

**UNIVERSITY OF BOLTON**

**SCHOOL OF BUSINESS AND CREATIVE  
TECHNOLOGIES**

**BUSINESS MANAGEMENT PATHWAY**

**RAS AL KHAIMAH CAMPUS**

**SEMESTER 2 EXAMINATIONS 2010/2011**

**FINANCIAL CONTROL IN MANAGEMENT CONTROL  
SYSTEMS**

**MODULE NO: BAM3004 RAK**

Date: Friday 3<sup>rd</sup> June 2011

Time: 1:00pm to 4:00pm

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**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

Dogle and Catin are two companies operated in the same sector. Their recent financial statements are as follows:

Balance Sheets as at 31 December 2010	Dogle plc £'000	Catin plc £'000
Non-current assets		
Land at cost and revaluation	1,000	20,000
Buildings	1,700	2,300
Plants and equipments	<u>1,650</u>	<u>1,250</u>
	4,350	23,550
Current assets		
Stock	340	450
Trade debtors	230	150
Cash and Bank	<u>10</u>	<u>--</u>
	580	600
Current liabilities		
Bank overdraft		40
Trade creditors	390	600
Other creditors and accruals	<u>100</u>	<u>30</u>
	670	490
Long term liabilities		
Debentures	<u>500</u>	<u>,400</u>
Net assets	3,940	22,080
Capital and reserves		
Ordinary share capital	1,000	1,000
Revaluation reserve		18,000
Retained profit	<u>2,940</u>	<u>3080</u>
	3,940	22,080

QUESTION A1 ONE CONTINUES ON THE NEXT PAGE

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**QUESTION A1 continued**

Profit and loss for the year ended 31

December 2010	£'000	£'000
Sales	9,240	9,500
Cost of sales	<u>3,780</u>	<u>3,100</u>
Gross profit	5,460	6,400
Operating expenses	<u>4,210</u>	<u>5,500</u>
Operating profit	1,250	900
Interest	<u>50</u>	<u>70</u>
Profit before tax	1,200	830
Tax	<u>400</u>	<u>300</u>
Profit after tax	800	530
Dividend	<u>400</u>	<u>250</u>
Retained profit for the year	400	280

**Required:**

- a) Calculate the following ratios for the two companies:
- Return on Capital Employed
  - Gross profit margin
  - Operating profit margin
  - Quick ratio
  - Debtors collection period
  - Stock holding period
  - Creditors payment period
  - Gearing
- (14marks)**
- b) Compare and contrast the ratios in (a), discuss why there might be significant differences between the two companies' performance.
- (8 Marks)**
- c) Critically evaluate the usage of ratios by a potential investor in terms of risk and return.
- (8 marks)**

**Total 30 marks**

SECTION A CONTINUES ON NEXT PAGE

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### SECTION A continued

#### QUESTION A2.

Wendy plc manufactures three products, P, Q and R. The current sales budget calls for the production of 12,000 units of P, 10,000 units of Q and 8,000 units of R. Selling prices and direct costs of manufacturing the three products are as follows:

	P	Q	R
	£	£	£
Unit selling price	200	160	100
Unit direct variable costs	80	70	55
*Separable fixed production costs	200,000	160,000	70,000
#Separable fixed selling costs	50,00	40,00	30,000

\*Fixed costs relating to each product which would be avoided if production were discontinued.

#Fixed costs which would be avoided if a product was no longer sold.

The other costs of production, selling and administration are all fixed costs and are estimated to be £1,610,000. One unit of each product takes 2 hours of production time. The production plant has a practical capacity of 64,000 hours.

The production manager of Wendy is concerned that the plant is not operating at full capacity and she believes that by reducing the selling price of product P by £10 it will be possible to increase the sales quantities by 50 percent.

#### Required:

- Determine the contribution from each product and the total net profit from the current sales budget. **(5 marks)**
- Determine the net profit if the price of Product P were reduced. **(5marks)**
- Wendy plc discovers a company which would make up to the total 8,000 demand for Product R at a price of £75 per unit. Discuss two ways in which Wendy might use the facility. **(15 marks)**
- Critically evaluate the use of marginal costing in the management control system. **(5 marks)**

**Total 30 marks**

END OF SECTION A

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### SECTION B – Answer ONE question

#### QUESTION B3

The Brown Company makes a single product and has forecast that for the financial year ended 30<sup>th</sup> April 2011 it will sell 400,000 units at a price of £40 each.

Below is an extract from the annual budget:

Material	Total usage 000s kilos	Total £000s
A	2,000	8,000
B	1,200	2,400
Labour - Assembly	000's hours	
	400	1200
Variable overhead		
Apportioned on assembly labour hours	-	400

For the month of May 2010 the following results were recorded:

- Planned production and sales for the month were 40,000 units. In fact, only 36,000 units were produced and all were sold for a total of £1,512,000.
- Total spending on material used was £886,000 of which material A accounted for £690,000.
- 180,000 kilos of material A were used; material B cost £1.75 per kilo.
- 46,000 hours were worked for total wages of £128,000.
- Variable overhead spend was £38,000.
- There are no fixed overheads.

#### Required:

- Determine the standard cost and standard profit per unit for the year ended 30<sup>th</sup> April 2011. **(8 marks)**
- Calculate the necessary material and labour variances. **(14 marks)**
- Critically evaluate the use of standard costing technique in the modern manufacturing environment. **(8marks)**

**Total 30 marks**

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**QUESTION B4.**

Calibre Toys has experienced a growth in sales but the warehouse manager is concerned about the length of time that stock is being held in the warehouse. The company is concerned about liquidity and its ability to cover short term liabilities. You have been provided with the following data:

	31-Dec-09	31-Dec-10
	\$'000	\$'000
Stocks:		
Raw materials	130	84
Work in progress	120	42
Finished goods	108	49
Purchases	780	260
Cost of goods sold	1125	364
Sales	1280	400
Debtors	256	100
Creditors	135	20

Number of weeks to be taken as 52 for the purpose of calculations.

**Required:**

- Calculate Calibre Toys' cash operating cycle for 2009 and 2010. **(15 marks)**
- Suggest how the cash operating cycle might be improved. **(5 marks)**
- Critically evaluate the principle elements of a credit control policy. **(10 marks)**

**Total 30 marks**

END OF SECTION B

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**SECTION C – Answer ONE question**

**QUESTION C5.**

**Required:**

- a) Critically evaluate the commonly adopted Capital Budgeting techniques. Use examples and references to support your answer.  
**(20 marks)**
  
- b) Outline and evaluate the approaches that might be adopted to manage risk and sensitivity in capital investment decisions.  
**(20 marks)**

**Total 40 marks**

**QUESTION C6**

**Required:**

- a) Outline and discuss the main objectives of a budgetary control system.  
**(20 marks)**
  
- b) Critically evaluate the behavioural aspect in designing and operating budgetary control system.  
**(20 marks)**

**Total 40 marks**

**END OF QUESTIONS**