

UNIVERSITY OF BOLTON
RAK ACADEMIC CENTRE
BUSINESS MANAGEMENT
SEMESTER ONE EXAMINATIONS 2018/2019
FINANCIAL REPORTING FOR MANAGEMENT
MODULE NO: BAM6008

Date: Saturday 12th January 2019

Time: 10:00am - 1:00pm

INSTRUCTIONS TO CANDIDATES:

There are **SIX** questions on this paper.

Answer **THREE** questions:

One from Section A,
One from Section B and
One from Section C

This is an **open book** exam and you are able to bring with you 2 x A4 pages (4 sides) of notes. Text books and reference materials are NOT allowed.

You must hand in your notes with your exam paper.

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SECTION A

ANSWER EITHER A1 or A2

QUESTION A1

A furniture manufacturing factory produces tables, which are sold for £50 each. The factory can make up to 500 tables a month. Each month, the factory incurs total fixed costs of £8,000 in rent, security costs, transport and salaries. In addition, the factory incurs variable costs of £30 per table manufactured and sold.

Required:

- a) Breakeven level of output and Break-even level of revenue. **(5 marks)**
- b) How many tables would the factory need to produce and sell, in order to make a monthly profit of £20,000? **(5 marks)**
- c) Using your knowledge of C-V-P analysis, clearly explain how they may be useful in assessing business plans and in particular use in management control. **(15 marks)**
- d) Explain the limitations of C-V-P analysis for planning and decision making. **(5 marks)**

TOTAL 30 MARKS

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QUESTION A2

Flamingo plc has produced the following standard cost card for its product the Jingle, based on annual sales and production of 1,000 units:

Standard Cost per Jingle		£
Sales price		<u>20</u>
Direct material	2 kg at £5 per kg	10
Direct labour	1 hr at £5 per hr	5
Variable overhead	1 hr at £2 per hr	<u>2</u>
Total variable costs		<u>17</u>
Contribution		3
Fixed overhead	1 hr at £1 per hr	<u>1</u>
Profit margin		<u>2</u>
Actual results		£
Sales revenue	1,100 units	<u>21,000</u>
Direct material	1,870 kg	10,285
Direct labour	1,210 hrs	5,808
Variable overhead		<u>2,100</u>
Total variable costs		<u>18,193</u>
Contribution		2,807
Fixed overhead		<u>1,100</u>
Profit margin		<u>1,707</u>

Question A2 continues over the page

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QUESTION A2 Continued

Required:

- (i) Based upon the above data prepare calculate all the variances
(15 marks)
- (ii) Critically evaluate the use of standard costing as a technique employed by management in financial control.
(15 marks)

TOTAL 30 MARKS

SECTION B

ANSWER EITHER B1 or B2

QUESTION B1

Gadgets Ltd intends to acquire a new machine costing £100,000 which is expected to have a life of five years, with no scrap value. Cash flows arising from operation of the machine are expected to arise on the last day of each year as follows:

End of year	£
1	20,000
2	24,000
3	30,000
4	36,000
5	40,000

- a. Calculate the payback period, the accounting rate of return, the net present value and internal rate of return, explaining the meaning of each answer you produce. (Assume a discount rate of 10% per annum.) **(20 marks)**
- b. Critically evaluate the importance of NPV method over IRR method of capital investment appraisal. **(10 marks)**

TOTAL 30 MARKS
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QUESTION B2

Sunrise Enterprises produces three products: A, B and C. The products are manufactured using the same material. The company is planning on shifting from traditional absorption costing system to activity-based costing system as it is believed to be a more efficient cost allocation system. Information for the three products is given below.

	A	B	C
Production and sales (units)	15,000	12,000	18,000
Selling price per unit	\$7.50	\$12	\$13
Raw material usage per unit	2Kg	3Kg	4
Direct labour hours per unit	0.1	0.15	0.2
Machine hours per unit	0.5	0.7	0.9
Number of production runs	16	12	8
Number of purchase orders	24	28	42
Number of deliveries to retailers	48	30	62

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QUESTION B2 Continued

The direct labour cost for the entire workforce was \$14.80 per hour and likewise the price for raw materials remained constant throughout the year at \$1.20 per Kg. The annual overhead costs are given below:

	\$
Machine set up costs	26,550
Machine running costs	66,400
Procurement costs	48,000
Delivery costs	54,320
Total	195,270

(a) Calculate the full cost per unit for products A, B and C under traditional absorption costing using direct labour hours as the basis for allocation.

(10 Marks)

(b) Calculate the full cost per unit for products A, B and C using activity based costing.

(10 Marks)

(c) Critically evaluate the importance of Activity-based Costing as the basis for decision making.

(10 Marks)

TOTAL 30 MARKS

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SECTION C
ANSWER EITHER C1 or C2

QUESTION C1

REQUIRED:

- a) What is working capital? Briefly explain the importance of working capital management. **(5 marks)**
- b) Discuss the various motives of holding cash for a business firm and critically evaluate various cash management techniques that the firm may use. **(10 marks)**
- c) Demonstrate various techniques that a firm may use for managing its trade receivables. **(15 marks)**
- d) Critically evaluate various costs of holding inventory. **(10 marks)**

TOTAL 40 MARKS

QUESTION C2

REQUIRED:

- a) Critically evaluate different sources of long term finance available to a firm. **(20 marks)**
- b) Critically evaluate, using examples, the use of the balanced score card and its relationship to traditional financial performance measures. **(20 marks)**

TOTAL 40 MARKS

END OF QUESTIONS