FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Accountancy
DEPARTMENT	Commercial Accounting
CAMPUS(ES)	DFC
MODULE NAME	Financial Planning and Control 3B
MODULE CODE	BFA44B4
SEMESTER	Second
ASSESSMENT OPPORTUNITY **MONTH AND YEAR**	Final Summative Assessment Opportunity November 2019

ASSESSMENT DATE	18 November 2019	**SESSION**	X
ASSESSOR(S)	Mr K Daly		
MODERATOR(S)	Mr R Rhodes, Mr R B Ford (External)		
DURATION	180 min	**TOTAL MARKS**	100

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	5

INFORMATION/INSTRUCTIONS:

- This is a closed-book assessment.
- There are 4 questions.
- Unless otherwise indicated, work to 2 decimal places.
- Silent, non-programmable calculators may be used.
- Read the questions carefully and answer only what is required.
- Write neatly and legibly on both sides of the paper in the answer book, starting on the first page.

Question 1 (25 marks)

Tshwane Industries manufactures two products, Base and Lux, which they sell to wholesalers. The following budgeted information is available for a typical month:

	Base	Lux
Expected sales	120 000 units	200 000 units
Selling price per unit	R30	R32
Direct labour per unit	6 minutes	7.5 minutes
Direct labour rate	R30 per hour	R30 per hour
Material required for one unit:		
Alpha	350 g	400 g
Beta	200 mm	250 mm

Manufacturing overheads are budgeted as follows:

Fixed: R158 130 per month (allocated on the basis of direct labour hours)
Variable: R4 per direct labour hour

Inventory balances were as follows:

	1 June 2019	30 June 2019
Base	4 000 units	8 000 units
Lux	8 000 units	10 000 units
Alpha	11 400 kg @ R20 per kg	7 200 kg
Beta	4 000 m @ R1.20 per m	2 400 m

Required:

Prepare each of the following budgets for Tshwane Industries for the month ended 30 June 2019:

1.1 The sales budget (3 marks)
1.2 The production budget (3 marks)
1.3 Direct material budget (6 marks)
1.4 Direct labour budget (5 marks)
1.5 Manufacturing overheads budget (per product, round off to nearest rand) (3 marks)
1.6 Cost of goods sold budget (in total) (5 marks)
(25 marks)

Question 2 (25 marks)

The following information was extracted from the records of TCB (Pty) Ltd:

	October	November	December
	R	R	R
Sales (30% cash)	1 500 000	1 600 000	1 850 000
Purchases (60% cash)	700 000	810 000	950 000
Salaries and wages	230 000	230 000	460 000
Overhead expenses	210 000	220 000	230 000

Additional information:

1. The opening bank balance on 1 October 2019 is expected to be R65 000.
2. Credit sales are collected as follows:
   50% in the month following the month of sale;
   45% in the 2nd month following the month of sale.
   5% will prove to be irrecoverable.
3. Credit sales were R550 000 in August and R630 000 in September 2019.
4. Credit purchases are paid in the month following purchase less a 2% settlement discount.
5. Creditors for purchases at 1 October 2019 are:
   for September purchases R520 000.
6. Overhead expenses includes a monthly depreciation charge of R32 000. Overhead expenses are paid in the month following the month in which they are incurred.
7. Creditors for overhead expenses at 1 October 2019 are:
   for September overheads: R175 000.
8. A provisional tax payment of R165 000 must be made at the end of December 2019.
9. A new vehicle will be bought in October 2019 for R800 000. A 20% deposit will be paid in October. Monthly instalments of R25 500 must be paid for 36 months from the end of October 2019.
10. A dividend of R85 000 from shares in another company will be received in October 2019.

Required:

Prepare a cash budget for October, November and December 2019.

(25 marks)

Question 3 (20 marks)

CostTrol Company has had a comprehensive budgeting system in operation for several years. Some of the managers are not convinced of the value and benefit of the system. The line supervisors are happy with the reports being prepared on their performance, but upper management often expresses dissatisfaction over the reports being prepared on various phases of the company's manufacturing operations. A typical manufacturing overhead performance report for a recent period is shown below:

CostTrol Company
Overhead Performance Report – Finishing Department
For the Quarter Ended 31 October

	Actual	Budget	Variance
Machine hours	100 000	120 000	
Variable overhead:	R	R	R
Indirect labour	400 000	450 000	50 000 F
Supplies	108 000	120 000	12 000 F
Utilities	54 000	60 000	6 000 F
Rework time	28 000	30 000	2 000 F
Total variable costs	590 000	660 000	70 000 F
Fixed overhead:			
Maintenance	123 800	120 000	3 800 U
Inspection	180 000	180 000	-
Total fixed costs	303 800	300 000	3 800 U
Total overhead costs	R893 800	R960 000	R66 200 F

After receiving a copy of this performance report, the supervisor of the Finishing Department stated, "No one can complain about my department; our variances have been favourable for over a year now. We've saved the company thousands of rands through our excellent cost control."

The budgeted data above are for the original planned level of activity for the quarter.

Required:

3.1 The company's deputy CEO is uneasy about the performance reports currently being prepared and would like you to evaluate their usefulness to the company (3 marks)

3.2 What changes, if any, should be made in the overhead performance report to give better insight into how well the supervisor is controlling cost? (2 marks)

3.3 Prepare a new overhead performance report for the quarter, incorporating any changes you suggest in 3.2 above. (Include both the variable and the fixed costs in your report) (15 marks)

(20 marks)

Question 4 (30 marks)

CAD Manufacturing CC is considering replacing one of its machines. CAD has a choice of specification for its new machine: Machine 1 will meet all the firm's basic requirements while Machine 2, although more costly to acquire, is considered to have greater output capability because of its greater sophistication.

Details are as follows:

	Machine 1	***Machine 2***
Initial cost of machine	R1000 000	R1500 000
Useful life	4 years	4 years
Net cash inflow if bought:		
Year 1	R275 000	R400 000
Year 2	R375 000	R450 000
Year 3	R375 000	R500 000
Year 4	R425 000	R600 000
Resale value at the end of Year 4	R100 000	R200 000

CAD Manufacturing CC's existing machine was bought five years ago for R250 000 and will be scrapped irrespective of which new system is acquired. CAD Manufacturing CC's cost of capital is 15%.

Use the following discount factors:

Year 0: 1.000; Year 1: 0.870; Year 2: 0.756; Year 3: 0.658; Year 4: 0.572 Year 5: 0.497

Required:

4.1	Calculate the payback period of both Machine 1 and Machine 2	(8 marks)
4.2	Determine the net present value of both machines	(15 marks)
4.3	Is Machine 2 financially preferable to Machine 1?	(2 marks)
4.4	List 4 advantages and 1 disadvantage of using the net present value method.	(5 marks)

(30 marks)

[100 marks]

END OF PAPER