

UNIVERSITY OF BOLTON

RAK ACADEMIC CENTRE

BUSINESS MANAGEMENT

SEMESTER ONE EXAMINATIONS 2019/2020

FINANCIAL REPORTING FOR MANAGEMENT

MODULE NO: BAM6008

Date: Friday 17th January 2020

Time: 1.00pm – 4.00pm

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.

University of Bolton
 RAK Academic Centre
 Business Management
 Semester One Examination 2019/2020
 Financial Reporting for Management
 Module No. BAM6008

SECTION A - ANSWER EITHER A1 or A2

QUESTION A1

Planella decided to commence business manufacturing a single product. As a Matter of business policy she set the following conditions for his first two years of trading:

Year one: To break even

Year two: To achieve a profit of £80,000

His projected costs per unit in year are:

	£
Direct materials	22
Direct labour	14
Variable production overheads	8
Variable sales overheads	6

She expects that in the first year she will sell the product for £64 and that her fixed costs will be £112,000 in each year.

Initial market research has indicated that in year one her maximum sales volume will be 11,000 units. She is looking to devise a strategy which will lead to an increased demand for his product in year two and has identified a number of options:

- to reduce selling price by £2
- to use an inferior material which would reduce direct material cost by £1.50
- to spend an extra £10,000 on advertising

Required:

- Calculate the number of units that Planella will have to sell in year one in order to break even.
(5 marks)
- Calculate the margin of safety in year one and explain the meaning of this margin
(5 marks)
- Calculate the number of units that Planella will have to sell in year two in order to achieve his required profit based on the original costing and on each scenario (i) to (iii) identified above.
(12 marks)
- Identify and discuss the assumptions underlying break-even analysis and comment on the validity of each assumption.
(8 marks)

TOTAL 30 MARKS

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>

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

Please turn the page

SECTION B - ANSWER EITHER B1 or B2**QUESTION B1**

Greaves plc are faced with the problem of replacing a Drilling machine. Three possible alternatives have been identified:-

Drilling Machine 1 manufactured in the UK
Drilling Machine 2, produced by a German Company

Each alternative would cost 350,000 to purchase, but the incremental net cash inflows are estimated as follows:-

Year	Machine 1	Machine 2
1	40,000	120,000
2	80,000	60,000
3	90,000	80,000
4	90,000	120,000
5	80,000	40,000
6	120,000	80,000

- 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. Advise Greaves plc which alternative to adopt, with reasons. **(10 marks)**

TOTAL 30 MARKS

Please turn the page

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

QUESTION B2 continued over the page

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? Explain the importance of working capital management. **(10 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. **(20 marks)**

c) Critically evaluate various costs of holding inventory. **(10 marks)**

TOTAL 40 MARKS

QUESTION C2

Required:

a) Critically evaluate the use of the 'Balanced Score Card' and give examples of its use in the business environment. **(20 marks)**

b) Using a business of your choice as an example, identify one corporate goal for each of the 4 perspectives and give examples of one performance indicator for each performance goal. Give reasons justifying your selection of each performance indicator. **(20 marks)**

TOTAL 40 MARKS

END OF QUESTIONS

Past Examination Paper