UNIVERSITY OF BOLTON

INSTITUTE OF MANAGEMENT

BUSINESS MANGEMENT PATHWAYS

SEMESTER 1 EXAMINATIONS 2018/2019

FINANCIAL REPORTING FOR MANAGEMENT

MODULE NO: BAM6008

Date: 17th January 2019 **Time: 10.00 – 1.00**

INSTRUCTIONS TO CANDIDATES:

There are SIX questions on this paper

Answer THREE questions

Answer ONE question from EACH section A, B and C.

Candidates may bring two sheets of A4 paper with personal notes. Sheets must be submitted and show the candidates 'student number'.

Silent calculators may be used.

Graph paper will be supplied.

Institute of Management
Business Management Pathways
Semester 1 Examination 2018/2019
Financial Reporting for Management
Module No. BAM6008

SECTION A

QUESTION A1.

The following forecasts are provided in respect of Greengrass Ltd. a company trading in a single product, for 2019:

	£000
Sales	2,800
Purchases	2,000
Cost of goods sold	1,900
Average trade receivables outstanding	240
Average trade payables outstanding	220
Average inventories held	350

All purchases and sales are made on credit, and trading transactions are expected to occur at an even rate throughout the year. Assume a 360 day year for the purpose of your calculations in this question.

Required:

(a) A calculation of the expected cash operating cycle (i.e. the time lag between making payment to suppliers and collecting cash from customers in respect of goods purchased and sold) for 2019.

10 marks

(b) Explain two methods by which the directors might achieve a reduction of £40,000 in the company's bank overdraft requirement at 31 December 2019, and demonstrate the effect on the cash operating cycle.

10 marks

(c) With reference to recent research, critically evaluate the importance of effective working capital management.

10 marks

TOTAL 30 MARKS

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Institute of Management
Business Management Pathways
Semester 1 Examination 2018/2019
Financial Reporting for Management
Module No. BAM6008

QUESTION A2.

Newham Ltd manufacturers fasteners for sale in the UK market at a price of £45 each. The head office is located in Wigan, whilst factory buildings are rented in Wigan, Oldham and Goole to manufacture the product. The following estimates have been prepared for the period to 30 June 2019:

Forecast output: to 30 June 2019

Wigan	50,000 units
Oldham	32,000 units
Goole	60,000 units
Total	142,000 units

Forecast Operating Statement: to 30 June 2019

	Head Office	Wigan	Oldham	Goole	Total
	£'000	£'000	£'000	£'000	£'000
Sales	0	2400	1600	3000	7000
Variable Costs	0	1440	1040	1800	4280
Fixed Costs:					
Factory		600	500	700	1800
Admin	140	20	15	25	60
Re-allocated costs	-140	48	32	60	140
	0	2108	1587	2585	6280
	0	292	13	415	720

The managing director is very disappointed with the forecast results for the Oldham factory and asks the financial controller to explore possible alternatives. It is discovered that:

There is no spare capacity at the Goole factory, but the capacity available at Wigan is sufficient to enable the production of 80,000 fasteners in total. Additional costs of £3 per unit would be incurred to transport the fasteners to customers of the Oldham factory. The fixed costs of Wigan would increase to £750,000 and the admin costs to £22,000.

Question A2 continued over

Question A2 continued

Required:
(a) Prepare a numerical analysis of the policy to the management of Newham Ltd.

10 marks

(b) Comment on your analysis and provide critical guidance to the managers of Newham Ltd.

10 marks

(c) With reference to recent research critically evaluate the significance of marginal costing techniques.

10 marks

TOTAL 30 MARKS

PLEASE TURN THE PAGE…

Institute of Management
Business Management Pathways
Semester 1 Examination 2018/2019
Financial Reporting for Management
Module No. BAM6008

SECTION B

QUESTION B3.

The following financial statements (not published) belong to Burton plc, a discount clothes wholesaler:

Consolidated Income Statement

	2017	2018
Weeks	52	52
Currency	£ '000	£ '000
Revenue	**166129**	**197144**
Cost of sales	-147836	-172042
Gross Profit	**18293**	**25102**
Operating Expenses	-6854	-17856
Operating Profit	**11439**	**7246**
Other costs/income	0	0
Profit before interest and taxation	**11439**	**7246**
Finance costs	-1473	-1995
Profit on ordinary activities before taxation	**9966**	**5251**
Income tax expense	-3169	-2110
Profit for the year	**6797**	**3141**
Profit for the financial period	**6797**	**3141**
Dividends	-5801	-5799
Retained profit	**996**	**-2658**

Question B3 continued over
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Question B3 continued

Consolidated Statement of Financial Position	**2017**	**2018**
Assets		
Non-current assets	£ '000	% '000
Intangible Assets	15	18
Tangible Assets	42490	54945
Investments	6433	6230
	48938	**61193**
Current assets		
Inventories	25826	112485
Trade and other receivables	32441	36392
Short-term investments	0	0
Cash at bank and in hand	105809	6197
	164076	**155074**
Total Assets	**213014**	**216267**
Liabilities		
Current liabilities		
Trade and other payables	**52922**	**50195**
	52922	**50195**
Non-current liabilities		
Borrowings	85689	94059
Provisions	4201	5737
	89890	**99796**
Total Liabilities	**142812**	**149991**
Net Assets	**70202**	**66276**
Equity		
Issued share capital (50p)	20596	21577
Share premium	5444	5444
Other reserves	25561	25020
Retained earnings	18601	14235
Total shareholders equity	**70202**	**66276**

Question B3 continued over
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Question B3 continued

Notes:

The company sells 80% of product on credit terms. Shares have a nominal value of 50 pence. The market price of each share was £6.20 in 2015 and £4.50 in 2016.

REQUIRED:

(a) Calculate the ratios which assess the business as an investment opportunity.

10 marks

(b) Draft a report, for the attention of senior management which will help them to respond to the outcomes of your calculations in (a).

10 marks

(c) Critically evaluate the use of alternative measures of performance for internal and external use.

10 Marks

Total 30 MARKS

PLEASE TURN THE PAGE…

Institute of Management
Business Management Pathways
Semester 1 Examination 2018/2019
Financial Reporting for Management
Module No. BAM6008

QUESTION B4.

Softwood Ltd is considering which of two mutually exclusive projects it should undertake. The finance director thinks that the project with the higher NPV should be chosen whereas the managing director thinks that the one with the higher IRR should be undertaken especially as both projects have the same initial outlay and length of life. Both directors are concerned about the sensitivity of each project. The company anticipates a cost of capital of 10% and the net after tax cash flows of the projects are as follows.

Year	Project X	Project Y	Discount Factors	
	£'000	£'000	10%	20%
0	-300	-300	1.0000	1.0000
1	120	290	0.9091	0.8333
2	100	30	0.8264	0.6944
3	90	20	0.7513	0.5787
4	60	4	0.6830	0.4823
5	20	3	0.6209	0.4019

REQUIRED:

(a) Calculate the NPV, IRR and PI of each project.

10 Marks

(b) In response to the directors' comments recommend, with reasons, which project you would undertake (if either). You should present a diagram/graph to support your solution.

10 Marks

(c) Critically evaluate the adoption of capital budgeting techniques.

10 Marks

Total 30 MARKS

PLEASE TURN THE PAGE…

SECTION C

QUESTION C5.

Required:

(a) Critically evaluate the focus of Johnson and Kaplan's early concerns about the relevancy of management accounting in the 1990s

(15 marks)

(b) Using examples (and short references) critically evaluate the extent of the acceptance of approaches relating to strategic management accounting (SMA) since the 1990s.

(25 marks)

TOTAL 40 MARKS

QUESTION C6.

Required:

Using examples (and short references) critically evaluate the impact of the 'financial crisis' on approaches to business finance for small and medium sized enterprises (SMEs) in the UK.

(40 marks)

TOTAL 40 MARKS

END OF QUESTIONS