

## **Internal accounting systems and controls: Summary of corrections to course materials**

These changes affect version V002 of the materials.

### **Extra notes**

We are constantly looking for ways to improve our materials based on feedback from students.

We have added some additional detail to our notes in relation to the following topics:

- Monitor, review and report
- The fraud matrix
- Fraud – additional questions
- Cost benefit analysis

Please print out the extra notes at the end of this document and add them to your materials.

## **AAT LEVEL 4**

### **Internal accounting systems and controls (INAC)**

#### **Extra notes on monitor, review, report**

## Chapter 6 – Fraud

In this chapter, we saw the fraud risk assessment process below:



Step 5 is to monitor, review and report on the risks. Here are some extra notes on what that might involve:

### Monitor, review and report

The organisation needs to view this as an ongoing process, not a one-off exercise. Once a risk has gone through the first four stages of the risk assessment process, the organisation should:

- **Monitor the risk**

This will involve collecting data to keep track of the issue. E.g. if staff expense claims have been identified as a fraud risk, the organisation could monitor the volume of claims, the monetary values and the type of expenditure being claimed for.

- **Review the risk**

Once the data has been collected, it needs to be reviewed to highlight potential problems. E.g. the expense claim data should be checked by a manager for any unusual amounts or types of expenditure.

- **Report on the risk**

Any issues identified should be reported to the top levels of management. You should consider the most appropriate way to communicate your findings, e.g. you could generate a summary report from the accounting software or present your findings in a table or chart.

## **AAT LEVEL 4**

### **Internal accounting systems and controls (INAC)**

#### **Extra notes on the risk matrix**

## Chapter 6 – Fraud

Below you will find some extra notes to help with your understanding of the fraud risk matrix. Remember that the risk matrix is one method of evaluating and assess risks.

### Risk Matrix

Under this method, risks are plotted on a risk matrix:

Likelihood	High (3)	Medium 3 (1 x 3)	High 6 (2 x 3)	Very High 9 (3 x 3)
	Medium (2)	Low 2 (1 x 2)	Medium 4 (2 x 2)	High 6 (3 x 2)
	Low (1)	Very Low 1 (1 x 1)	Low 2 (2 x 1)	Medium 3 (3 x 1)
		Severity		
		Low (1)	Medium (2)	High (3)

A risk matrix helps you assess the seriousness of the different risks that can occur in a business.

**Likelihood** is the probability of the action occurring.

**Severity/impact** is the seriousness of the consequences of the action occurring.

Both are ranked using a numerical grade, for example:

1 = Low

2 = Medium

3 = High

If the business wanted to differentiate further, they could use a wider range of numbers, for example:

1 = Very low

2 = Low

3 = Medium

4 = High

5 = Very high

When evaluating risks, the business should also consider other relevant details, such as whether collusion between staff members would be required and what prevention measures, if any, they already have in place.

Let's see an example of some risks and then we can plot them on the risk matrix:

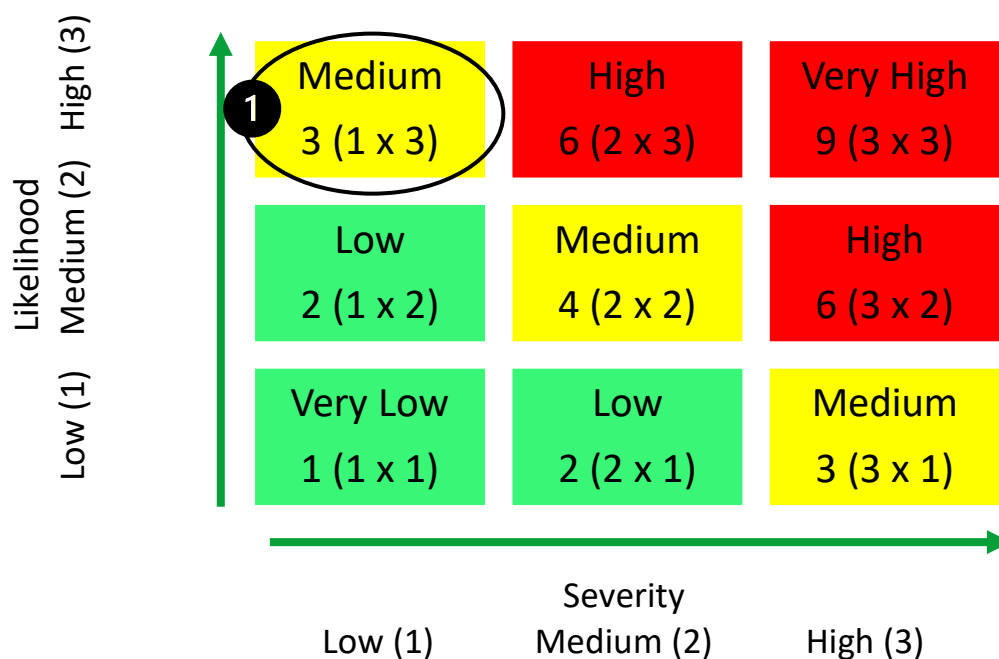
### Fraud risks for a tool manufacturer

	Risk	Collusion required	Likelihood	Severity/ Impact	Prevention
1	Small, low value items stolen (screwdrivers, hammers etc.)	No	3 High	1 Low	Install CCTV. Supervisor present at all times. Regular stock takes.
2	Orders inflated so extra items can "go missing" without notice	Yes	2 Medium	3 High	Ensure orders are checked by two people when leaving the warehouse and signed for by the customer so there are no discrepancies.
3	Large, high value items stolen (work bench, table saw etc.)	No	1 Low	3 High	Install CCTV. Supervisor present at all times. Regular stock takes. Security tags on all high value items.

For the small, low value items stolen, we have a likelihood of 3 and an impact of 1. This tells us that the likelihood of these items being stolen is high (presumably because they can be easily concealed in a pocket or bag) but the impact on the business is low (because they are low value items, so the financial loss is minimal).

To plot the risk on the matrix, you would start with the 'y' axis which is likelihood. This has been assessed as high (3), so you are looking at the top row. Next you look at the 'x' axis which is severity/impact. This has been assessed as low (1), so you are looking at the first column.

You can also multiply both numbers together....  $3 \times 1 = 3$ , which means the overall assessment of the risk is medium (yellow).



Now see if you can plot the other two risks on the matrix. The solution is on the next page.

## Solution

Likelihood High (3) Medium (2) Low (1)	1	Medium 3 (1 x 3)	High 6 (2 x 3)	Very High 9 (3 x 3)
		Low 2 (1 x 2)	Medium 4 (2 x 2)	2 High 6 (3 x 2)
		Very Low 1 (1 x 1)	Low 2 (2 x 1)	3 Medium 3 (3 x 1)
		Severity Low (1)      Medium (2)      High (3)		

### Risk 2: Inflated orders

The likelihood is medium (2), so you are looking at the middle row. The severity/impact is high (3), so you are looking at column 3.

You can also multiply both numbers together....  $2 \times 3 = 6$ .

The overall risk assessment is high (red).

### Risk 3: Large high value items stolen

The likelihood is low (1), so you are looking at the bottom row. The severity/impact is high (3), so you are looking at column 3.

You can also multiply both numbers together....  $1 \times 3 = 3$ .

The overall risk assessment is medium (yellow).

# **AAT LEVEL 4**

## **Diploma in Professional Accounting** **Internal accounting systems and controls (INAC)**

### **Extra Questions**

### **Fraud**

These extra questions are written in a similar style to the actual assessment tasks for this unit. The AAT are constantly writing new tasks so you may come across slightly different formats in your assessment but rest assured they will be assessing the same knowledge and abilities, so just apply what you know.

## Questions

### EXTRA QUESTION 1 – THE FRAUD TRIANGLE

Vikki Welch is the Financial Controller at Downton Instruments Ltd. Over the last two years, profits have started to decline at the company. Vikki has been feeling a lot of pressure to turn the company's financial situation around, and as a result, she has started to manipulate the company's financial statements to make it appear as though the company is doing better than it actually is. The three divisional directors are too busy running their own parts of the business to notice what she is doing. Vikki justifies her actions by telling herself that if the company doesn't start performing better, she will lose her job and her reputation will be ruined.

**(a) What type of fraud is being committed by Vikki?** (1 mark)

✓	
Misappropriation of monetary funds	<input type="checkbox"/>
Misappropriation of inventory	<input type="checkbox"/>
Misstatement of financial statements	<input type="checkbox"/>

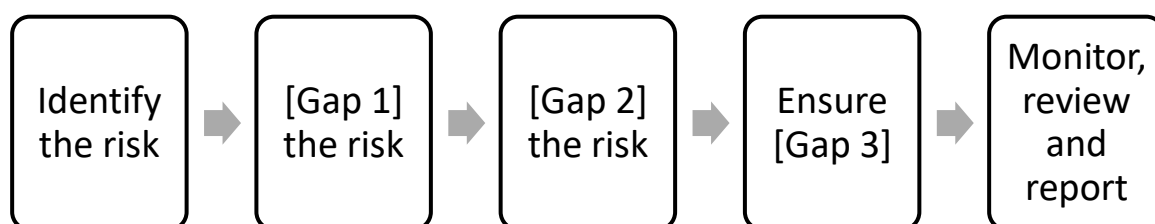
**(b) What are the three elements of the fraud triangle, and how do they apply to Vikki's situation?** (6 marks)


**(b) What can the company do to prevent or detect this type of fraud?**

**(6 marks)**


## EXTRA QUESTION 2 – THE FRAUD RISK ASSESSMENT PROCESS

The fraud risk assessment process is shown below.



(a) Fill in the missing words by selecting the correct option from the picklist.

(3 marks)

	Gap 1 ✓	Gap 2 ✓	Gap 3 ✓
Accept			
Avoid			
Communicate			
Compliance			
Evaluate			
Highlight			
Monitor			
Protection			
Reduce			
Respond to			
Transfer			
Zero-tolerance			

The following risks have been identified within the sales system at Downton Instruments Ltd:

- Sales staff in the New Products division are paid on commission. These members of staff are able to enter sales invoices onto the system without needing approval.
- The Accounts Receivable Supervisor is concerned that there are several customers with small unreconciled balances on their accounts. As these balances are relatively small individually, investigating the differences has not been considered a priority.
- The system defaults credit terms to 30 days for all customers, as per the company policy, but this can be manually overwritten when sales invoices are entered, without needing approval.

**(18 marks)**

[illegible]

## Solutions

### Extra question 1

(a) What type of fraud is being committed by Vikki?

(1 mark)

✓	
Misappropriation of monetary funds – <b>this is theft of cash</b>	<input type="checkbox"/>
Misappropriation of inventory – <b>this is theft of inventory</b>	<input type="checkbox"/>
Misstatement of financial statements – <b>this is manipulation of the accounts</b>	<input checked="" type="checkbox"/>

(b) What are the three elements of the fraud triangle, and how do they apply to Vikki's situation?

(6 marks)

The fraud triangle is a model that describes the three key elements that are present when fraud occurs: Opportunity, Motive/pressure, and Rationalisation.

#### Opportunity

This is the chance to commit fraud without being caught. **(1)**

Vikki has the opportunity to manipulate the financial statements because of her position as Financial Controller and because the divisional directors are too busy to pay proper attention to what she is doing. **(1)**

#### Motive/pressure

This is the financial or emotional circumstances that drive someone to commit fraud. **(1)**

Vikki is feeling pressure to turn the company's financial situation around due to the company's declining profits. **(1)**

#### Rationalisation

This is the ability of the fraudster to justify their fraudulent behavior to themselves. **(1)**

Vikki rationalizes her actions by telling herself that she needs to do whatever it takes to save her job and protect her reputation. **(1)**

**(b) What can the company do to prevent or detect this type of fraud?**

**(6 marks)**

Strong Internal Controls: Implementing strong internal controls, such as segregation of duties and approval policies, can help prevent fraud.

Regular Audits: Regular financial statement audits by external auditors can help detect fraud and provide an independent review of financial statements.

Whistleblower Programs: Encouraging employees to report suspicious activity through a whistleblower program can help detect fraud early.

Data Analytics: Analysing financial data to identify patterns and anomalies can help detect fraud early.

Fraud Risk Assessment: Conducting a fraud risk assessment can help identify areas where fraud is most likely to occur and implement controls to prevent it.

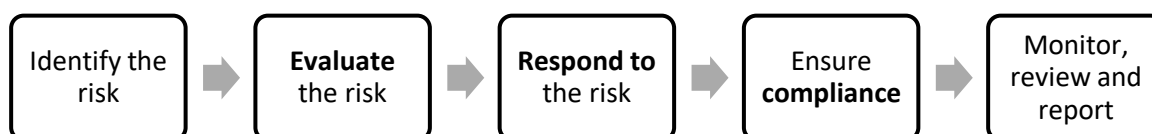
Background Checks: Conducting background checks on new finance employees can help identify any potential red flags before they are hired.

Management Review: Regular review of financial statements by the Directors can help detect errors or inconsistencies.

Training and Awareness: Providing training to employees on fraud prevention and detection can help create a culture of compliance and ethical behavior.

**Marking guide: 1 mark per relevant point. Maximum 6 marks.**

## Extra question 2



(a) Fill in the missing words by selecting the correct option from the picklist.

(3 marks)

	Gap 1 ✓	Gap 2 ✓	Gap 3 ✓
Accept			
Avoid			
Communicate			
Compliance			✓
Evaluate	✓		
Highlight			
Monitor			
Protection			
Reduce			
Respond to		✓	
Transfer			
Zero-tolerance			

(b) Outline how you can MONITOR, REVIEW and REPORT on these three risks.

(18 marks)

**Marking guide: 1 mark for reference to any points below. Max 6 marks for each risk.**

**Risk 1 – sales staff entering invoices without approval:**

Monitor: **Max 2 marks**

- Number of invoices entered without appropriate approval evident **(1)**
- Actual commission paid compared to expected or budgeted amount **(1)**
- Actual sales total compared to expected or budgeted amount (could be monthly, quarterly etc.) **(1)**

Review: **Max 2 marks**

- Review sales invoices over a certain figure to confirm authorisation by an appropriate person **(1)**
- Complete internal audit /walk through tests on the sales invoicing system to identify the areas that need additional controls **(1)**

For example, select a sales invoice at random from the system, check to see whether it has been authorised, match the invoice to the sales order received, match the invoice to a goods despatch note, match the invoice to the customer receipt and trace this to the bank statement. **(1)**

- Review credit notes and the reasons for these being raised, to check number of invoices disputed by customers **(1)**

- Send letters to customers with balances over a certain level, asking them to confirm balances outstanding (could be monthly, quarterly, annually etc.) **(1)**

Report: **Max 2 marks**

- Use accounting software to highlight invoices raised without approval **(1)**
- Produce a table, chart or other form of data visualisation that shows unapproved invoices in relation to total raised **(1)**
- Produce a monthly /quarterly report to show the reasons for customer credit notes to highlight those that arise from a customer disputing the amount **(1)**
- Produce a monthly /quarterly report to show any differences between balances outstanding per the accounting system and per the customers' confirmations **(1)**
- Use fraud detection software to identify unusual transactions in the accounting records **(1)**

## **Risk 2 – unreconciled customer balances**

Monitor: **Max 2 marks**

- The number of unreconciled balances and the total that is unreconciled **(1)**
- The length of time that those balances have been unreconciled **(1)**
- The number of balances disputed by customers **(1)**

Review: **Max 2 marks**

- Regularly review all customer balances (e.g. monthly, quarterly) and investigate all differences **(1)** Where a difference is too small to warrant further investigation (cost versus benefit), consider writing off **(1)**
- Complete internal audit /walk through test on the sales invoicing system to identify the areas that need additional controls **(1)**

For example select a sales invoice at random from the system, check to see whether it has been authorised, match the invoice to the sales order received, match the invoice to a goods despatch note, match the invoice to the customer receipt and trace this to the bank statement. **(1)**

- Send letters to customers with balances over a certain level, asking them to confirm balances outstanding (could be monthly, quarterly, annually etc.) **(1)**
- Regularly review all invoices that have been outstanding for longer than 60 days, 90 days or 180 days (for example) **(1)**

Report: **Max 2 marks**

- Use accounting software to report on the amount of unknown differences written off, per month or quarter, and compare to prior periods **(1)**
- Ensure any issues identified in the walk through test are reported and acted upon, and further controls put in place where necessary **(1)**
- Produce a monthly /quarterly report to show any differences between balances outstanding per the accounting system and per the customers' confirmations **(1)**
- Use accounting software to run an aged receivables report by customer, to clearly show how long invoices have been outstanding **(1)**

## **Risk 3 – manual overwriting of credit terms**

Monitor: **Max 2 marks**

- Number of times credit terms have been manually overwritten **(1)**
- Number of customers on the system with credit terms longer than the default 30 days **(1)**

Review: **Max 2 marks**

- Review all customer accounts with credit terms longer than 30 days, to determine reasons for this, and whether or not the credit limit has appropriate approval (1)
- Review level of irrecoverable debt write offs on a regular basis, and compare to prior periods or to what has been forecast (1)
- Regularly review allowance for doubtful debt balances, particularly as a proportion of total receivables or total sales, to determine whether or not these seem reasonable (1)

Report: **Max 2 marks**

- Use accounting software to flag up instances when the default credit terms have been overwritten (1)
- Produce a table, chart or other form of data visualisation that shows irrecoverable debt write offs over time, in proportion to total invoices raised (1)
- Produce a table, chart or other form of data visualisation that shows allowance for doubtful debts movement over time, in proportion to total invoices raised (1)
- Use accounting software to run an aged receivables report by customer, to clearly show how long invoices have been outstanding (1)

# **AAT LEVEL 4**

## **Level 4 Diploma in Accounting Internal Accounting Systems and Controls (INAC)**

### **Extra Notes - Cost Benefit Analysis**

## Chapter 10 – Cost benefit analysis

These additional notes and questions have been produced on the topic of cost benefit analysis:

### What is a cost benefit analysis?

This is where you are looking at a new proposal/project and you want to know if it's worth doing so you will look at all the costs of the project, all the benefits of the project and compare them against each other.



If there are more costs than benefits, it is not financially worth doing.



If there are more benefits than costs, it is financially worth doing.

### What do we include in the analysis?

You must only include any costs/benefits that are relevant to the project itself... these are called **relevant costs/benefits**.

#### Relevant

- Any costs/benefits that only occur because of the new proposal are relevant.
- These must be included in the analysis.

#### Not relevant

- Any costs/benefits that would occur regardless of the new proposal are **not** relevant.
- These must **not** be included in the analysis.

Another way to look at this is that the costs/benefits must meet all three of the following criteria:

- It must be a **FUTURE** cost/benefit
- It must be an **INCREMENTAL** cost/benefit, and
- It must be a **CASH** cost/benefit.

A 'FUTURE' cost/benefit is one that will take place in the future as a result of the decision, and has not already been incurred or paid/received. It is not a historic or 'sunk' cost.

An 'INCREMENTAL' cost is one that is avoidable if the decision is not implemented. Likewise, an incremental benefit is dependent on the decision being implemented.

A 'CASH' cost/benefit is, as its name suggests, a transaction that results in an outflow or inflow of cash. In this case it is probably easier to think about costs that are non-cash costs such as depreciation, allocation or apportionment of head office costs for instance. These are costs that do not involve the outflow of cash and so are not classed as a relevant cost for decision-making.

## ILLUSTRATION

A restaurant chain with five branches is deciding whether to open a sixth restaurant.

They decide that they will need a head chef (£45,000 per year) and another chef (£32,000 per year) at the new restaurant.

They will employ a new person for the 2<sup>nd</sup> chef role, but they decide to move Tom (a head chef from another branch) to the new restaurant as they know he will do a great job.

The only relevant cost here is the 2<sup>nd</sup> chef at £32,000 as this is only happening because of the new restaurant. It is a FUTURE, INCREMENTAL, CASH cost.

Tom, the head chef is being paid regardless so the £45,000 is not a relevant cost. If the project doesn't happen, Tom will remain at the other branch and will still be paid anyway.

The business has already incurred some research costs. They spent £3,000 researching the best location for the new restaurant. Let's say the project doesn't go ahead for whatever reason. The £3,000 research was already spent so it's not a relevant cost. It is referred to as a "sunk" cost and it should not be included in the cost benefit analysis.

## Questions

### EXTRA QUESTION 1 – COST BENEFIT ANALYSIS

A recent employee survey has indicated that staff morale at your company is very low. To try to improve this, the Managing Director (Jim) is considering the implementation of a new staff satisfaction monitoring system. This will give staff more frequent opportunities to give their feedback, with the aim of addressing dissatisfaction and potential problems sooner.

At the end of each month, staff in each department will be able to submit feedback through the company's intranet, including numerical scores and written comments. There will also be the option to anonymise this if staff prefer. As an incentive to complete the feedback, with the aim for engagement to be as high as possible, those completing it will be entered into a quarterly prize draw for vouchers from a well known online store.

Jim has asked you to prepare a cost benefit analysis for the project for year 1.

Prior to Jim asking for the analysis to be formalised, you estimate that you have spent around £250 of your time in discussion with him about the idea.

The survey will be carried out using the company's existing website provider via the intranet, which costs the company £50 per month.

Jim has asked the Office Manager (Jon) to set up the survey, as he has skills in this area. It is estimated that it will take him two hours, and he is currently extremely busy so it has been agreed to be completed in overtime hours at a rate of 1.5 times his usual pay of £30 per hour.

Jim plans to initially review and collate the feedback himself, once per month. He believes this will take him around 2.5 hours at a time, at a pay rate of £75 per hour.

He has asked you to give the survey an initial test run, which should take around 20 minutes to complete. This will also take place in overtime hours, paid at a rate of 1.5 times your usual pay of £22 per hour.

The value of the prize draw voucher will be £50 per quarter for the first year, and will then be reviewed depending on the success or otherwise of the project.

Jim believes that the project will help improve staff morale and productivity significantly, and has put a figure to this improvement of £8,000 per year initially.

He also believes that staff turnaround should decrease if employees feel their views are listened to and acted upon. He estimates that there will be three fewer staff leaving the company in the first year, paid on average £28,000 per year, with recruitment fees usually being 15%.

(a) Complete a financial cost benefit analysis for year one of the above proposal.

<b>Costs</b>	<b>£</b>
<b>Benefits</b>	<b>£</b>
<b>(Net Cost) / Net Benefit £</b>	

(b) (i) Are there any non-financial factors that should be considered as part of the cost benefit analysis?

(b) (ii) Recommend whether or not the new staff satisfaction monitoring system should be introduced. Justify your answer.

## EXTRA QUESTION 2 – COST BENEFIT ANALYSIS

This question follows on from Task 5 – Revision Example 3 in your Task Bank.

### TASK 5 REVISION EXAMPLE 3 SCENARIO:

#### Current situation

When sales representatives visit potential customers, they are unable to make a sale at the meeting. They have to go back to the office, produce a quotation, email this to the customer and wait for them to approve it before they can process the order. The sales team complain that this process is inefficient and sometimes costs them sales because the customer changes their mind, or they find that the goods are out of stock when they get back to the office.

#### Proposal

Each sales representative will be given a tablet computer. They will be able to access the company's systems via the internet. They will be able to see stock availability and place orders while at the customer's premises.

Further to the discussions that have taken place around the proposal for each sales representative to be given a tablet computer, Vikki Welch has asked you to complete a cost benefit analysis for the first year. This will help determine whether or not the investment is worthwhile financially.

You have been given the following information:

Each tablet will cost £350, and initially will be trialed by the 10 most experienced members of the sales team. It is hoped that, if this is successful, then in quarter two the programme will be rolled out to the next 10 employees and so on, until the end of year 1. If this is deemed a success, then the remaining sales staff will all be given tablets in year 2.

Each staff member receiving a tablet will need some initial training on how to use it most efficiently. The company has decided to buy an instructional online video, to be accessed from the tablets, costing £50 in total.

It is estimated that staff will spend one hour completing the training, paid at their usual rate of £28 per hour (this being an average, as staff with different experience levels are paid different amounts). This will take place during normal working hours.

Surju Siyani spent some time researching which tablets and associated online training would be the most suitable, and tells you that the total time spent on this was 2.5 hours, at an equivalent hourly rate of £65.

Surju believes that there will be less need for staff to travel so frequently between customer premises and the office once the new system has been rolled out. The environmental impact of this has been considered, and it is estimated that staff will save on average £100 of fuel costs each across the year. Staff do not claim expenses for this type of travel.

It is anticipated that the new system will reduce customer complaints (for example being informed after a sales visit that items they wanted are in fact out of stock) by 8%. Currently the customers services department spend around £6,200 of their time per year on complaints handling.

Projections also include a reduction in lost revenue, which occurs when customers change their minds between the sales staff visiting their premises and returning to the office to place the order. The average customer order generates revenue of £1,500, and at present, of the initial number of orders that average 750 per year, 1 in 20 will be cancelled. It is thought this will fall to 1 in 25.

(a) Complete a financial cost benefit analysis for year one of the above proposal.

<b>Costs</b>	<b>£</b>
<b>Benefits</b>	<b>£</b>
<b>(Net Cost) / Net Benefit £</b>	

(b) (i) Are there any non-financial factors that should be considered as part of the cost benefit analysis?

(b) (ii) Recommend whether or not the new sales staff tablets should be introduced. Justify your answer.

# Solutions

## Extra question 1

There are several items here which won't be included in the calculation. Firstly, the time you have already spent in discussion with Jim is known as a 'sunk cost'. A 'sunk cost' is a cost that has already been incurred and cannot be recovered, so it should not influence the decision being made.

Secondly the cost of the website/intranet – this will be incurred regardless of whether or not the survey is implemented, and so again is not relevant here.

Thirdly, the time Jim will spend collating and reviewing the results – we are not told that this will take place during overtime hours, and he is paid his monthly salary regardless, so this is another cost which isn't relevant to include in the calculation.

Lastly the estimate for improved staff morale and productivity – this is an intangible benefit and very difficult to quantify, and so this figure should not be included.

**(a) Complete a financial cost benefit analysis for year one of the above proposal.**

Costs	£
Time already spent in discussion – not relevant	0
Monthly website fee – not relevant	0
Jon – 2 hours x £30 per hour x 1.5	90
Jim's monthly review time – not relevant	0
Testing time – 20/60 x £22 per hour x 1.5	11
Voucher cost - £50 x 4	200
Benefits	£
Improved morale and productivity - intangible	0
Saved recruitment fees – 3 x £28,000 x 15%	12,600
<b>(Net Cost) / Net Benefit £</b>	<b>12,299</b>

**(b) (i) Are there any non-financial factors that should be considered as part of the cost benefit analysis?**

The potential improvement in staff morale and therefore productivity is a huge intangible benefit that the proposal could offer.

However, this will depend on whether or not management are acting on any suggestions that staff make for improvements. If staff feel that it is simply a data collection exercise, and cannot see any of their feedback being acted upon, then the result could be the opposite to what was hoped for. At best staff may simply stop completing the survey each month, and at worst their morale could worsen.

There is also the issue of the time staff may take to complete the surveys, and whether or not they are to be done during work hours. If so, this could potentially have a negative effect on productivity, depending how long they take. If they are to be done outside of work hours then staff may not be motivated to engage with the survey.

Another issue is whether or not the prize draw and the prize itself that is on offer is enough to incentivise staff. It may be that the amount is not considered enough motivation, that the chance of winning is deemed too low, or that staff do not tend to buy things from that specific online store.

**(b) (ii) Recommend whether or not the new staff satisfaction monitoring system should be introduced. Justify your answer.**

Yes, the new system should be introduced, as the benefit far outweighs the cost, and this does not include the potential intangible benefits which could be gained. This assumes that the reduced recruitment fees as estimated by Jim are accurate.

The initial set up and testing costs are one-offs, which would not be incurred in subsequent years.

However Jim should be aware that reasonable staff suggestions would need to be acted upon, otherwise there could in fact be a negative effect on staff morale. There is likely to be a cost attached to implementing some of the suggestions, which will need to be budgeted for.

***Note: Marks may be awarded for recommending not going ahead with the suggestion, as long as a valid justification has been given.***

## Extra question 2

**(a) Complete a financial cost benefit analysis for year one of the above proposal.**

There are a number of items here which won't be included in the calculation. Firstly, the staff training. As this is to be completed during normal working hours, and staff will be paid their salaries regardless, this cost is not relevant.

Secondly, the time Surju has spent on research. This is a 'sunk cost', and isn't relevant to the decision because the cost has already been incurred.

Thirdly, the saving in fuel costs. This will be a benefit to the staff themselves, and an intangible benefit to the environment, but there is no financial implication for the company, as staff incur these expenses themselves.

<b>Costs</b>	<b>£</b>
Purchase price of tablets – 40 employees in year 1 x £350	14,000
Training video	50
Staff time completing training – not relevant	0
Surju's research time – not relevant	0
<b>Benefits</b>	<b>£</b>
Fuel cost savings – not relevant	0
Reduction in customer complaints handling – $0.08 \times £6,200$	496
Reduction in lost revenue: current cancelled $1/20 \times 750 \times £1,500 = £56,250$ . New cancelled $1/25 \times 750 \times £1,500 = £45,000$ . Difference = £11,250	11,250
<b>(Net Cost) / Net Benefit £</b>	<b>(2,304)</b>

**(b) (i) Are there any non-financial factors that should be considered as part of the cost benefit analysis?**

The sales team have been complaining that the current process is inefficient, so it is likely that morale and overall employee satisfaction would increase with the introduction of the new system.

However, the initial rollout would need to be communicated and managed tactfully, as the staff who are not included in the first stage may be dissatisfied and their performance may deteriorate as a result.

Customer relations may also improve with the new system in place. The reduction in lost revenue may or may not occur as projected, however simply having happier customers could bring benefits to Downton in the long run through positive reviews, and an overall improvement in reputation.

The environmental impact is another non financial benefit to consider. While this will not save costs for the company itself, it is possible that they could use the fuel savings and how their scheme has helped reduce environmental damage as a marketing tool. It could be used to illustrate their corporate social responsibility.

Another non financial factor is the potential impact on employees' work life balance. Having access to the tablets 24 hours a day could lead to work being done outside of normal hours. However, employees may prefer this, as it gives them more flexibility and ability to work around families or other commitments.

There are possible data protection regulations to consider, where customer details are being stored on the tablets. Staff need to be aware of the regulations, and ensure that the tablets are password protected, and that data is stored as legislation allows.

**(b) (ii) Recommend whether or not the new sales staff tablets should be introduced. Justify your answer.**

Yes, the proposed investment should be made. Even though there is a net cost in year 1, the bulk of the costs are the initial one-off purchase of the tablets, which should bring benefits for several years. There are also the intangible benefits of improved sales staff morale, improved customer satisfaction and a reduction of environmental impact from fuel emissions.

OR

No, the proposed investment should not be made because the costs outweigh the benefits. Further to this, the costs are known figures based on purchases prices, whereas the benefits are simply forecasts or estimates, and may not materialise.

***Marks awarded for either conclusion as long as the answer has been justified.***