Assignment – December 2021

Assignment Front Sheet

Qualification		Unit number and title
BTEC Level 7 Diploma in Strategic Management and Leadership		Unit 13: Managing Financial Principles and Techniques
Student Name		**Assessor name**
		Mr. Zoubair Khatib
Date issued	**Completion date**	**Deadline**
21.10.2021	**04.01.2022**	**04.01.2022**
Assignment title	Managing Financial Principles and Techniques	

Learner declaration
I certify that the work submitted for this assignment is my own and research sources are fully acknowledged.
Student signature: Date:

Learning Outcome		Assessment Criteria	In this assessment you will have the opportunity to present evidence that shows you are able to:	Task no.
LO1	**Be able to apply cost concepts to the decision-making process**	**1.1** **1.2** **1.3**	Explain the importance of costs in the pricing strategy of an organisation Design a costing system for use within an organisation Propose improvements to the costing and pricing systems used by an organisation	**1**
LO2	**Be able to apply forecasting techniques to obtain information for decision making**	**2.1** **2.2**	apply forecasting techniques to make cost and revenue decisions in an organisation assess the sources of funds available to an organisation for a specific project	**2**
LO3	**Be able to participate in the budgetary process of an organisation**	**3.1** **3.2** **3.3** **3.4**	select appropriate budgetary targets for an organisation participate in the creation of a master budget for an organisation compare actual expenditure and income to the master budget of an organisation evaluate budgetary monitoring processes in an organisation	**3**
LO4	**Be able to recommend cost reduction and management processes for an organisation**	**4.1** **4.2**	recommend processes that could manage cost reduction in an organisation evaluate the potential for the use of activity-based costing	**1**
LO5	**Be able to use financial appraisal techniques to make strategic investment decisions for an organisation**	**5.1** **5.2** **5.3**	apply financial appraisal methods to analyse competing investment projects in the public and private sector make a justified strategic investment decision for an organisation using relevant financial information report on the appropriateness of a strategic investment decision using information from a post audit appraisal	**1**
LO6	**Be able to interpret financial statements for planning and decision making**	**6.1** **6.2** **6.3**	analyse financial statements to assess the financial viability of an organisation apply financial ratios to improve the quality of financial information in an organisation’s financial statements make recommendations on the strategic portfolio of an organisation based on its financial information	**3**

Assignment brief

Unit number and title	Unit 13: Managing Financial Principles and Techniques
Qualification	BTEC Level 7 Diploma in Strategic Management and Leadership
Start date	21.10.2021
Deadline/hand-in	04.01.2022
Assessor	Mr. Zoubair Khatib

Part 1

Task 1: Learning outcome 1, 4 and 5

<u>The Handbag Company</u>

The Handbag Company Ltd (Handbag) manufactures and sells a range of three handbags – the Faux Leather (the "Faux"); the Suede (the "Suede") and the Genuine Leather (the "Leather"). Production and sales data for July was as follows:

	Faux	Suede	Leather
Selling price	$50 per unit	$125 per unit	$180 per unit
Variable materials	$10 per unit	$25 per unit	$30 per unit
Variable labour	$10 per unit	$20 per unit	$30 per unit
Variable production overhead	$5 per unit	$10 per unit	$10 per unit
Actual production	30,000 units	20,000 units	50,000 units
Closing inventory	5,000 units	5,000 units	5,000 units
Labour hours	0.2 hours per unit	0.4 hours per unit	0.6 hours per unit

The variable labour cost is $50 per hour and Handbag's fixed overheads for July were $440,000.

Requirement:

1. Calculate the total value of the closing inventory for each product under marginal costing

2. During August the fixed overhead absorption rate was calculated as $75 per labour hour and the value of the closing inventory under marginal costing, and the number of units, was a below. The labour cost per hour and per unit remained at their July values.

	Closing inventory value	Closing inventory
	$	Units
Faux	15,000	2,500
Suede	25,000	2,500
Leather	97,500	7,500

   Calculate the total value of the closing inventory for August for each product under absorption costing.

3. During September, Handbag sold all of the opening inventory and all the units it manufactures during the month. Sales price and marginal cost information for September was a follows:

	Faux	Suede	Leather
Selling price (per unit)	$50	$125	$180
Marginal cost (per unit) as August	$30	$50	$65

   Assuming the same actual production data and fixed production overheads in September as for July, calculate Handbag gross profit for September under marginal costing and absorption costing.

4. The Board of Directors has requested you to submit a short report explaining the differences between absorption costing and marginal costing and whether a situation exist where both the costing method will get to the same gross profit margin. Further, one of the director has requested you to cover in your report an explanation of Activity Based Costing and what are the key consideration for Handbag to decide whether to use Activity Based Costing going forward.

5. In October, Handbag decides to replace the machine that manufacture the Handbag Suede. Two alternative machines have been identified

Machine 1 has the following cash flows:

Year	Cost and Scrap value	Cash generated from use
	$	$
0	(800,000)	
1		280,000
2		280,000
3		280,000
4	80,000	280,000

Machine 2 has the following cash flows and profits

Year	Cost and scrap value	Cash flow from use	Depreciation	Profit
	$	$	$	$
0	(680,000)			
1		260,000	140,000	120,000
2		270,000	140,000	130,000
3		280,000	140,000	140,000
4		250,000	140,000	110,000

Requirement:

1. Calculate (to the nearest whole year) the payback period for Machine 1
2. Calculate (the to the nearest whole %) the Internal Rate of Return (IRR) for machine 1, using discount rates of 10% and 20% per annum
3. Calculate the Account Rate of Return (ARR), to the nearest whole % based on the initial investment in Machine 2
4. Calculate the net present value (to the nearest $1,000) for Machine 2 at a discount rate of 15% per annum.
5. Discuss and advise the Board of Handbag on the different sources of finance that can be used to finance the above investment.
6. Handbag has recently recruited a junior staff. The junior staff has requested you to give him a brief on the difference between discounted cash flow techniques and non-discounting techniques.

Task 2: Learning outcome 2 & 3

Decoration Ltd

Decoration Ltd (Decoration) makes housing decorations and will soon be expanding the business using a loan from the bank. It is preparing its cash budget for the months April to June to enable it to understand its cash flow, as it has agreed to rent new premises from April.

The management accountant has prepared the following information.

- The bank balance on 1 April is $6,000 in credit.
- Sales revenue and general expenses for February and March were:

	February	March
	$	$
Sales revenue	10,500	11,000
General expenses	1,700	1,600

- Sales revenue and general expenses for April to June are budgeted to be:

	April	May	June
	$	$	$
Sales revenue	12,000	11,500	17,500
General expenses	1,750	1,600	2,650

- It has been determined from the customer collection records of Decoration that cash sales account for 30% of total sales. The credit sales customers pay two months after sale. One credit customer, who bought goods for $150 in February, was declared bankrupt a few days after the sale and will not be able to pay Decoration.
- Decoration wishes to set up a general bad debt provision of $250 for June.
- General expenses are paid in the month following the month in which they were incurred.
- The cost of purchases is 25% of sales revenue each month.
- Decoration currently pays for purchases two months later. However, for purchases made in March and purchases thereafter, Decoration has agreed with the supplier that it will take three months to pay.
- From April, Decoration will be renting new premises. The rent and rates will be £2,500 per month payable in the month in which they are incurred.
- Staff will be expected to work longer hours and therefore current staff costs of $1,500 per month will increase by 10% from April. Staff costs are paid in the month in which they are incurred.
- Taxable profit for last year amounted to $4,100 and the tax on this (at a rate of 20%) is due to be paid in June.

- New machinery will be purchased on 1 March at a cost of $6,000, payable in three equal instalments in March, April and May. The scrap value is estimated to be $1,000 in three years' time. Old machinery with a net book value of $2,500 is to be disposed of in July for a cash receipt of $500.
- New fixtures and fittings will be purchased for $5,000 and will be paid for in full in April. The estimated scrap value is $750 in four years' time. Monthly depreciation on the new machinery and the new fixtures and fittings is calculated on a straight-line basis.
- Decoration's loan from the bank of $10,000 was received on 30 March. Interest of 0.3% on the $10,000 is paid monthly.

Requirement

1. Prepare the cash budget for each of the three months ending 30 June.
2. Describe the importance of cash flow forecast for an organization and its limitations

Part 2

Task 3: Learning outcome 6

A top tier Company in London has approached your firm, Investment Solution Ltd, for advise on the potential investment in Mauritius. The client wants to invest into a listed companies in Mauritius and is of the opinion that Mauritius is best emerging countries to invest at the moment.

The London based firm has requested that you submit a report on one of your recommended company in Mauritius. The report will include a financial analysis of the company for the last two financial year and your recommendation.

Based on the report the client will take a decision about whether to invest or not.

Requirement

(a) Provide a one pager background information on the selected company and the industry its operate as well as a brief on Mauritius as a jurisdiction of choice for investment
(b) A summary of key financial details of the company selected which you believe will be of interest to your clients
(c) An analysis of the profitability and liquidity position of the company
(d) A qualitative analysis of your recommendation supporting your advise to invest in the selected company

NOTE:

Information to be extracted from the annual reports of the companies for the time period 2018 to 2020 (You may choose either 2018/2019 or 2019/2020).