

UNIVERSITY OF BOLTON

**SCHOOL OF BUSINESS AND CREATIVE
TECHNOLOGIES**

BUSINESS MANAGEMENT PATHWAY

RAS AL KHAIMAH CAMPUS

SEMESTER 2 EXAMINATIONS 2009/2010

**FINANCIAL CONTROL IN MANAGEMENT CONTROL
SYSTEMS**

MODULE NO: BAM3004 RAK

Date: Monday 7th June 2010

Time: 13:00 – 16:00

INSTRUCTIONS TO CANDIDATES:

This is an open book examination.

There are SIX questions on this paper.

Answer THREE questions - 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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SECTION A – Answer ONE question

QUESTION A1.

Cole Ltd is attempting to develop a revised transfer price for a component. The component is made in batches of 1000 units and it supplied by Burnley as an intermediate component to Luton. The component has no alternative market.

| Unit Sales Price \$ | Units Sold by Leeds | | | |
|---|---------------------|--------------|--|--|
| 25 | | 1000 | | |
| 24 | | 2000 | | |
| 23 | | 3000 | | |
| 22 | | 4000 | | |
| 21 | | 5000 | | |
| 20 | | 6000 | | |
| | | | | |
| | Burnley | Luton | | |
| | \$ | \$ | | |
| Direct costs per unit | 6 | 12 | | |
| Fixed Costs | 4000 | 5000 | | |
| | | | | |
| Existing transfer price, per unit \$7.8 | | | | |
| Predetermined fixed overhead rate based on 2000 units | | | | |

Required:

(a) Calculate the following:

- The level of supply, in units, that will maximise the profit for Burnley **(3 marks)**
- The level of supply, in units, that will maximise the profit for Luton **(4 marks)**
- The level of **supply** at which the Net Marginal Revenue falls below the transfer price **(6 marks)**
- The level of supply that will maximise the profit for the whole company **(3 marks)**
- The Transfer Price for a batch (1000 units) at the marginal cost for Burnley **(2 marks)**

**Question A1 continued over
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Question A1 continued

- The Transfer Price for a batch (1000 units) at full cost **(2 marks)**
- The difference between the Transfer Price at full cost and at the maximum Net Marginal Revenue **(4 marks)**

(b) Comment on the above and provide critical guidance to the managers of Cole Ltd.

(6 marks)

TOTAL 30 MARKS

**Section A continued over
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Section A continued

QUESTION A2.

The directors of Chelsea Products are investigating the use of a standard costing system and are seeking your advice. They have provided the following data.

| | | | | |
|--|--------|-------|--------|-----|
| The standard cost of one unit: | | | | |
| | | | | \$ |
| Direct materials: | 8 kg | at \$ | 10 | 80 |
| Direct labour | 9 hrs | at \$ | 9 | 81 |
| Overheads are absorbed at \$6 per labour hour. | | | | 54 |
| | | | | 215 |
| Standard selling price of one unit (\$) | 300 | | | |
| Budgeted sales (units) | 1400 | | | |
| All overheads are FIXED | | | | |
| Actual results: | | | | |
| Units made | 1600 | units | | |
| Sales revenue (\$) | 130000 | | | |
| Total Cost (\$) | | | | |
| Direct materials (kg) | 12500 | | 112500 | |
| Direct labour (hrs) | 15000 | | 110000 | |
| Actual Fixed O/H (\$) | 22000 | | | |

**Question A2 continued over
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Question A2 continued

Required:

- (a) Calculate the necessary material and labour variances. **(16 marks)**
- (b) Advise the management of Porto Products on action that they might take in response to issues raised by your calculations. **(6 marks)**
- (c) Critically review the importance of standard costing as part of the management control systems. **(8 marks)**

TOTAL 30 MARKS

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SECTION B – Answer ONE question

QUESTION B3.

Ewood manufacture two products. Using the data presented to you prepare an analysis of the production costs using traditional and ABC analysis. They have provided the following data.

| | Product J | Product K | |
|------------------------------------|--------------|-------------------------|-------|
| Output (units) | 350 | 480 | |
| Costs per unit (\$): | | | |
| Direct Material | 30 | 60 | |
| Direct Labour | 20 | 22 | |
| Machine Hours (per unit) | 6 | 8 | |
| | | | |
| | Product J | Product K | |
| Budgeted Production batch (units) | 50 | 40 | |
| Budgeted Sales batch (units) | 25 | 20 | |
| | | | |
| Overheads & ABC Drivers | | | |
| | | \$ Cost Drivers | |
| Set-up Costs | 5600 | Production Runs | |
| Quality Control | 3500 | Defect Notes Issued | |
| Despatch | 8600 | Orders Despatched | |
| Machine Dept Costs | 11000 | n/a (Various overheads) | |
| | 28700 | | |
| | | | |
| <u>ABC Activity Table</u> | | | |
| | Product J | Product K | TOTAL |
| Production Runs | 20 | 5 | 25 |
| Requisitions Raised | 22 | 15 | 37 |
| Defect Notes Issued | 12 | 0 | 12 |
| Orders Executed | 20 | 12 | 32 |
| | | | |

**Question B3 continued over
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Question B3 continued

Required:

- (a)** Evaluate the data given to show the production cost of the two products using traditional (machine hours) and Activity Based Costing (ABC) principles. **(15 Marks)**
- (b)** Comment on the key values in your analysis in (a). **(5 Marks)**
- (c)** Critically analyse the adoption of ABC in a management control system. **(10 Marks)**

TOTAL 30 MARKS

**Section B continued over
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Section B continued

QUESTION B4.

Old Limited manufactures three products, Q, R and S. They use the same basic production process and use similar labour and materials. The supply of labour is fixed. Sales of Q are falling and it is likely that products R and S can achieve higher levels of sales. The company has provided the following draft budget.

| The draft budget: | | | | |
|----------------------|-----------|-----------|-----------|------------------|
| | \$ | \$ | \$ | \$ |
| | Q | R | S | Total |
| Sales | 1,425,668 | 2,650,000 | 2,256,955 | 6,332,623 |
| Direct Materials | 752,666 | 825,665 | 653,760 | 2,232,091 |
| Direct Labour | 652,600 | 201,250 | 264,880 | 1,118,730 |
| Variable Overhead | 68,520 | 120,358 | 125,635 | 314,513 |
| Total variable Costs | 1,473,786 | 1,147,273 | 1,044,275 | 3,665,334 |
| Contribution | - 48,118 | 1,502,727 | 1,212,680 | 2,667,289 |
| Fixed Overhead | | | | 1,250,000 |
| Profit | | | | 1,417,289 |

The directors' proposal is to transfer the labour time from Q to R and S and they would like to shift \$250,500 of labour costs from Q to S with the remainder going to R. The cost relationships of R and S are not expected to change.

Required:

(a) Following the initial recommendation from the directors prepare a revised profit statement consequence of discontinuing product Q.

(10 Marks)

(b) The company is running at almost full capacity (labour). Prepare a statement to show the most effective use of the limited supply of labour.

(10 Marks)

(c) Evaluate the implications of the alternative solutions in (a) and (b)

(5 Marks)

(d) Critically evaluate the application of marginal costing in management control systems.

(5 Marks)

TOTAL 30 MARKS

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Section C – answer ONE question

QUESTION C5.

Required:

(a) Evaluate the approach to implementation of the balanced score card (BSC)

(15 marks)

(b) Using examples (and short references) critically evaluate the importance of the balanced score card as part of a financial control system.

(25 marks)

TOTAL 40 MARKS

QUESTION C6.

Required:

(a) Evaluate methods that might be implemented to manage risk and uncertainty in the management of working capital.

(15 marks)

(b) Using examples (and short references) critically review the significance of a working capital control system as part of a financial control system.

(25 marks)

TOTAL 40 MARKS

END OF QUESTIONS