CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

MANAGERIAL FINANCE

PROFESSIONAL 1 EXAMINATION - APRIL 2015

NOTES:

Section A – Answer Question 1 and Question 2 and **either** Part A **or** Part B of Question 3.
Section B – Answer Question 4 and **either** Part A **or** Part B of Question 5.
(If you provide answers to both Parts A and B in Question 3 and/or Question 5, you must draw a clearly distinguishable line through the answer Part(s) not to be marked. Otherwise, only the first answer(s) to hand for each of these questions will be marked.)

MANAGERIAL FINANCE TABLES ARE PROVIDED

TIME ALLOWED:
3 hours, plus 10 minutes to read the paper.

INSTRUCTIONS:
During the reading time you may write notes on the examination paper, but you may not commence writing in your answer book. **Please read each Question carefully.**

Marks for each question are shown. The pass mark required is 50% in total over the whole paper.

Start your answer to each question on a new page.

You are reminded to pay particular attention to your communication skills, and care must be taken regarding the format and literacy of your solutions. The marking system will take into account the content of your answers and the extent to which answers are supported with relevant legislation, case law or examples, where appropriate.

List on the cover of each answer booklet, in the space provided, the number of each question attempted.

NB: PLEASE ENSURE TO ENCLOSE YOUR ANSWER SHEET TO QUESTION 4 IN THE ENVELOPE PROVIDED.

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

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Time allowed 3 hours, plus 10 minutes to read the paper.

SECTION A

(Answer Questions 1 and 2 and either Part A or Part B of Question 3.)

1. **Part A**

G Limited, a multi-national employment agency with a turnover of €637 million is considering whether or not to open a call centre at its current premises. The management team have significant contacts promised from current clients and can acquire the software to operate the centre successfully. Estimates of both client and call volumes for the next three years are as follows:

Projected Clients Calls And Duration

		Average Calls & Duration Per Client	
Year	**Clients**	**Calls**	**Duration (Mins)**
2016	12	40,000	5
2017	16	45,000	4
2018	24	50,000	4

It is expected that three-quarters of all clients will prefer to be billed at a rate per call for the next three years. The proposed charge rates per call will be:

Charge Per Call

Year	Peak	Off-Peak
2016	€1.20	€1.00
2017	€1.30	€0.90
2018	€1.35	€0.90

The remaining clients would prefer an initial annual fixed cost of €100,000, uplifted by 10% per annum thereafter.

G Limited will employ sufficient staff at a peak rate of €13 per hour and an off-peak rate of €15 per hour to handle all calls. This labour cost is expected to increase by €1 for hour for both peak and off-peak per year after the first year of the proposal. The split of expected call times is:

Peak - Off Peak Split

Year	Peak	Off-Peak
2016	50%	50%
2017	40%	60%
2018	40%	60%

The initial costs of running the call centre will be €2,500 per month to cover rates and insurance. This cost is likely to increase by €3,000 per year in each subsequent year thereafter. The cost paid by G Limited per call minute will be €1.20 peak and half that rate for non-peak usage, both being fixed for three years.

Three new managers will have to be recruited. They will be paid an annual flat salary of €20,000 each increasing by 10% per annum plus an annual commission to be shared between them of €3,000 per client plus €0.30 per call hour managed. At the outset of the proposal, each manager will require training in Singapore prior to commencing the call centre. The training cost fee will be €10,000 each. G Limited will pay half of this cost plus €4,800 per manager for travel costs. Managers will not be paid a salary when training.

G Limited will have to make modifications to its current premises costing €300,000 plus a fit-out-cost of €10,000 for each manager's office plus €2,000 for each of 10 workstations.

G Limited expects all investments to deliver a net present value after three years of at least €100,000 when discounted at 10% pre-tax.

The software will initially cost €80,000 to purchase plus a fixed annual upgrade fee of €120,000, first payable in the second year following the initial purchase.

REQUIREMENT:

(a) Calculate the three year Net Present Value of the call centre proposal using a cost of capital of 10% (Ignore Taxation).

(15 Marks)

(b) Evaluate three non-financial factors G Limited should consider before making a final decision on this proposed call centre investment. Recommend whether G limited should invest in the call centre and justify your recommendation.

(10 Marks)

[Total: 25 Marks]

2. Your client Y plc has identified S Limited as a possible acquisition target. S Limited earned €700,000 in pre-tax profits in the most recent reported accounts. Y plc and S Limited have conducted due diligence under confidentiality agreements. You have reviewed the executive summary of the due diligence reports.

- S Limited's most recent Statement of Financial Position (SOFP) is:

S Limited
Summary Statement of Financial Position as at 31st March 2015

	€000's
Assets	
Land	2,400
Buildings	4,800
Plant	300
Investment - Russian Investment	200
Office Equipment	34
Total Non-Current Assets	**7,734**
Current Assets	
Inventories	345
Trade Receivables	290
Total Current Assets	**635**
Total Assets	**8,369**
Equity	
Issued Share Capital	4,000
Retained Profits	1,050
Equity attributable to the owners of the company	**5,050**
Liabilities	
10% Debentures 2025	3,000
Non-current Liabilities	**3,000**
Trade Payables	203
Bank Overdraft	29
Tax Payable	87
Current Liabilities	**319**
Total Liabilities	**3,319**
TOTAL EQUITY AND LIABILITIES	**8,369**

- Obsolete inventories included on 31 March 2015 SOFP total €78,000.
- €39,000 of trade receivables are unlikely to be recoverable.
- An independent valuation of Land values it at €2,900,000.
- Contingent liabilities not included on the SOFP total €450,000.
- The investment is a 5-year Russian rouble (RR) cash deposit translated at 50 RR = 1 euro.

You have reviewed Y plc's plans for the acquisition. The following points are relevant:

- All assets with the exception of plant will be taken over by Y plc.
- Y plc will not assume liability for any bank overdraft.
- Y plc will immediately redeem debentures at a premium of 40% to par.
- Y plc will close a depot and expects savings of €400,000 pre-tax each year from this closure.
- Y plc is capitalised at a multiple of six timex post-tax earnings. This will be discounted by 30% for the purpose of valuing S Limited.

Both companies pay corporation tax at 30% and the current exchange rate is 80RR = 1 euro.

REQUIREMENT:

Prepare a report for the Directors of Y plc which will:

(a) Advise why due diligence must be carried out under confidentiality agreements. (4 marks)

(b) Calculate an indicative earnings and net-assets-based total valuation of S Limited. (10 Marks)

(c) Define the meaning of translation risk and discuss why Y plc would be exposed to such risk if the takeover of S Limited were to be successful.

(6 Marks)

[Total: 20 Marks]

3. Answer <u>either</u> Part A <u>OR</u> Part B.

Your client, K Limited, owns a factory that produces vegetarian dishes for large retail customers. The turnover in the most recent year ended 30 March 2015 was €4.2 Million. K Limited's Managing Director is somewhat frustrated by the financial information available to him by the company's bookkeeper/financial accountant for decision and control purposes. His frustration could be summarised in the following comments:

"we have made erroneous decisions in the past. In hindsight this seems to be as a result of inadequate or inaccurate financial information"

"there is little financial knowledge, co-ordination or responsibility throughout the company"

"often financial analysis is carried out far too late to be of benefit to the company"

He has spoken to friends who have advised him to employ a management accountant, to implement a system of budgetary control and to purchase a budgetary control package that will improve financial planning and control within K Limited. Before making such a significant investment Ken would like some advice:

Part A
REQUIREMENT:
Evaluate four ways in which the employment of a specialist Management Accountant could add value to the performance measurement and management of K Limited. **[Total: 15 Marks]**

<u>OR</u>

Part B
REQUIREMENT:
Discuss three objectives of budgeting that are currently not achieved within K Limited and briefly evaluate four characteristics that would be expected of a budgetary control package to be purchased by K Limited.

[Total: 15 Marks]

Section B
Answer Question 4 and either Part A OR Part B of Question 5.

4. The following multiple-choice question contains 8 sections, each of which is followed by a choice of answers. Only one of the answers offered is correct. Each question carries 2.5 marks. Provide your answer to each section on the answer sheet provided.

INFORMATION RELEVANT TO QUESTIONS 1, 2 AND 3 ONLY

Duck plc, a quoted company on The Amsterdam Stock Exchange had 50 million shares in issue. The market price on 14 September 2014 of one Duck plc share was €4.25. Jon plc, a French quoted company had (on the same day) 700 million shares in issue currently trading at €11.50 each.

At a private management meeting held on 21 September 2014, Jon plc agreed to make a takeover bid to acquire Duck plc. The Board agreed to offer €8 cash per share in Duck plc. This information was made public the following day. Jon plc expected that the capitalised value of the cost savings as a result of the acquisition would be valued at €200 million and that the increased sales margins would deliver €170 million capitalised share improvement.

Having come under increasing pressure from the investment community on 26 September 2014, Jon plc released to the public via press conference details of the expected savings. Three days later it issued a podcast detailing the increased sales margins.

REQUIREMENT:

Q1) The combined market capitalisation of both companies on 20 September 2014 was:

(a) €8,062.50 million
(b) €8,262.50 million
(c) €8,362.50 million
(d) €8,462.50 million

Q2) Assuming that the capital markets display semi-strong form efficiency. The price of one Jon plc share at the end of trading on 26 September 2014 should have been:

(a) €11.50 per share
(b) €11.23 per share
(c) €11.52 per share
(d) €12.12 per share

Q3) Assuming that the capital markets display strong form efficiency. The price of one Jon plc share at the end of trading on 21 September 2014 should have been:

(a) €11.50 per share
(b) €11.23 per share
(c) €11.76 per share
(d) €12.76 per share

INFORMATION RELEVANT TO QUESTIONS 4,5,6,7 AND 8 ONLY

A Limited produces specialist industrial thermometers and charges €400 per unit sold. Each week, A Limited plans to produce and sell 200 thermometers. The standard variable cost of each thermometer is:

Standard Variable Cost	€
Mercury (10 grams @ €14 per gram)	140
Glass (1.5 metres @ €10 per metre)	15
Direct Labour (5 hours @ €15 per hour)	75
Variable Overhead (5 hours @ €18 per hour)	90
Total Standard Variable Cost	320

During week 14 of the financial year 2014, A Limited made and sold 220 thermometers grossing revenues of €81,000. The actual costs incurred during the week were:

Actual Costs	€
Mercury (2300 grams)	34,100
Glass (250 metres)	2,250
Labour (1000 hours)	16,000
Variable Overhead	16,000
Total Actual Cost	68,350

Q4) The budgeted contribution for Week 14 was:

(a) €14,000
(b) €16,000
(c) €16,600
(d) None Of The Above

Q5) The Glass Price Variance for Week 14 was:

(a) €200 Favourable
(b) €250 Favourable
(c) €450 Favourable
(d) None Of The Above

Q6) The Labour Efficiency Variance for Week 14 was:

(a) Cannot be calculated
(b) €1,500 Adverse
(c) €1,500 Favourable
(d) None Of The Above

Q7) The Sales Volume Variance for Week 14 was:

(a) €1,600 Favourable
(b) €1,600 Adverse
(c) €8,000 Favourable
(d) €8,000 Adverse

Q8) The Variable Overhead Expenditure Variance for Week 14 was:

(a) €2,000 Favourable
(b) €2,000 Adverse
(c) €3,600 Favourable
(d) €3,600 Adverse

[Total: 20 Marks]

5.

Answer either Part (A) <u>OR</u> Part (B)

Part (A)
AL Tennis Club (AL) currently has 200 individual members each paying an annual fee of €300 and 100 family memberships paying an annual fee of €800. The club has eight grass courts, each of which is playable for 250 court hours per month. Each court is used for eight months of the year. The club employs a groundskeeper for the full year at a monthly cost of €1,500. In addition the cost of fertilizer etc. for the courts is €50 per court per month when in play and €25 when dormant. Management are of the view that costs and membership fees will remain static for the next few years, if facilities are not improved. Each court costs €600 to insure per year. The clubhouse insurance costs €2,500 per month. Other clubhouse upkeep costs are €9,000 per quarter.

Casual spending on bar and restaurant facilities by members averages €10 per court hour (used). The gross profit (before wages) on such provision is 30%. There are currently three members of bar and restaurant staff who are each paid €300 per week (50 weeks per year).

For every second weekend in 2016, AL plans to rent a room in the clubhouse to host private parties. The average room rental charge will be €200 per night. In addition, one half of private parties are expected to request AL to provide contract catering at an average cost of €2,000 per party. The margins on catering will be 35%. For each party, the average bar income will be €1,000. For such parties, beverage prices will be increased in order to achieve a margin of 15% higher than sales to members.

The club's management board is of the view that they should aggressively exploit the indicative economic upturn by significantly improving the club's facilities with a view to attracting more members and hosting prestigious competitions.

REQUIREMENT:

(a) Estimate the cash flow generated by the club in 2016, if the proposed improvements are not approved by the members.

(8 Marks)

(b) Advise the Management Board of four non-financial factors the club should consider before making a final decision whether or not to improve facilities.

(12 Marks)

[Total: 20 Marks]

<u>OR</u>

Part (B)

Your client Z Limited produces caps. Forecast sales for the next three months are:

- August 2015 = 45,000 caps
- September 2015 = 60,000 caps
- October 2015 = 90,000 caps

Relevant extracts from Z Limited's Statement of Financial Position (SOFP) as at 31st July 2015 are:

EXTRACTS FROM SOFP AS AT 31/7/2015		**€**
TRADE RECEIVABLES	JUNE SALES	160,000
	JULY SALES	300,000
	TAX OVERPAID	46,000
BANK OVERDRAFT		(30,000)
TRADE PAYABLES	SUPPLIERS – PAYABLE AUGUST	(102,000)
	PRSI/PRSI DUE – JULY	(9,500)
	DIVIDEND PAYABLE	(50,000)
	UTILITY CREDITORS	(60,000)

Further relevant details are as follows:

- Each cap requires 0.40 metres of cloth to produce. Each metre of cloth currently costs €8. It is expected that the cost of cloth will increase by 10% for the final quarter of 2015. X Limited pays suppliers in full three months in arrears.
- Each cap sells for €20.
- One in two of all customers pay cash on order to avail of a discount of 5%.
- 70% of the remaining debts settle in full (no price discount) one month after sale.
- 10% of debts outstanding for more than one month turn out to be bad with the remaining 90% thereof received two months after sale.
- Z Limited employs a system of Just-In-Time(JIT) production.
- Z Limited buys cloth two months before when required for production.
- Ten minutes of labour is spent producing each cap. Labour is paid €12 per hour for August and September 2015. Thereafter, the hourly rate increases by €2 per hour until the next wage review scheduled for 2016.
- 85% of wages are paid in the month in which they are incurred. The remaining 15% representing PRSI/PAYE is paid one month in arrears.
- Each cap costs €2 in utility costs. Utility bills are paid one month in arrears.
- Taxation overpaid will be received in October 2015.
- The dividend declared will be paid one half in September 2015, the balance will be paid three months later.
- On 21 June 2015, plant costing €4,000,000 was purchased. It will be paid for in eight equal monthly instalments commencing in September 2015.

REQUIREMENT:

Prepare a cash budget for Z Limited for August, September and October 2015. **[Total: 20 Marks]**

END OF PAPER

SUGGESTED SOLUTIONS

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SOLUTION 1

G Limited - Call Centre Financial Analysis

Cashflow	**Note**	**Year 0**	**Year 1**	**Year 2**	**Year 3**
Software Cost		(80,000)			
Office Modifications		(300,000)			
Furniyure - Managers		(30,000)			
Furniture - Workststions		(20,000)			
Training - Course Fee		(15,000)			
Training - Travel		(14,400)			
Income - Fixed Fee	1		300,000	440,000	726,000
Income - Per Call Fee	2		396,000	572,400	972,000
Staff Cost	3		(560,000)	(729,600)	(1,296,000
Telephone Cost	4		(36,000)	(40,320)	(67,200)
Management - Salaries			(60,000)	(66,000)	(72,600)
Management - Per Client Commission			(36,000)	(48,000)	(72,000)
Management - Per Hour Commission	5		(12,000)	(14,400)	(24,000)
Software Upgrade				(120,000)	(120,000)
Annual Rates And Insurance			(30,000)	(33,000)	(36,000)
Net Annual Cashflows		**(459,400)**	**(38,000)**	**(38,920)**	**10,200**
Discount Factor At 10%		1	0.909	0.826	0.751
Discounted Annual Cashflows		(459,400)	(34,542)	(32,148)	7,660
Net Present Value		**(518,430)**			

N1) Flat Fee Income	**Year 1**	**Year 2**	**Year 3**
Annual Clients	12	16	24
Flat Fee Percentage	0.25	0.25	0.25
Annual Fee	100,000	110,000	121,000
Flat Fee Income	**300,000**	**440,000**	**726,000**

N2) Per Call Income	**Year 1**	**Year 2**	**Year 3**
Annual Clients	9	12	18
Average Calls	40,000	45,000	50,000
Total Calls	360,000	540,000	900,000
Peak Calls	180,000	216,000	360,000
Charge Per Peak Call	1.2	1.3	1.35
Total Charge - Peak Calls	216,000	280,800	486,000
Off Peak Calls	180,000	324,000	540,000
Charge Per Off Peak Call	1	0.9	0.9
Total Charge - Off Peak Calls	180,000	291,600	486,000
Total Per Call Income	**396,000**	**572,400**	**972,000**

N3) Staff Costs	**Year 1**	**Year 2**	**Year 3**
Annual Clients	12	16	24
Average Calls	40,000	45,000	50,000
Total Calls	480,000	720,000	1,200,000
Average Time Per Call	5	4	4
Total Call Minutes	2,400,000	2,880,000	4,800,000
Total Call Hours	40,000	48,000	80,000

Peak Call Hour Percentage	0.5	0.4	0.4
Peak Call Hours	20,000	19,200	32,000
Cost Per Peak Hour	13	14	15
Cost Of Peak Hours	260,000	268,800	480,000
Off-Peak Call Hour Percentage	0.5	0.6	0.6
Off-Peak Call Hours	20,000	28,800	48,000
Cost Per Off-Peak Hour	15	16	17
Cost Of Off-Peak Hours	300,000	460,800	816,000
Total Call Staff Cost	560,000	729,600	1,296,000

N4) Telephone Cost	**Year 1**	**Year 2**	**Year 3**
Peak Call Hours - N 3	20,000	19,200	32,000
Cost Per Peak Hour	1.2	1.2	1.2
Cost Of Peak Hours	24,000	23,040	38,400
Off-Peak Call Hours - N3	20,000	28,800	48,000
Cost Per Off-Peak Hour	0.6	0.6	0.6
Cost Of Off-Peak Hours	12,000	17,280	28,800
Total Telephone Cost	**36,000**	**40,320**	**67,200**

N5) Management Commission	**Year 1**	**Year 2**	**Year 3**
Total Call Hours	40,000	48,000	80,000
Bonus At €0.30 Per Hour	12,000	14,400	24,000

Qualitative factors to consider:

- Can G Limited manage such a diverse business or will it prove to be a management distraction?
- If successful could the business be sold off separately to G Limited’s core business?
- Does G Limited’s management team wish to embark on a strategy of diversification?
- How will investors react to the proposed investment?
- Has the technology been tried and tested?
- Has the viability of the vendor of the technology been assessed?
- Can testimonials be given and/or site visits carried out?
- Can suitable managers and call centre staff be recruited at the wage levels budgeted?
- How certain are the likely contracts?
- Is the licence exclusive or no-exclusive?
- Can early exit repayments be made if not successful?

Final recommendation:

I am of the opinion that the proposal should be invested in as the investment criterion set by G Limited has been met and the initial investment is not overly significant. However, before a final decision is made clarity must be reached on the technology’s capability and whether or not such a different business can be effectively managed.

SOLUTION 2

SG Financial Advisors,
New Road,
New Town.

The Directors,
Y Plc,
New Business Park,
New Town.

DD/MM/YYYY

Dear Sirs,

Please find enclosed, as requested, in our meeting of 20 August YYYY a report on matters that you raised arising from your interest in S Limited as a possible acquisition target.

The report is in three parts dealing with:

(a) Due diligence
(b) Indicative earnings and net assets value-based total valuation of S Limited, and
(c) Certain risks arising from foreign currency.

I will be pleased to provide any further information or explanation that you may require.

Yours sincerely,

AN Accountant

(a) Due diligence must always be carried out under confidentiality agreement because a lot of market sensitive and competition sensitive information will be disclosed by both parties during the review. This might include:

- contractual obligations
- customer profitability analysis
- legal liabilities
- pension fund adequacy
- bad debt provisions
- employee contracts of service
- turnover analysis
- asset valuations
- tax liabilities

If any of this information was used by either party for purposes other than to progress a proposed acquisition then it could be detrimental to the other company. It should be appreciated that even though due diligence is carried out that the proposed acquisition may never take place. This further accentuates the need for confidentiality.

(b) S Limited Net Assets Valuation

Detail	**€000's**	**Explanation**
Land	2,900	Revaluation
Buildings	4,800	Per SOFP
Plant	0	Not Taken
Investment - Russian Investment	125	10M RR /80
Office Equipment	34	Per SOFP
Inventories	267	345-78
Trade Receivables	251	290-39
Trade Payables	-203	
Bank Overdraft	0	Not Taken
Contingent Liabilities	-450	
Tax Payable	-87	Per SOFP
Debentures	-4,200	3,000*1.4
Net Assets Valuation	3,437	

S Limited Earnings Valuation

Detail	€000's	Explanation
Recurrent After Tax Earnings	490	Revaluation
Debenture Interest Saved	210	3,000*10%*.7
Depot Savings	280	400*.7
Recurrent Post Acq Post Tax Earnings	980	
Price Earnings Multiple	4.2	6 * 70%
Earnings Valuation	4116	

(c) Translation Rate Risk

This is the risk posed to an organisation that has investments/liabilities denominated in foreign currencies (meaning denominated in a currency other that it's reporting currency). The assets/liabilities may take any form for example:

- property assets e.g. investment properties, factories, land, buildings
- subsidiary companies or businesses
- financial assets/liabilities e.g. cash deposits, investments, medium and long term borrowings

If these assets/liabilities are of an enduring nature, meaning they are likely to be held for a period in excess of one year then translation risk is posed when the organisation translates the value of these foreign assets/liabilities into their domestic/reporting currency value at the closing rate applicable at the year- end reporting date.

For organisations with foreign assets the risk is that the domestic/reporting currency will have strengthened against the foreign currency in which the assets are denominated. In which case the reported value of the foreign asset will have suffered a diminution in value between successive year ends purely due to adverse currency exchange rate movements between the year-end dates.

In Y PLC's case if it was to acquire S Limited in doing so it would acquire the Russian Rouble deposit of 100 Million RR. On the date of acquisition the RR deposit was translated at €125 Million (100M RR/80) at the rate of exchange at that date of €1 = 80 RR. In the event that Y PLC retained the RR deposit and the RR further weakened viz. the Euro then the deposit value as translated would continue to reduce hence incurring translation losses. For example at the next SOFP date the rate of exchange was €1 = 100 RR then the RR deposit would be translated to €100Million a reported translation loss of €25 Million. A schedule of the changes in the translated Russian investment is as follows:

Russian Rouble Deposit	Rr000's	Exh Rate	€000's
Per Last SOFP	10,000	50	200
Current Rate	10,000	80	125
Projected Rate	10,000	100	100

SOLUTION 3
Report
To: Management K Limited
From: A.N. Other, Management Accounting Consultant
Date: 20th June 2015
Subject: Role of Management Accountant and Budgetary Control Systems

Introduction
This Report:
- advises on the role a Management Accountant would bring to K Limited
- advises on the benefits of K Limited employing a system of budgetary control and characteristics of a budgeting system

PART A

Differences between the Management Accountant's and the Financial Accountant's Role

- there is no legal requirement to prepare management accounts which are prepared exclusively for management purposes, whilst, financial accounts fulfil a wider and statutory reporting role.

- the content and format of management accounts are dictated by management needs whilst the content and format of financial accounts are prescribed by accounting standards.

- financial accounts are prepared once a year whilst management accounts are prepared for shorter control cycles e.g. daily, weekly and monthly.

- Financial accounts present past performance whilst management accounting information is often used for future decision making purposes.

PART B

Objectives of Budgeting

Compels planning
Ensuring management consider plans to achieving targets

Communicates ideas and plans
A budgeting system helps ensure that each person is aware of their specific responsibility to meet budget targets

Co-ordinates activities
The activities of different parts of the business can be better coordinated by considering how each budget is impacted by others

Framework for responsibility accounting.
Budget holders will be responsible for the achievement of budget targets for the operations under their control.

Establishes a system of control
Control over actual performance is provided by comparisons of actual results against budget. Variances can be investigated and the appropriate control action taken.

Motivation of Staff
Motivation is provided through setting budget targets

Characteristics of Budgetary Control System

- Economy – the cost of information provision should not outweigh its potential benefit
- Flexibilty – ability to produce information of different types for different audiences e.g. recurrent vs. non-recurrent, fixed vs. flexible
- Supports accountability within organisation – provides information per cost centre/division
- Understandability – the system can be understood and operated by staff
- Report Writer – ability to produce information in whatever manner required by management.

Conclusion
I trust this information will improve the Management Accounting of X Limited.

SOLUTION 4

Questions 1, 2 And 3

21/09/2014	**Duck Plc**	**Jon Plc**	**Combined**
Shares (Ms)	50	700	
Price Per Share	4.25	11.5	
Market Capitalisation	212.5	8,050	8,262.5
			Answer (a)
22/09/2014			
Market Capitalisation 21/9/14		8,050	
Price Paid For Duck Plc	400	-400	
Market Capitalisation Of Duck Plc	212.5		
Resultant Worth	400	7,862.5	8,262.5
Shares (Ms)	50	700	
Resultant Worth Per Share	8	11.23	
26/09/2014			
Market Capitalisation 22/9/14	400	7,862.5	
Expected Savings		200	
Resultant Worth	400	8,062.5	8,462.5
Shares (Ms)	50	700	
Resultant Worth Per Share	8	11.52	
			Answer (b)
29/09/2014			
Market Capitalisation 26/9/14	400	8,062.5	
Share Improvement		170	
Resultant Worth	400	8,232.5	8,632.5
Shares (Ms)	50	700	
Resultant Worth Per Share	8	11.76	
			Answer (c)

A Limited – Solutions To Questions 4, 5 6, 7 And 8

(4) Answer (c)

Budgeted Contribution = Budgeted Unit Sales * Standard Contribution Per Unit = 200 * (400-320) = 16,000

(5) Answer (b)

Glass Price = (Budgeted Unit Price-Actual Unit Price)* Units Bought = (10-9)*250 = 250 F

(6) Answer (c)

Labour Efficiency = (Budgeted Hours - Actual Hours) * Standard Hourly Rate = (1,100-1,000)*15 = 1,500 F

(7) Answer (a)

Sales Volume = (Actual Sales - Budgeted Unit Sales) * Standard Contribution Per Unit = (220-200)*80
= 1,600 F

(8) Answer (a)

Voh Expenditure = (Budgeted Hourly Cost - Actual Cost Per Hour) * Actual Hours = (18-16)*1,000
= 2,000 F

SOLUTION 5

Report
To: Management AL Tennis Club
From: A.N. Other, Management Accounting Consultant
Date: 20th June 2015
Subject: Review of proposed changes

Introduction
This Report:
- calculates the net financial impact of the proposed changes
- assesses the key non-financial issues that should be considered before a final decision is made to implement the proposed changes or not

Part A

(a) Al Tennis Club - Cash Projection 2016

Details	**€**	**Workings**
Membership – Individual	60,000	300*200
Membership – Families	80,000	100*800
Bar Profits	48,000	32,000 (Ni) * €10 * 30%
Bar Staff	(45,000)	3 * 300 * 50
Groundskeepers Salary	(18,000)	
Fertilizers Etc.	(4,000)	(8 * 50 *8) + (8 * 25 * 4)
Insurance	(34,800)	(8 * 600) + 30,000
Clubhouse Upkeep	(36,000)	
Private Parties		
Rental	5,200	(26*200)
Catering	9,100	(2,000 * .35 * 26/2)
Bar	23,400	(2,000 * 26 * (.3 + .15))
Net Cash Generated For 2016	73,600	

Note 1) Court Hours	
Courts	8
Monthly Capacity	2,000
Months In Play	8
Annual Court Hours Used	16,000

(b) Other factors to consider:

- Will the improvements attract new members?
- What is the local competitive landscape?
- Will new courts allow for renting of court time to non-members?
- Will new members/casual visitors use the restaurant and bar facilities?
- Could improved facilities place the club in financial distress? e.g. increased running costs
- Could alternative surfaces be used to provide year round tennis? E.g. hard-court
- Could strategic linkages be developed with local businesses/institutions to use facilities?

Conclusion
I trust this information will help you make the decision whether or not to undertake the proposed changes.

Part B

Z Limited - Cash Budget - 3 Months Ending October 2015

Cashflow	**Note**	**August**	**September**	**October**
Sales Receipts	1	781,500	966,000	1,396,500
Payments				
Wages - 85%	2	(76,500)	(102,000)	(178,500)
Wages - 15%	2	(9,500)	(13,500)	(18,000)
Suppliers Materials	3	(102,000)	(144,000)	(192,000)
Taxation				46,000
Dividend			(25,000)	
Plant		(500,000)	(500,000)	
Utilities	4	(60,000)	(90,000)	(120,000)
Net In Month Cashflow		**533,500**	**91,500**	**434,000**
Opening Balance		(30,000)	503,500	595,000
Closing Balance		**503,500**	**595,000**	**1,029,000**

Note 1 - Sales Receipts	**Note**	**August**	**September**	**October**
Total Sales		900,000	1,200,000	1,800,000
Cash Receipts		427,500	570,000	855,000
One Month In Arrears		210,000	315,000	420,000
Two Months In Arrears		144,000	81,000	121,500
Total Sales Receipts		**781,500**	**966,000**	**1,396,500**

Note 2 - Wages Costs	**Note**	**August**	**September**	**October**
Production		45,000	60,000	90,000
Hours Required At 10 Minutes Each		7,500	10,000	15,000
Cost Per Hour		12	12	14
Labour Cost		**90,000**	**120,000**	**210,000**
Paid In Month - 85%		76,500	102,000	178,500
Paid In Arrears - 15%		13,500	18,000	31,500

Note 3 - Material Costs	**Note**	**August**	**September**	**October**
Production		45,000	60,000	90,000
Metres Required At .40 Metres Each		18,000	24,000	36,000
Cost Per Metre		8	8	8
Material Cost		**144,000**	**192,000**	**288,000**
Purchased		June	July	August
Paid - 3 Months In Arrears		September	October	November

Note 3 - Utility Costs	**Note**	**August**	**September**	**October**
Production		45,000	60,000	90,000
Cost At €2 Per Unit		90,000	120,000	180,000
Paid		September	October	November