

**UNIVERSITY OF BOLTON**  
**INSTITUTE OF MANAGEMENT**  
**BUSINESS MANGEMENT PATHWAYS**  
**SEMESTER 1 EXAMINATIONS 2019/2020**  
**FINANCIAL REPORTING FOR MANAGEMENT**  
**MODULE NO: BMP6015**

Date: Friday 17<sup>th</sup> January 2020

Time: 10.00 – 1.00

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**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.

Candidates will require graph paper.

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## **SECTION A**

### **QUESTION A1.**

Honest Ltd manufactures three products, J K and L which have the following standard costs:

		J	K	L
		£	£	£
Materials		12.50	0.70	14.60
Direct Labour	Grade X	3.25	2.80	1.30
	Grade Y	0.95	2.30	7.25

Budgeted fixed overheads are £400,000 for the forthcoming year. Grade X labour is paid £3.00 per hour and Grade Y is paid £2.50 per hour.

The budgeted sales, estimated by the marketing departments are:

	Units	£
J	18000 at a sales price of	26.00
K	24000 at a sales price of	16.25
L	16000 at a sales price of	21.50

On being informed of the draft sales budget, the production and engineering director pointed out that:

- i) There would only be 42,000 hours of Grade X available in the next year, and overtime working was not possible. A recruitment and training programme was planned, however, it was expected that the available Grade X labour in the year after next would be 50,000 hours;
- ii) The available Grade Y labour was up to 110,000 in the coming year;

**Question A1 continued over  
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**Question A1 continued**

- iii) The sales purchasing manager is seeking to source the products in from local suppliers at the following costs:

	£
J	18.00
K	8.20
L	21.00

Required:

- (a) Based on the information in notes i) and ii), present calculations to show many of each product should be produced  
10 marks
- (b) Explain how your decisions in a) and the impact of the information provided by the purchasing manager in note iii)  
10 marks
- (c) Critically evaluate the use of marginal costing as a tool for internal and/or external reporting.

10 marks

**Total 30 MARKS**

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## **SECTION B**

### **QUESTION B3.**

Westfield 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 £'000	Project Y £'000		Df	
				10%	20%
0	-190	-190	1	0.9091	0.8333
1	35	180	2	0.8264	0.6944
2	75	30	3	0.7513	0.5787
3	70	10	4	0.6830	0.4823
4	75	4	5	0.6209	0.4019
5	10	3			

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 graph to support your solution. 10 Marks
- (c) Critically evaluate the adoption of capital budgeting techniques. 10 Marks

**Total 30 MARKS**

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**QUESTION B4.**

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

**Consolidated Income Statement**

	<b>2018</b>	<b>2019</b>
<b>Weeks</b>	52	52
Currency	£ '000	£ '000
<b>Revenue</b>	<b>191250</b>	<b>195322</b>
Cost of sales	-168922	-176582
<b>Gross Profit</b>	<b>22328</b>	<b>18740</b>
Operating Expenses	-5000	-6800
<b>Operating Profit</b>	<b>17328</b>	<b>11940</b>
Other costs/income	0	0
<b>Profit before interest and taxation</b>	<b>17328</b>	<b>11940</b>
Finance costs	-1600	-1800
<b>Profit on ordinary activities before taxation</b>	<b>15728</b>	<b>10140</b>
Income tax expense	-3169	-2110
<b>Profit for the year</b>	<b>12559</b>	<b>8030</b>
<b>Profit for the financial period</b>	<b>12559</b>	<b>8030</b>
Dividends	-5801	-5799
<b>Retained profit</b>	<b>6758</b>	<b>2231</b>

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**Question B4 continued**

<b>Consolidated Statement of Financial Position</b>	<b>2018</b>	<b>2019</b>
<b>Assets</b>		
<b>Non-current assets</b>	£ '000	£ '000
Intangible Assets	150	160
Tangible Assets	42490	54945
Investments	6433	6230
	<b>49073</b>	<b>61335</b>
<b>Current assets</b>		
Inventories	23000	130000
Trade and other receivables	32441	36392
Short-term investments	0	0
Cash at bank and in hand	105809	6197
	<b>161250</b>	<b>172589</b>
<b>Total Assets</b>	<b>210323</b>	<b>233924</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	<b>52922</b>	<b>50195</b>
	<b>52922</b>	<b>50195</b>
<b>Non-current liabilities</b>		
Borrowings	85689	102134
Provisions	4201	5737
	<b>89890</b>	<b>107871</b>
<b>Total Liabilities</b>	<b>142812</b>	<b>158066</b>
<b>Net Assets</b>	<b>67511</b>	<b>75858</b>
<b>Equity</b>		
Issued share capital	20731	21719
Share premium	5444	5444
Other reserves	25561	15020
Retained earnings	15775	33675
<b>Total shareholders equity</b>	<b>67511</b>	<b>75858</b>

Question B4 continued over

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**Question B4 continued**

Notes:

The company sells 90% of product on credit terms. Shares have a nominal value of 50 pence and the company had allocated 41,192,000 in 2018 and 43,438,000 in 2019. The market price of each share was £5.80 in 2018 and £5.00 in 2019.

REQUIRED:

- (a) Calculate the ratios which assess:  
(i) liquidity and the use of working capital;  
(ii) 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

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**SECTION C**

**QUESTION C5.**

**Required:**

Critically evaluate recent developments in strategic management accounting (SMA) and the relationship between SMA and strategic management. Your submission should include short references and examples from published research.

**TOTAL 40 MARKS**

**QUESTION C6.**

**Required:**

Critically evaluate methods that might be implemented to assess and manage risk in financial decision making. Your submission should include short references and examples from published research.

**TOTAL 40 MARKS**

**END OF QUESTIONS**