improvements
9. Publish success internally

## Practice question 11 – topic sustainability and costs of quality

### Practice question 11 – topic sustainability and costs of quality

**(a) Critically evaluate how the management accountant can contribute to the achievement of sustainability objectives and reputation of Sustainable Restaurants Inc.**

Points may include but are not restricted to:

- Monitoring in cost terms aspects such as wastage, energy usage as this can have cost benefits as well as improve sustainable practices
- Monitoring of supplier performance to aid sustainable relationship with suppliers, not least ensuring that they are paid within contract terms
- Contributing generally to the successful operation of the organisation so that it remains profitable and continues to employ staff, thus contributing to the social and economic wellbeing of the local community that it serves
- Use of benchmarking techniques to aid the improvement of sustainable operating practices, i.e., benchmarking as an improvement process not a copying exercise
- Aiding sustainability reporting to monitor elements of the sustainability in line with the ISO standard i.e., measure the 3 areas of:
  1. Management performance indicators
  2. Operational performance indicators
  3. Environmental condition indicators

**(b) Critically evaluate how highlighting the costs of quality in reporting to management will aid the maintenance of its competitive strategy. You should utilise examples of items that could be reported under each cost of quality heading typically used in cost of quality reports.**

Answers should include a description of the four elements of cost of quality:

Prevention, appraisal, internal and external failure costs

Examples relevant to Sustainable Restaurant should be provided.

- Difficulties of implementation should be included to evaluate the use of costs of quality, e.g., Issues such as subjectivity of quality can be discussed, and information needs to be collected regularly, (i.e., more than just cost information)
- Quality extends beyond the organisation, e.g., to suppliers, so is not always under the direct control of the organisation, but requires good monitoring and working relationships, particularly about sustainable methods of production
- Quality runs right through the organisation, e.g., a TQM approach from suppliers, preparation, cooking serving etc. i.e., right through the value chain activities
- Costs can sometime be subjective e.g., the cost of dealing with a customer complaint, or the potential loss of business due to reputation issues