

UNIVERSITY OF BOLTON

BUSINESS & CREATIVE TECHNOLOGIES

BUSINESS PATHWAY BY DISTANCE LEARNING

MALAYSIA – I-SYSTEMS (INTAKE 3)

SEGi (INTAKE 23)

SEMESTER 1 EXAMINATIONS 2009/2010

**FINANCIAL CONTROL IN MANAGEMENT CONTROL
SYSTEMS**

MODULE NO: BST3004

Date: Saturday 19th December 2009

Time: 3 hours Morning

INSTRUCTIONS TO CANDIDATES:

This is an open book examination

There are SIX questions on this paper

Answer THREE questions

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

During the examination you are allowed to use your notes but NO Textbooks or Study Guides are permitted.

Candidates are advised that the examiners attach importance to legibility of writing and clarity of expression.

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 Semester 1 Examination 2009/2010
 Financial Control in Management Control Systems
 Module No. BST3004

SECTION A

QUESTION A1.

Taylor Ltd is considering an investment in the following project. The directors are aware that the project is likely to be a positive investment but are concerned about the sensitivity of the project to changes in the key variables.

Their cost of capital is 14%

Units are sold for (\$ per unit) 12

	Year 1	Year 2
Number of units sold ('000)	600	600

	Year 0	Year 1	Year 2
	\$'000	\$'000	\$'000
Investment	8000		
Variable costs		2000	2000
Cash inflows		7200	7200
Net Cashflow	-8000	5200	5200

Year	Discount Factors	
	df at 14%	df at 22%
0	1.0000	1.0000
1	0.8772	0.8197
2	0.7695	0.6719

**Question A1 continued over...
 PLEASE TURN THE PAGE**

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Semester 1 Examination 2009/2010
Financial Control in Management Control Systems
Module No. BST3004

Question A1 cont'd...

Required:

- (a) Using the data provided measure the sensitivity of the project to changes in key variables. **(20 marks)**

- (b) Evaluate the outcome of your sensitivity analysis. **(5 marks)**

- (c) Critically evaluate the role of sensitivity analysis in the project appraisal process. **(5 marks)**

TOTAL 30 MARKS

PLEASE TURN THE PAGE

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 Business Pathway by Distance Learning
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 Semester 1 Examination 2009/2010
 Financial Control in Management Control Systems
 Module No. BST3004

QUESTION A2.

Hodge prepared a set of forecast account for 2010 and are concerned about the level of working capital indicated in the forecast balance sheet. The net current assets are likely to be in the region of \$470,000. The directors have provided the following information.

Budgeted production costs for 2010:

	<u>\$000</u>
Raw materials Type A	350
Raw materials Type B	310
Direct labour	520
Production overheads	380
Forecast sales	2,600

Average Trade Receivables	320
Average Trade Payables	27

Operating cycle:	<u>No. of days</u>
Raw materials in stock	14
Production cycle	32
Finished goods in stock	28

Note: days per year = 365

Required:

- (a) Calculate the working capital requirement for 2010. **(15 marks)**
- (b) Advise the management of Hodge on action that they might take in response to issues raised by your calculations. **(5 marks)**
- (c) Critically review the importance of working capital management. **(10 marks)**

TOTAL 30 MARKS

PLEASE TURN THE PAGE

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 Business Pathway by Distance Learning
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 Semester 1 Examination 2009/2010
 Financial Control in Management Control Systems
 Module No. BST3004

SECTION B

QUESTION B3.

Burkinshaw plc is developing three new products. The management have provided a set of data to show the probability of the sales (units) for each product, details of the revenues and costs.

	Product X	Product Y	Product Z
	\$	\$	\$
Sales revenue per unit	1.90	2.17	2.26
Direct Materials per unit	0.90	1.11	1.11
Direct Labour per unit	0.75	1.08	1.05

Product X		Product Y	
Probability	Sales (units '000)	Probability	Sales (units '000)
0.8	3000	0.1	2000
0.1	4000	0.3	3000
0.1	5000	0.5	4000
		0.1	5000

Product Z		Fixed Costs	
Probability	Sales (units '000)	Option B	
Probability	Sales (units '000)	Probability	Fixed Costs \$'000
0.1	2000	0.1	400
0.4	3000	0.2	500
0.5	4000	0.5	800
		0.2	1000

Each of the products will occupy an equal share of the space in the production facility and will be charged an equal share of the fixed costs.

Required:

(a) Evaluate the data given to help the management to make the best decision based on the expected values and outcomes. You should state the expected profit for each product.

(15 Marks)

**Question B3 continued over
PLEASE TURN THE PAGE**

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 Business & Creative Technologies
 Business Pathway by Distance Learning
 Malaysia – I-Systems (Intake 3) SEGi (Intake 23)
 Semester 1 Examination 2009/2010
 Financial Control in Management Control Systems
 Module No. BST3004

Question B3 cont'd...

(b) Comment on the key values in your analysis in (a)

(5 Marks)

(c) Critically analyse the use of contribution theory in a management control system.

(10 Marks)**Total 30 marks****QUESTION B4.**

Chandler Ltd is seeking to review a potential investment in another company. The company has provided basic accounts for the years 2007 and 2008.

Income Statement for the year ended 30 June

	2008	2007
	\$'000	\$'000
Revenue	1000	850
Cost of Sales	710	580
	<hr/>	<hr/>
	290	270
Admin and selling expenses	206	171
	<hr/>	<hr/>
Operating profit	84	99
Debenture Interest	24	24
	<hr/>	<hr/>
Profit before tax	60	75
Taxation	20	35
Profit after tax	40	40
Dividends	30	25
	<hr/>	<hr/>
Retained profit	10	15
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 PLEASE TURN THE PAGE**

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 Business & Creative Technologies
 Business Pathway by Distance Learning
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 Semester 1 Examination 2009/2010
 Financial Control in Management Control Systems
 Module No. BST3004

Question B4 cont'd...

Balance Sheet as at 30 June	2008	2007
	\$'000	\$'000
Non-current assets net of depreciation	570	630
Current assets:		
Stocks and work in progress	160	80
Trade receivables	160	120
Cash	100	100
Less Current liabilities:		
Trade payables	120	140
Other creditors and accruals	100	50
Net current assets	200	110
Total assets less current liabilities	770	740
Non-current liabilities		
12% Debentures	200	200
Total net assets	570	540
Share capital and reserves		
Issued share capital	400	400
Retained earnings	170	140
	570	540
Number (ordinary shares)	200,000	200,000
Nominal value (cents)	50	50
Share price (cents)	100	90

Required:

(a) Calculate ratios that might be of use to directors of Chandler Ltd.

(15 Marks)

(b) Comment on the key values in your analysis in (a). Your answer should highlight any additional information that the director's would need to review.

(5 Marks)

(c) Critically evaluate the use of ratios by a potential investor in terms of risk and consider investor preferences for growth and/or income.

(10 Marks)

Total 30 marks

PLEASE TURN THE PAGE

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Malaysia – I-Systems (Intake 3) SEGi (Intake 23)
Semester 1 Examination 2009/2010
Financial Control in Management Control Systems
Module No. BST3004

SECTION C

QUESTION C5.

Required:

(a) Describe the fundamentals of a standard cost system and the uses of standard costs.

(15 marks)

(b) Using examples (providing short references) critically appraise the use of the standard costing techniques and concepts in the modern enterprise.

(25 marks)

TOTAL 40 MARKS

QUESTION C6.

Required:

(a) Using examples (and references) critically review the purpose of an 'internal' transfer pricing system.

(20 marks)

(b) Critically evaluate approaches that might be adopted to manage risk and uncertainty in transfer pricing decisions.

(20 marks)

TOTAL 40 MARKS

END OF QUESTIONS