



**CIMA**<sup>®</sup>

## February 2019 Operational Case Study Examination

### Pre-seen material



## Trigg Adventure

### CONTENTS:

	<b>Content</b>	<b>Page</b>
1	Introduction	2
2	Your role	3
3	Extracts: Fawland business today Trigg Adventure website: Domestic and commercial products Staff training manual: the business process	4-8
4	The organisation	9 - 11
5	Directors' backgrounds, responsibilities and departments	12 - 15
6	Other information about the business	16 - 17
7	Financial statements for the year ended 31 December 2018	18 - 19
8	Budget information for the year ending 31 December 2019	20 - 21
9	Example of commercial job costing	22
10	Email from Tony Trigg to the other directors	23
11	Trigg Adventure company newsletter	24
12	Article on Government initiatives in Fawland	25
13	Tax regime in Fawland	26

## 1. Introduction

Trigg Adventure is a small family owned limited company that designs, manufactures and installs children's outdoor play equipment in the country of Fawland. Fawland is in central Europe with a population of 40 million. The currency is the F\$.

Trigg Adventure was started 25 years ago by Stanley Trigg. Stanley has recently retired from the business, giving his 75% stake in the business to his son Tony Trigg, who is now Managing Director. Stanley's brother-in-law Ben Darcy, who is the Production Director, has a 25% stake in the business. The latest financial statements show revenue of F\$20 million, a small decrease on the previous year.

Trigg Adventure operates in two distinct markets:

- Domestic: A range of children's wooden outdoor play equipment sold directly to the end consumer through the company's own website or through established outdoor play specialist stores, large toy shops and department stores. All products in the range are supplied to the customer as flat-pack for self-assembly and are designed for private gardens. This is a market in maturity.
- Commercial: A more robust version of the domestic range that is tailored to suit the individual requirements of commercial customers such as adventure playgrounds, café gardens, schools and local government playgrounds. Commercial customer sales arise through personal selling. The commercial market is growing rapidly, although there is significant competition in this market. Commercial customers have installation (the assembly, fixing and on site finishing of the product) included as part of the package price. Installation was, until recently, outsourced to sub-contractors but is now carried out by Trigg Adventure's own installation team. Commercial customers often require ground work which is the preparation of the area below the climbing frame that makes it safe for children. Trigg Adventure does not currently undertake this work, but does, if requested, recommend ground work suppliers.

The demand for domestic products increases over the summer months, with a slump in demand in January, February and March. Demand for commercial products follows a similar pattern but this pattern is much less pronounced.

Profitability has been slowly declining over the past three years and the directors of Trigg Adventure are keen to reverse this trend. Tony Trigg has different ideas to his father and plans to invest in the design of new climbing frame ranges for both the domestic and commercial market. In addition, the directors have been considering expanding the range of products offered to the domestic market. A Design Manager role has recently been established and Grace Lucas, an external recruit, has just been appointed to this role. She is responsible for heading up the existing design team and for new product development.

## 2. **Your role**

You are a Finance Officer working within the Finance Department of Trigg Adventure. You are principally responsible for preparing accounting information, although you are often asked to perform tasks in other areas of the business.

### 3. Extracts

Extract from Fawland Business Today

#### FAWLAND BUSINESS TODAY – September 2018

##### **THE OUTDOOR TOY INDUSTRY by Francesca Toro**

###### **Domestic outdoor toys**

One part of Fawland's toy industry that once seemed immune to the trends and fashions that characterise the rest of the industry, is the outdoor climbing equipment sector. This sector includes climbing frames, slides, swings, and climbing nets: adventure toys that are designed to develop a child's coordination, balance and confidence. Over the past five years the growth in sales to domestic customers, for this type of toy in value terms has only maintained an average of 1.7% a year, well below the growth experienced a decade ago.

The reasons for this sector's poor performance is clear when compared to the growth in digital toys over the same period. As gaming and digital toy manufacturers now target even pre-school children, parents are opting to buy these rather than the outdoor toys that are limited to good weather and daylight. Parents only have a finite budget and children clearly prefer the addictive qualities of the electronic games, which are less expensive.

Competition in the domestic outdoor play sector has settled now that a few well-known brands ceased trading in recent years. The market now comprises of a number of small and medium sized companies all offering similar products in this limited market. The better-known brands (in order of size) are: Trigg Adventure, Monkees, Wigwam and Clamber and these can be found in specialist outdoor play stores, the better toy shops and department stores as well as their own websites. Together these four brands account for 79% of the total market.

###### **Commercial outdoor toys**

Curiously, businesses that buy outdoor toys are doing so at an increasing rate. Almost all businesses that have an outdoor space for children will now have a range of outdoor play equipment as a matter of course, as these places attract customers with children which equates to better sales. Over the past five years demand from this segment in value terms has grown by an average of 7.4% a year.

In addition to this, the playgrounds run by local governments have been renewing their play equipment since the new government took over in 2017 and the sector has benefited enormously from this. The well-publicised accidents in 2015, involving children using non-safety compliant equipment, has guided organisations buying equipment towards the larger producers, as these have proven safety records and greater investment in safety compliance training and design. Surprisingly, none of the better-known brands from the domestic market are the market leaders in this sector which is currently dominated by R&U and Jacks.

## Trigg Adventure...your child's adventure starts here!

With Trigg Adventure you can build your own design to allow your little one to grow in confidence and agility. Simply measure the space that you have and then make the choices from the menu below.

### 1 Choose your tower

Trigg Adventure Basic tower F\$450	Trigg Adventure Deluxe tower F\$750
--	---

### 2 To expand on the tower- choose the type and number of arms needed (maximum of three)

Trigg Adventure Basic extension arm F\$200	Trigg Adventure Deluxe extension arm F\$300	Trigg Adventure Deluxe climbing bridge F\$330
--	---	---

### 3 Choose your Accessories

Slide	F\$80
Wavy slide	F\$50
Swing seat	F\$25
Double swing seat	F\$40
Toddler swing seat	F\$30
Trapeze and rings	F\$40
Climbing net	F\$20

### 4

Checkout

## Free site visits, quotes and consultations

With 25 years' experience, Trigg Adventure specialises in the design, manufacture, supply and installation of outdoor toys for commercial ventures. Whether your organisation is a school, nursery, local government-run playground or private company we are ideally placed to provide you with a playground solution to help you to achieve your goals.



We work in partnership with a variety of ground work specialists who offer a range of alternative ground surfaces to suit our climbing frames. If required, we can recommend the most suitable base and the relevant specialist company to supply it. Ground surfaces range from the simple and easy to lay rubber matting and bark/woodchip to the innovative and expert installed wet pour.

## Bespoke design service

At Trigg Adventure we offer a bespoke service: outdoor play equipment that can be designed to meet your exact on-site needs. Our innovative design team can create the unique functionality and style best suited to your business.

Using the latest design technology Trigg Adventure can show you exactly how the design will look once constructed in your premises. This design service is currently free of charge and will ensure that you get the exact product that will suit your business needs.



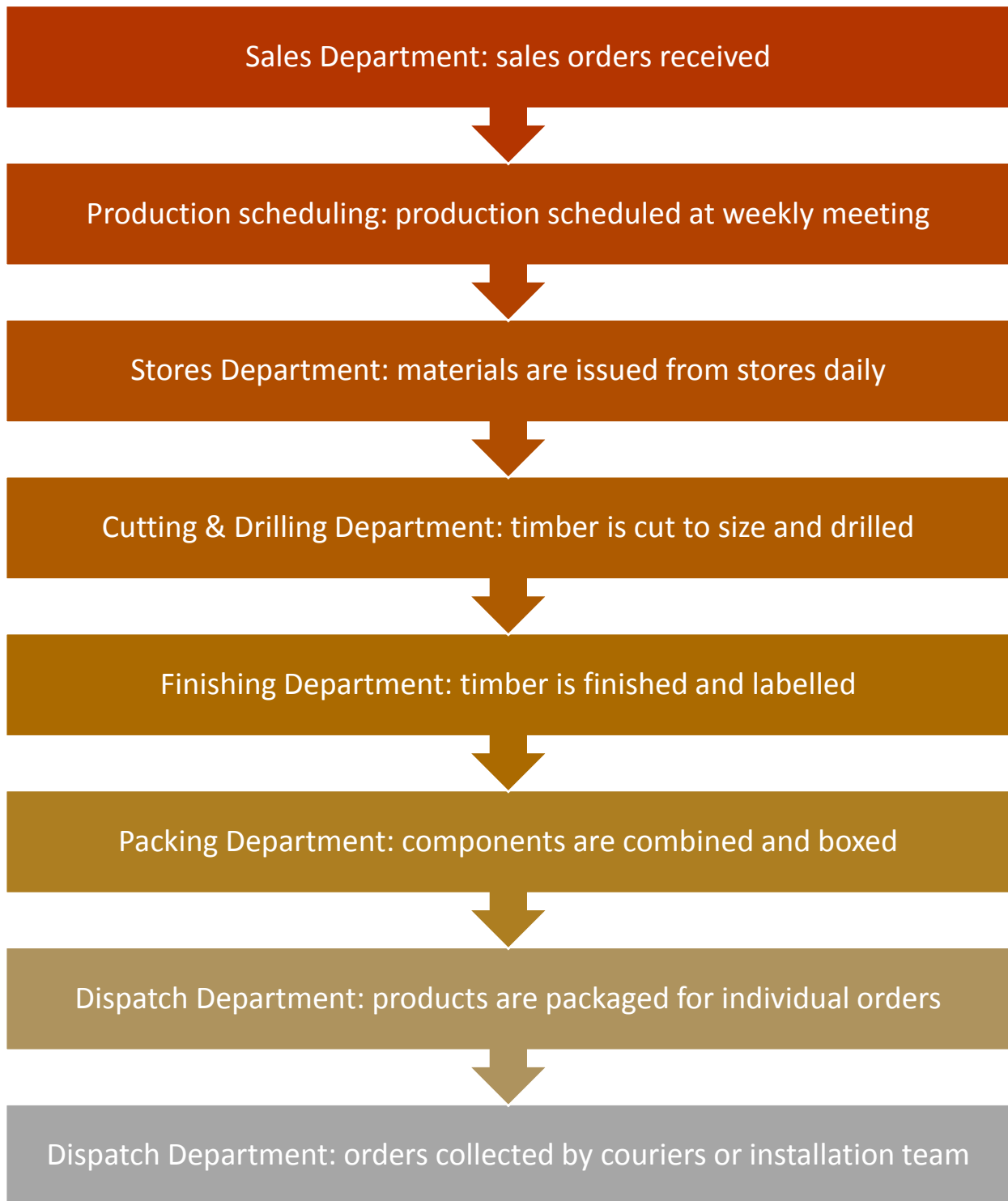
The price we quote will include installation by one of our in-house dedicated installation teams (but will exclude groundworks). All installation team members are highly trained and experienced workers who will transform your outdoor space within hours. All Trigg Adventure staff that work on site hold up-to-date disclosure certificates, approving them to work in the vicinity of children.

Trigg Adventure products adhere strictly to all commercial safety standards ranking them at the highest level of safety in Fawland. This applies to the product and the installation. All products come with a 15-year warranty for parts and labour (terms and conditions apply)

Book a free, no obligation site visit and consultation today.

Extract from Staff Training Manual: THE BUSINESS PROCESS

An overview





## 4. The organisation

### Sales Department

The Sales Department is split into two: a domestic and a commercial team. The domestic team is responsible for passing all sales orders onto the dispatch team. Domestic sales orders will be either direct from the end consumer via the website or from our retailer domestic product customers (outdoor play specialists, toy shops and department stores). This team is also responsible for negotiating with our retailer domestic product customers, securing new retail outlets and attending major toy fairs.

The commercial team deals with all enquiries from commercial customers (such as adventure playgrounds, café gardens, schools and local government playgrounds). Initially a member of this team will visit the commercial customer to discuss design needs and possible installation dates. They will then liaise closely with the Design Department to establish the final bespoke design and then issue a quotation to the customer. The commercial sales team have the discretion to offer discounts to commercial customers and earn a bonus of 0.5% of the sales value on all commercial orders. Once a quotation has been accepted, a sales order is raised and passed to the production scheduling team.

### Production Scheduling

All domestic products are produced for inventory, rather than being based on orders. This is because of the seasonal nature of demand for domestic products. This means that during the early months of the year, when sales are low, production output increases the amount of finished goods inventory. Inventory insurance premium paid is based on the highest expected inventory value.

Each week there is a production scheduling meeting involving the sales, dispatch and production managers. Any commercial orders nearing installation date are prioritised and the rest of the production plan for the week is based on other firm commercial orders and an assessment of the level of finished goods inventory for domestic products.

### Stores Department

The Stores Department operates between 8.00 hours and 17.00 hours each day, and is responsible for negotiating with suppliers, purchasing all of the inputs into the production process and managing the raw material stores.

Trigg Adventure only purchases the highest quality seasoned timber and inventory levels are maintained to ensure enough timber to fulfil production requirements for at least four weeks. At the end of each day, a member of the store's team checks the production schedule and transports the timber requirement for the next day to the Cutting & Drilling Department which is the start of the production process.

## **Cutting & Drilling Department**

The Cutting & Drilling Department works 24 hours a day for 5 days each week. The workers in this department are split into three rotating shift teams.

Each piece of timber is cut to correct length and size using a panel dividing machine. Where required, the timber is shaped and assembly holes drilled. The size and number of holes drilled depends on the product being made. Drilling machines need to be re-set each time a different product is made. Any off-cuts of timber are turned into sawdust and sent away for recycling.

## **Finishing Department**

The Finishing Department works the same shift pattern as the Cutting & Drilling Department, but is located at the other end of the factory building.

The cut and drilled timber is moved to the Finishing Department where it is planed and sanded before being sprayed with two coats of preservative. Following this process each timber component is labelled in order to aid whoever will be assembling the product.

When complete, each timber component for domestic products is placed into specific inventory bins within the Packing Department. If the timber component is for a commercial order this is placed on a shelf within the Dispatch Department that is designated for that order.

## **Packing Department**

Workers in the Packing Department take the timber components from the inventory bins and gather the correct combination of pieces required to make a complete product. If the product is a domestic product the packer places the timber components into boxes in set configurations placing padding between them for protection. Nuts bolts, screws, Allen keys and anchors are also added to the box together with assembly instructions, before being sealed and moved to the finished goods stores.

## **Dispatch Department**

When orders are received for domestic products staff in the Dispatch Department pick goods from the finished goods stores and group together all of the products needed for each order, including any accessories, in a single package. Appropriate paperwork is attached to each package together with an identifying barcode. The day's orders are put on pallets, ready to be picked up by the courier.

Orders for commercial customers are placed at the goods outward hatch and loaded into the installation teams' vans at the end of each working day. The installation teams maintain a constant supply of the nuts, bolts and other assembly fixing equipment in the vans and replenish this as necessary.

## **Installation Department**

The Installation Department is made up of a number of installation teams. Each team transport parts and equipment to a customer's premises and then assemble and fix the product on site. Each member of the department who is likely to be on site has to have a disclosure certificate which states that they do not have a criminal record. This is a legal requirement in Fawland for anybody working in the vicinity of children.

The installation function was brought in-house in June 2018 following a number of problems with the reliability of subcontractors. There was also an occasion, at a nursery school, where a subcontractor's employee was found to have a criminal record and no disclosure certificate. Since June 2018 complaints from customers, regarding missed start dates and errors in installation, have reduced dramatically. Sally Gomez, Sales Director has responsibility for the Installation Department.

## **Supporting departments**

### **Maintenance Department**

All of the cutting, drilling and spraying machines can break-down and disturb the production process. The three maintenance workers work different shift patterns to ensure that unexpected repairs can be dealt with as quickly as possible. Each piece of equipment is serviced a number of times a year to maintain operating efficiency and repairs are carried out as and when required.

### **Design Department**

This department designs and produces plans and costings for all of the commercial work. Recently, the department has been given responsibility for developing new products, including testing and prototyping, under the guidance of a new Design Manager, Grace Lucas.


### **Finance Department**

This department calculates and pays salaries and supplier invoices as well as ensuring that customers given credit pay on time. Each month a variance report and supporting commentary is produced and issued to the relevant departmental manager.


The employees in the department also produce financial statements needed for statutory purposes and help to set budgets. In addition, they also check the accuracy of the quotations sent to customers, assist with decision making and monitor inventory levels.

## 5. Directors' backgrounds, responsibilities and departments

### Managing Director

Tony Trigg	
	<p>Prior to joining Trigg Adventure, Tony worked for nine years as a project manager in the construction industry where he was very successful. The decision to change his career path and join the family business was made after a family conference where Stanley announced that he was going to retire in two years. Although the opportunity to head the organisation that his father built up from scratch came earlier than anticipated, Tony is delighted with the challenge.</p> <p>Tony took over the role as Managing Director of Trigg Adventure in June 2018 after spending the previous twelve months shadowing Stanley and also working in all of the company's departments. Working in the different functions was Tony's own idea and it helped him to gain a thorough understanding of all aspects of the business and its personnel before Stanley retired from it completely.</p> <p>Tony is keen to revitalise the family business and has already introduced new management roles that he believes will help the business to grow in both the domestic and commercial markets. This includes recruiting Grace Lucas the new Design Manager who has been tasked with new product development.</p>

### Production Director

Ben Darcy	
	<p>Ben is Stanley Trigg's brother-in-law and has worked for Trigg Adventure for over 23 years. Before his time with the company Ben worked as a production manager in a small textile company.</p> <p>Ben organised the current production line 20 years ago, transferring his considerable knowledge to the rapidly growing business. Since he joined the business he has become an expert in all aspects of the product range, which until recently have remained largely unchanged for years. He is an expert in Health and Safety compliance and is often asked to talk about this at conferences.</p> <p>Ben was relieved when his nephew took over control of the business and intends to retire in five years.</p>

## Direct production team under Ben Darcy

### Sanjay Dutt Cutting and Drilling Manager

- Sanjay joined Trigg Adventure in 1994 as a supervisor. He has been responsible for all of the Cutting & Drilling Department activities, including production scheduling, since 2004
- Line-manager to 3 shift supervisors and 18 cutting and drilling operatives

### Maria Duate Finishing Manager

- Recruited in 2012 Maria is a qualified cabinetmaker with specialist knowledge in wood finishing. Maria is passionate about the quality of the Trigg Adventure products
- Line-manager to 6 shift supervisors and 30 finishing operatives

### Brian Bingley Packing Manager

- Brian is responsible for parcelling all of the components of a product into the correct box with the correct label. The packing process also acts as a final inspection of finished goods
- Line-manager to 3 staff

## Support production Team under Ben Darcy


### Richard Herrick Stores Manager

- Richard joined Trigg adventures in 1997. He is responsible for the procurement and storage of raw materials as well as their movement into the production area
- Line-manager to 3 purchasing and stores staff

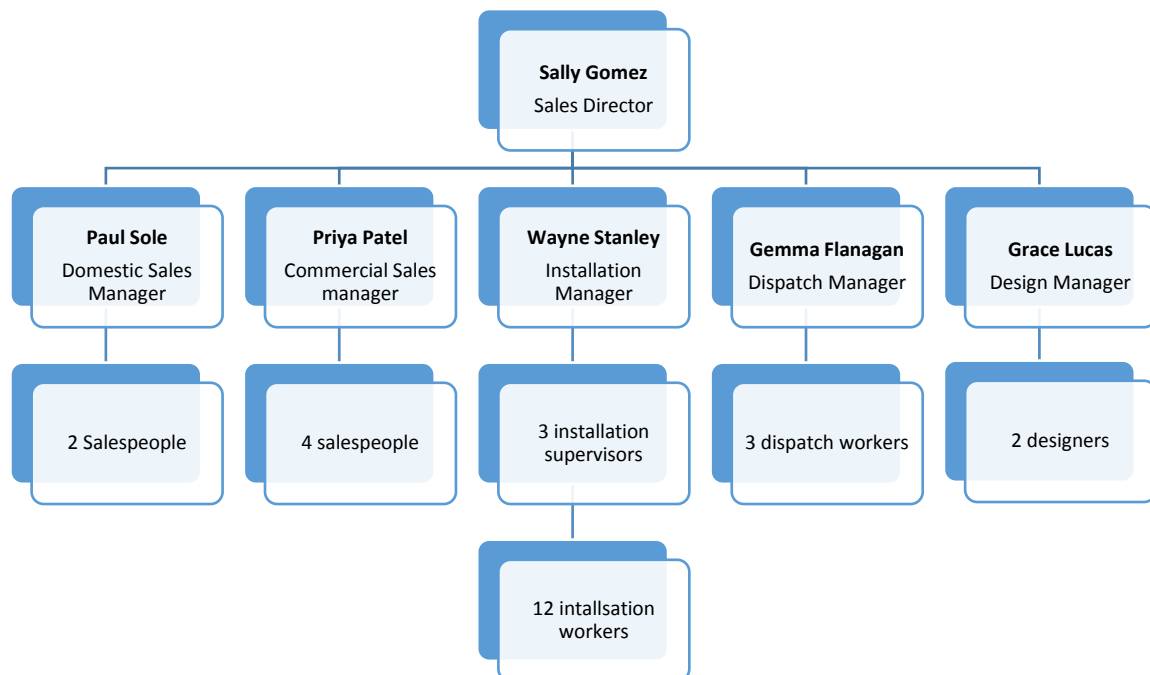
### Poppy Bhatt Maintenance Manager

- Poppy joined Trigg Adventure in 2013. A capable and experienced mechanic, she is responsible for the maintenance of all production machinery
- Line-manager to 3 maintenance staff


## Sales Director

<b>Sally Gomez</b>	
	<p>Sally joined Trigg Adventure at the same time that Tony took over as Managing Director. Sally had worked as a senior sales manager for Jacks, a major commercial competitor of Trigg Adventure, for the previous four years.</p> <p>Tony created the role of Sales Director as he believes that if the business is to thrive and grow, that this is a strategic role. Prior to Sally's appointment the sales team manager reported directly to Stanley. Stanley himself dealt with the bigger clients.</p> <p>Sally was the first major appointment that Tony made in his new role and she has rejuvenated the sales team. Sally has won their respect with her extensive industry knowledge, unflagging energy and enthusiasm. She aims to increase the sales in the commercial market to match the domestic market, within the next five years.</p> <p>In addition to the sales teams, Sally is responsible for the new Installation Department, the Dispatch Department and the Design Department, including new product development.</p>

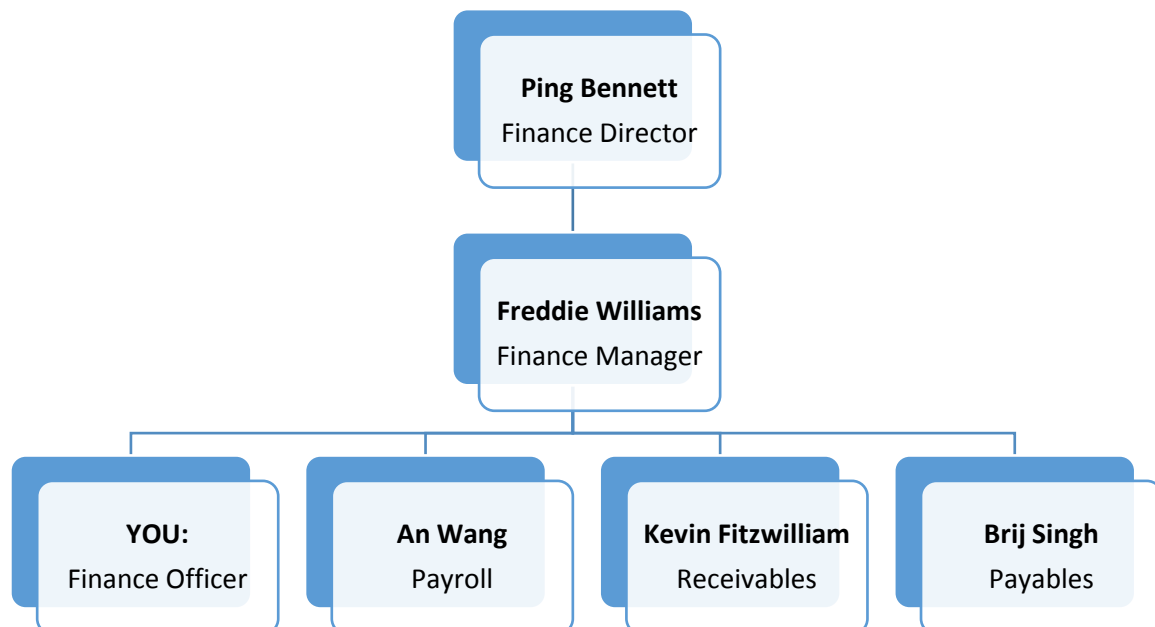
### Sales, installation, dispatch and design teams under Sally Gomez



## Finance Director

Ping Bennett	
	<p>Ping qualified as an accountant in 2005 and joined Trigg Adventure as Finance Director in 2014 when the previous director resigned. This is Ping's first role as Finance Director.</p> <p>As well as all aspects of the finance function Ping has, almost by default, taken over responsibility for IT within Trigg Adventure. In 2016 she persuaded the other directors to buy a system that integrates aspects of the design and production system with the accounts, thus reducing lots of duplication of work.</p> <p>In addition, Ping has responsibility for all aspects of the HR system and often had to advise Stanley and Ben about the rules governing the hiring, management and dismissal of staff. An example of this is when Tony asked her to create a general practical intelligence test to help with the recruitment of production workers.</p> <p>Under Tony's management she has continued to work on ad-hoc projects. Hence her staff are often involved in work outside of the normal finance function and have learned to be flexible.</p>

## Finance team under Ping Bennett



## 6. Other information about the business

### Raw material suppliers

The key raw material is quality seasoned timber and although this can be purchased from a number of suppliers in Fawland, Trigg Adventure sources this material from only two. The two suppliers, with whom Trigg Adventure has long relationships, supply lengths of timber in two different sizes for domestic products. The commercial products use a much higher density of wood, meaning that the quality and durability is as good as possible. This is also supplied in two different sizes by the same two suppliers. To date both of these key suppliers have proved both reliable and flexible and have supplied timber of outstanding quality. In addition, both suppliers allow Trigg Adventure 60 day payment terms.

### Accessories and sundry suppliers

The accessories regularly sold with both domestic and commercial climbing frames (including moulded plastic slides and swings, ropes and climbing nets) are sourced from a single company: one that also supplies most of Trigg Adventure's direct competitors. This company is reliable, low priced and supplies good quality products that come individually wrapped, ready for issuing to customers. Bulk purchase discounts are available for most items regularly purchased. Some commercial jobs require unique accessories that have to be sourced separately. Trigg Adventure uses a number of different specialist suppliers for such items.

Sundry items that are purchased regularly: connectors, bolts, anchors, packaging, machine oil, consumables, and so on, are purchased from a variety of different companies. As most of these items are of a standard quality, Richard Herrick, Stores Manager tends to source these items based on cost. All supplier payment terms are 30 days.

### Groundworks

Many of the commercial customers need their site to be made suitable for play equipment. The correct groundwork ensures that the play equipment can be used throughout the year and, more importantly, it helps prevent children from getting injured. As most groundwork is an individual choice and ranges from grass and rubber mats at one end of the spectrum through to major groundwork applications at the other, Trigg Adventure recommends a range of companies to the customer, who then deal directly with their chosen company. At present Priya Patel, Commercial Sales Manager, manages the relationship with all the groundwork companies but, as her role is growing, is finding it difficult to find the time to do this properly.

There is a growing trend for customers to choose wet pour, a synthetic rubber surface that is long lasting and maintenance free, as a base for climbing equipment. This is the most expensive base option as it usually requires extensive groundwork preparation and expert application. The synthetic rubber needs to be mixed and heated to exact specifications, that differ depending on local conditions, to work properly when poured. Also, by law all companies that supply extensive groundworks must employ a proportion of staff that have been awarded a recognised building qualification. For these reasons, Trigg Adventure recommend a small



company called Fallwell for all wet pour groundworks. To date Fallwell has worked flexibly with Trigg Adventure and has provided all customers with an excellent service.

### **Distribution**

All of the domestic flat pack products are delivered to customers by a nationwide courier service. Goods are transported to commercial customer sites by one of Trigg Adventure's own installation teams on the same day that the installation work starts.

### **Customers**

To date Trigg Adventure has achieved a revenue split of approximately: 70% domestic products and 30% commercial products. Tony Trigg wants to increase the sales of the commercial products as he believes that these products will offer the best margins in the long-term.

Trigg Adventure sells 50% of domestic products primarily through the company website. The company advertises extensively in parenting magazines and on billboards close to schools and nurseries. All of the domestic direct sales are paid for at the time of purchase either in cash or by debit or credit card.

The remaining sales of domestic products are made through retailers: outdoor play specialists, toy shops and department stores. Five of these customers account for over half of the total sales to retailers and negotiate excellent discounts for themselves. The credit terms offered are 30 days for the smaller customers and 45 days for the five largest customers.

The commercial products are sold to a variety of customer types from the one-time buyers, such as café owners that want to provide an attractive play area for customers' children, to local government buyers tasked with ensuring that the state-run playing fields have suitable equipment. Although initial contact from commercial customers is often made through the company website, a member of the sales team always visits these customers to discuss the most suitable product design. Although most commercial customers pay when the product is installed the local government usually negotiates credit terms of up to 50 days.

### **Staff**

Trigg Adventure has a reputation as a good employer. Unlike some of its competitors and similar wood working businesses located nearby, Trigg Adventure pays all staff at above the national minimum wage set by the Fawland Government. Indeed, wage rates are very competitive and increase with experience. The company is known for good working conditions and as a result staff retention levels are high at Trigg Adventure.

## 7. Trigg Adventure Financial statements for the Year Ended 31 December 2018

### Statement of profit or loss for the year ended 31 December 2018

	2018 F\$000	2017 F\$000
Revenue	19,800	20,668
Cost of sales	(16,830)	(17,475)
<b>Gross profit</b>	<b>2,970</b>	<b>3,193</b>
Selling and distribution costs	(540)	(501)
Administrative expenses	(888)	(873)
<b>Operating profit</b>	<b>1,542</b>	<b>1,819</b>
Finance costs	(18)	-
<b>Profit before tax</b>	<b>1,524</b>	<b>1,819</b>
Tax	(434)	(473)
<b>Profit for the year</b>	<b>1,090</b>	<b>1,346</b>

### Statement of financial position at 31 December 2018

	2018 F\$000	2018 F\$000	2017 F\$000	2017 F\$000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment		1,891		1,601
<b>Current assets</b>				
Inventory	4,394		4,247	
Trade and other receivables	1,304		1,029	
Cash and cash equivalents	331		105	
		6,029		5,381
<b>Total assets</b>		<b>7,920</b>		<b>6,982</b>
<b>EQUITY AND LIABILITIES</b>				
Issued ordinary share capital		1		1
Retained earnings		5,491		4,761
<b>Total equity</b>		<b>5,492</b>		<b>4,762</b>
<b>Non-current liabilities</b>				
Bank loan		300		-
<b>Current liabilities</b>				
Trade and other payables	1,692		1,745	
Tax payable	436		475	
		2,128		2,220
<b>Total equity and liabilities</b>		<b>7,920</b>		<b>6,982</b>

## Statement of cash flows for the year ended 31 December 2018

	F\$000	F\$000
<b>Cash flows from operating activities</b>		
Profit before tax		1,524
<b>Adjustments</b>		
Depreciation	416	
Profit on sale of property, plant and equipment	(26)	
Finance costs	18	
		408
<b>Movements in working capital</b>		
Increase in inventories	(147)	
Increase in trade and other receivables	(275)	
Decrease in trade and other payables	(53)	
		(475)
<b>Cash generated from operations</b>		<b>1,457</b>
Tax paid	(473)	
Finance costs paid	(18)	
		(491)
<b>Net cash inflow from operating activities</b>		<b>966</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(715)	
Sale of property, plant and equipment	35	
<b>Net cash outflow from investing activities</b>		<b>(680)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowing	300	
Dividend paid	(360)	
<b>Net cash outflow from financing activities</b>		<b>(60)</b>
<b>Net increase in cash and cash equivalents</b>		<b>226</b>
Cash and cash equivalents at the start of the year		105
<b>Cash and cash equivalents at the end of the year</b>		<b>331</b>

### Note 1- Staff numbers:

	Number
Production, maintenance and stores	87
Selling and dispatch	12
Design	3
Administration	5
Directors	4
<b>Total</b>	<b>111</b>

## 8. Budget information for the Year Ending 31 December 2019

### TOTAL BUDGETED OPERATING PROFIT

	Domestic F\$000	Commercial F\$000	Total F\$000
Revenue	13,420	7,520	20,940
Variable production costs	(9,614)	(4,646)	(14,260)
Variable selling costs	(345)	(38)	(383)
<b>Contribution</b>	<b>3,461</b>	<b>2,836</b>	<b>6,297</b>
Fixed production overheads			(3,217)
Other fixed overheads			(1,299)
<b>Operating profit</b>			<b>1,781</b>

### Notes on budget preparation:

- Trigg Adventure operates a marginal costing system.
- Standards for hours worked are based on the working conditions at the time the standard is set each year. Standards for prices and rates are based on the price or rate at the start of the year. Annual pay rises occur with effect from 1 January.

### DOMESTIC PRODUCTS

#### Domestic products: budgeted revenue and variable production costs per unit (excluding accessories)

	Basic tower	Basic extension arm	Deluxe tower	Deluxe extension arm	Deluxe climbing bridge
	F\$	F\$	F\$	F\$	F\$
Selling price	450	200	750	300	330
<b>Variable production costs</b>					
Direct materials	248	98	372	149	173
Direct labour	56	33	93	40	51
Variable production overhead	21	13	35	15	19
<b>Total variable production costs</b>	<b>325</b>	<b>144</b>	<b>500</b>	<b>204</b>	<b>243</b>

### Domestic products: budgeted sales volumes

	Basic tower	Basic extension arm	Deluxe tower	Deluxe extension arm	Deluxe climbing bridge
Budgeted sales volume	10,500	5,500	6,000	3,000	2,000

All accessories for the domestic products (swings, slides, trapeze, ropes and nets) are bought-in and then sold-on at a set mark up. For the year ending 31 December 2019 it is expected that sales revenue of F\$1,535,000 will be achieved at a cost of buying in of F\$1,311,500.

### Domestic products: standard production cost for a basic extension arm

Domestic- Basic extension arm	Quantity used	Cost per length, item or hour F\$	F\$	F\$
<b>Materials</b>				
Timber 3491	6	11.50	69.00	
Timber 3412	3	9.00	27.00	
Bolts & caps	12	0.15	1.80	
Anchor	2	0.10	0.20	
<b>Total material cost</b>				<b>98.00</b>
<b>Labour</b>				
Cutting & drilling	0.3	21.00	6.30	
Finishing	1.2	21.00	25.20	
Packaging	0.1	18.00	1.80	
<b>Total direct labour cost</b>				<b>33.30</b>
Variable production overhead cost	1.60	8.00	12.80	<b>12.80</b>
<b>Total variable production cost</b>				<b>144.10</b>

### COMMERCIAL PRODUCTS

All commercial sales are undertaken on a job by job basis. As each job is unique it cannot be budgeted for in detail. The commercial products budget for the year ending 31 December 2019 is based on the actual results for the year to 31 December 2018 adjusted for anticipated increases in volume of jobs and other known changes in prices.

## 9. Example of a Commercial job costing

Each commercial job is costed individually. This is an example of a job undertaken in early 2019.

	Quantity	Cost per unit F\$	Total Cost F\$	Total Cost F\$	Total Cost F\$
<b>Frame, arms climbing tunnel and low platform as per design</b>					
Timber – type 5647 (lengths)	70	21	1,470		
Timber – type 5645 (lengths)	54	16	864		
Bolts and caps- size 20cm (each)	180	0.5	90		
Bolts and caps- size 15cm (each)	120	0.4	48		
Screws- size 5cm (per kg)	3	3	9		
<b>Subtotal timber and fixings</b>				2,481	
Labour- Cutting/drilling (hours)	8	21	168		
Labour- Finishing (hours)	2	21	42		
<b>Subtotal direct labour</b>				210	
Variable overhead (hours; note 1)	10	8	80		
<b>Subtotal variable overhead</b>				80	
<b>Total for production of frame</b>				2,771	
Mark up on cost @70%				1,940	
<b>Total for production</b>					4,711
<b>Accessories:</b>					
Slide – 3 metre (each)	1	300	300		
Swing- package A	1	180	180		
<b>Subtotal accessories</b>				480	
Mark up on cost @ 20%				96	
					576
<b>Installation:</b>					
Installation labour	16	25		400	
Mark up on cost @70%				280	
<b>Subtotal installation</b>					680
<b>Selling price</b>					5,967

Note 1:

Variable overheads are charged to commercial jobs at F\$8.00 per direct production labour hour, which is the same rate as domestic products

## 10. Email from Tony Trigg, Managing Director to the other Directors

**From:** Tony Trigg  
**To:** Ben Darcy, Sally Gomez, Ping Bennett  
**Subject:** Potential acquisition - **confidential**

I have just had a meeting with Brenda Roopal the Managing Director and 100% owner of Safari Toys, a company that manufactures and sells a range of products that are themed on safari animals and targeted at children ranging from 3 to 10 years old. She is looking to sell the business as unfortunately she has recently developed health issues and she feels that the business is now too large for her to manage.

I definitely think that it is something we should consider, although it would be a bit of a departure from our core business. I would like to have a meeting later in the week to discuss this as a possible acquisition, but in the meantime, I thought I'd let you know what I know about the business.

### **The history of Safari Toys**

Safari Toys was started by Brenda Roopal in 2010 after she decided to turn her hobby into a business. Prior to 2010 Brenda worked as a supervisor in a textile business and in her spare time made beautifully crafted safari animal soft toys that she sold at numerous craft fairs and in local toy shops. For each safari animal she created a character that children found friendly and loveable and because of the high quality of her work, demand soon outstripped supply, hence her decision in 2010.

For the first three years the business grew slowly as the customer base expanded, however the real breakthrough came in 2013 when Brenda using the safari animal characters that she had developed, designed a soft toy that could be converted into a pillow and also worn as a backpack. This new product was an instant hit because there was little else like it on the market at the time and Brenda was able to attract national retailers to stock it.

Brenda followed the success of the pillow with a sleeping bag product, also themed on her safari animal characters and in 2015 was approached by a television production company that wanted to turn her safari animal characters into an animated programme for younger children. The programme started in 2016 and is still running, although apparently it is now a little less popular than it used to be. The television programme meant that demand grew significantly, and Safari Toy products are now sold in all major national toy retailers as well as in numerous independent toy stores.

### **Financial information and future prospects**

I don't have any detailed information yet, although the last set of financial statements show revenue of F\$2.6 million and a total of 35 employees. Prospects are good, although there are now a number of businesses that make similar products to Safari Toys and so there are additional competitive pressures. However, these are mitigated to some extent by the link with the children's television programme and the high quality of materials and workmanship of the products.

This could be a really exciting opportunity for us to acquire a business with a similar reputation for quality as us. I look forward to hearing your thoughts when we meet later in the week.

Tony Trigg  
Managing Director  
Trigg Adventure

## 11. TRIGG ADVENTURE COMPANY NEWSLETTER

# Trigg Adventure News

Staff newsletter Issue 1

### **A message from Tony Trigg**

When I started working for Trigg Adventure the biggest complaint I heard was that the hardworking guys on the shop floor are never told what is going on with the business. Therefore, I am pleased to launch the first internal quarterly newsletter, intended to keep everyone up-to-date with our developments.

I would like to thank you all for your commitment and hard work this year. I am particularly grateful for all of the honest feedback that I have received since becoming Managing director and believe that we can build on a sound core business during this next year. To make sure that we grow our business the senior management team have a number of initiatives planned and with this in mind I have asked our three directors to tell you what is planned in their areas.

### **Ben Darcy, Production Director's report**

- All of our production departments will be busier in 2019 than they were in 2018 which will fill the spare capacity that we had this year. We expect that overtime will be needed during busy periods.
- I have recently attended and presented on a conference on Health and Safety in the workplace.

### **Sally Gomez, Sales Director's report**

Firstly, I would like to thank you all for making me so welcome since I started working with you last June, it is a pleasure to work with such positive people. In terms of developing the business I will be focusing on three main areas for 2019:

- Growing our existing commercial business. We intend to increase our market visibility and our market share. We have recently submitted a tender under the government's FITKIDS initiative to supply our local region's schools with outdoor play equipment. The competition for this contract is fierce. But if we are successful we can expect commercial sales to match domestic sales in 2019.
- New product development. Grace Lucas has a small production team seconded to her temporarily. This team will be developing prototypes early in the new year and it is possible that some of these new product ideas will focus on indoor products as we feel that we can extend our excellent brand image further than we do at present.
- Improvement in our sustainability. This is a particular passion of mine and an area where I have considerable experience. In my previous role I worked in a company that used recycled materials wherever possible and I will be working extensively with Ben, Ping and Tony to investigate where this will be possible at Trigg Adventure.

### **Ping Bennet, Finance Director's report**

- The finance department advises and supports all of the other departments and we will continue to integrate with all aspects of the business during 2019. The budget for 2019 is more optimistic than in 2018 as we expect higher growth in the commercial sector where margins are normally better. This growth will ensure that we remain successful for years to come.



## 12. ARTICLE ON GOVERNMENT INITIATIVES IN FAWLAND

# Fawland Daily Bugle

October 2018

## Government vows to get kids moving

Frank Santos – Business correspondent

The Government announced today a new initiative to get kids off the couch and into more physical activities. The initiative, called FITKIDS, means that F\$Millions of funding has been added to local government budgets for the sole purpose of buying new activity equipment for schools.

Each local government will invite tender proposals from a range of different suppliers. The local government procurement office will choose the most appropriate companies to supply schools with either indoor play equipment or outdoor play equipment. Schools will then be invited to choose the type of equipment that they believe will benefit their pupils the most.

The initiative follows recent reports that indicate that children in Fawland are the least active in Europe. Lack of activity is

linked to childhood obesity. Childhood obesity often leads to adult obesity which is linked to health issues such as diabetes. Shockingly, medical experts are forecasting that this generation is the first ever (excepting major wars) where life expectancy will be lower than the generation before.

The FITKIDS initiative will apply to all government funded schools that educate children aged 5 to 11 years. The Health Secretary, James Pont announced yesterday that the tender process would start immediately and that work in schools would be complete before the end of 2020.

The Government has, once again, shown that it is committed to its election pledge to make Fawland a healthy country in all senses of the word. This latest initiative follows the announcements last month that tax benefits and grants will be available to companies that move towards being more sustainable.

## 13. Tax regime in Fawland

### Corporate Profits

- The corporate tax rate to be applied to taxable profits is 30%.
- Unless otherwise stated below, accounting rules on recognition and measurement are followed for tax purposes.
- The following expenses are not allowable for tax purposes:
  - accounting depreciation
  - amortisation
  - impairment charges
  - entertaining expenditure
  - donations to political parties
  - Taxes paid to other public bodies.
- Tax depreciation allowances are available on items of plant and equipment (including vehicles used for business purposes) at a rate of 25% per year on a reducing balance basis.
- Where a company is in receipt of a government grant, the tax treatment will depend on the nature of the grant. For tax purposes, capital grant money received in the year is netted off the capital value of the asset to which it relates prior to tax depreciation allowances being calculated. Any capital grant income released to profit or loss in the year is not taxable. Revenue grants released to profit or loss in the year are treated as income for tax purposes.
- Tax losses can be carried forward indefinitely to offset against future taxable profits from the same business.
- Value Added Tax (VAT) is charged on all standard rated goods and services at a rate of 15%. VAT paid on inputs into a business can be netted off VAT charged on outputs from that business. All businesses are required to pay over the net amount due on a monthly basis.