

# CENTRE FOR BUSINESS, INFORMATION TECHNOLOGY & ENTERPRISE

## INTERMEDIATE MANAGEMENT ACCOUNTING BIBM603

### ASSIGNMENT

**WEIGHTING:** 30%

**INSTRUCTIONS:**

1. Answer **ALL** questions.
2. **Show and explain the important steps** in your answers to gain full marks.
3. You **must** submit a paper (hard) copy of the full assignment into assignment boxes and an electronic copy of Question two uploaded to [www.turnitin.com](http://www.turnitin.com). Only the paper copy will be marked.
4. Keep a copy of the assignment and regularly save your work in case of unforeseen events such as computer failure or sickness.
5. You may use the library, textbook, internet, personal communication or any other sources for reference, but what you submit must be your own individual work. Evidence of collusion or copying could result in assignment marks being omitted from final assessments.
6. Work that is submitted after the due date will not be marked.

<b>MARKS:</b>	Question one	50 marks
	<u>Question two</u>	<u>50 marks</u>
	<b>TOTAL</b>	<b>100 MARKS</b>

**QUESTION ONE Budgeting****[TOTAL: 50 MARKS]**

Kauri Ltd is an organisation that manufactures and sells sunglasses. The sunglasses are made from plastic and a special lens material and sold for \$69 for each pair of sunglasses. The components of Kauri Ltd.'s balance sheet as at 31 March, 2018 have been extracted and printed below:

Assets	
	\$
Cash	16 800.00
Debtors (\$270 000 Dec quarter sales, \$945 000 March quarter sales)*	1 215 000.00
Inventory (3 780 units)	134 550.30
Raw materials: Plastic (960 kilos)	2 880.00
Raw materials: Lenses (420 kilos)	2 520.00
Fixed Assets	300 000.00
<b>Total Assets</b>	<b>\$1 671 750.30</b>

\*The remainder of December sales are expected to be received in the June quarter, two thirds of the remaining March debtors are expected in the June quarter and one third of remaining March debtors are expected to be received in September quarter.

The company prefers to maintain a minimum cash balance of \$12 000 and minimum inventory of 10% of next quarter's sales in units.

Liabilities and Equity	
	\$
Creditors (purchases)	102 900.00
Capital	1 356 630.30
Retained earnings	212 220.00
<b>Total</b>	<b>\$1 671 750.30</b>

Actual and forecasted sales of sunglass units are:

Quarter ending	
December (2017, Actual)	28 800
March (2018, Actual)	33 600
June (2018)	42 000
September (2018)	54 000
December (2018)	72 000
March (2019)	48 000
June (2019)	43 200
September (2019)	38 400

The company usually pays 50% of the purchases in the quarter of purchase and the remaining 50% in the quarter following purchase. All sales are on credit and from past experience 25% is received within the quarter of sales, 50% in the quarter following sales, and the remainder is typically received in the second quarter following sales.

Each unit requires materials consisting of 200g of frame plastic, and 100g of lens material. 10% of the following quarter's material requirements are stocked ready for that quarter. 30 minutes labour is required on each unit. There are currently 40

production employees. All production employees can be employed at a wage rate of \$18 per hour, and then guaranteed a 35 hour work week, or, all production employees can be employed at a wage rate of \$24 per hour on a flexible contract that allows management to decide on their hours worked per week. In either the fixed or flexible contract, the number of employees must remain the same for the whole year.

Other quarterly factory operating expenses below are paid for in cash (except for depreciation) during the quarter:

<u>Expense</u>	<u>Cost behaviour</u>	<u>\$ per Quarter</u>
Maintenance	Variable	80 per DLH
Power & phone	Mixed	560 000 + 2 per DLH
Depreciation	Fixed	40 000
Other	Mixed	120 000 + 2 per sunglasses

Factory supervisory and management salaries amount to \$43 200 per month. Other non-factory administrative and management salaries amount to \$36 000 per month.

Sunglasses are packaged and labelled before leaving the storeroom. In addition to the \$0.50 cost per sunglass for labelling and packaging, the company also spends a fixed \$60 000 on advertising and branding per quarter.

The company has fifteen manufacturing machines that operate as long as the employees are working on production units. Additional equipment (not machines) will be purchased for \$36 000 cash in September, and \$28 800 dividends will be declared in September, and paid in the beginning of October. No adjustments to be made to fixed assets for additional equipment purchase.

Borrowing from the bank can be made at 12% p.a. if the bank is aware before the funds are withdrawn; the borrowing is done at the beginning of a quarter and principal is paid back at the end of a quarter in \$10,000 amounts, unless the principal is less than \$1 000. Interest is paid at the time of principal repayments.

**Required:**

Using Excel, Minitab, or similar spreadsheet program;

1. Prepare the following budgets for each quarter and in total for the coming forecasted year. Additional budgets may be useful.
  - a. Sales budget **(1 mark)**
  - b. Direct labour budget (Decide on the type of contract. Provide reasoning). **(5 marks)**
  - c. Direct materials budget **(5 marks)**
  - d. Manufacturing overhead **(6 marks)**
  - e. Cash budget **(7 marks)**
  
2. Prepare a budgeted income statement and balance sheet for the coming year. Prepare a cost of goods manufactured schedule and clearly calculate finished inventory. **(16 marks)**
  
3. Present your budgets in an appropriate and clear manner. **(5 marks)**
  
4. Explain what potential action could be taken by Kauri Ltd production manager if 70,000 unit sales of sunglasses were expected in the December 2018 quarter. **(5 marks)**

For the purpose of this assignment disregard tax, use 3 months per quarter, and 13 weeks per quarter where required.

*The budget has historically played center stage in most organizations' systems of management control.*

**Required:**

In no more than 1500 words, critique the use and practice of budgets within organisations.

**Marking schedule for question two:****Introduction****5 marks**

Formulates and describes the issue and highlights the importance of the topic.  
Gives a brief overview of the structure of the essay.

**Literature Review****10 marks**

Provides a critical analysis of recent and relevant literature from a range of sources.  
Forms the basis of essay debate and discussion.

**Issues and Debate****15 marks**

Informed and logical argument developed and supported throughout.  
Focuses on the main themes of the essay.  
Relates topics and theories within and beyond class readings to the main themes of the essay.

**Presentation and Grammar****10 marks**

Logical structure and concise with an appropriate linkages between paragraphs.  
Correct spelling, grammar, punctuation, varied sentence structure and appropriate word choice.

**Referencing****5 marks**

Proper citing and referencing using the APA Referencing Style.  
Citing and referencing at least three articles from peer reviewed journals along with other references as appropriate.  
Structure or discussion not discussed in other literature.

**Conclusion****5 marks**

Conclusions arise from the analysis and are linked to the purpose of the essay.  
Summarising and providing implications or future direction.