

Faculty of Business and Law

381ACC Performance Management 2016 November

Coursework

[Contributes 25% to total module mark]

Submission by 4pm on date: **3 February 2017**

This assignment must be submitted, with a pre-printed Bar Coded BES coursework cover sheet attached, to Dropbox located at the PSB reception and also via the module web by 16.00 on the above deadline.

Please note:

1. All work submitted after the submission deadline without an approved valid reason (see below) will be given a mark of zero. (This is not the same as a non-submission, as a late submission counts as an attempt and a mark of zero may allow you to resit the coursework.).
2. Short deferrals (extensions) of up to one calendar week can only be given for genuine "force majeure" and medical reasons, not for bad planning of your time. Please note that theft, loss, or failure to keep a back-up file, are not valid reasons. The short deferral must be applied for on or before the submission date. You can apply for a short deferral by submitting an Examination/ Coursework Deferral Application Form. Application Forms along with the supporting evidence should go to the relevant Program Executive. For a longer delay in submission a student may apply for a (long) deferral.

Students **MUST** keep a copy and/or an electronic file of their assignment.

Please also submit an electronic copy of your assignment via the module web. (See instructions on module web)

The electronic version of your assignment may be used to enable checks to be made using anti-plagiarism software and approved plagiarism checking websites.

Word Length 1750 Words

Maximum/ Minimum/Range 10%

Any penalties for not complying with word limits will be in accordance with University and Faculty policy.

Learning Outcomes Assessed

This assignment will summatively assess the following learning outcome:

- The student should be able to apply and demonstrate an understanding of various performance strategies and techniques.

Assessment Criteria – See brief on next page

Marking Scheme - For information on how marks are awarded for particular elements of this assignment see the coursework brief.

Return of Marked Work

Marked work will be returned in class. You can expect to have marked work returned to you by 1 working week after the submission date. The expected date of return will be the week commencing

PLAGIARISM WARNING! – Assignments should not be copied in part or in whole from any other source, except for any marked up quotations, that clearly distinguish what has been quoted from your own work. All references used must be given, and the specific page number used should also be given for any direct quotations, which should be in inverted commas. Students found copying from the internet or other sources will get zero marks and may be excluded from the university.

Coursework Question:

Sehat Ltd is a company that makes and sells products that promote better healthy lifestyle. It manufactures an air purifier known as KleenAir. There are many other companies that also manufacture similar air purifiers and the market price of KleenAir is forecast to be \$440 during 2017. Customers prefer to place the orders with manufacturers who are able to deliver air purifiers immediately from their inventory.

A summarised version of Sehat Ltd's statement of financial position at 31 December 2016 is shown below.

Summarised statement of financial position of Sehat Ltd as at 31 December 2016

	\$
Plant and equipment (net)	1,560,000
Inventory	160,000
Receivables	250,000
Cash at bank	60,000
Payables	<u>(40,000)</u>
Net assets	<u>1,990,000</u>
Share capital	200,000
15% loan from shareholders	1,000,000
Retained earnings	<u>790,000</u>
Capital	<u>1,990,000</u>

Additional information

During 2017,

- Sehat Ltd plans to repay \$250,000 of the 15% loan from shareholders in June 2017.
- Interest on the loan amounting to \$75,000 will be paid in June and \$56,250 in December.
- Interest on bank overdraft is forecasted to be 4% per quarter on the balance outstanding on the last day of each quarter.
- Fixed overhead costs (excluding depreciation) are forecasted to be \$400,000 per quarter (all such costs are paid in the month in which they are incurred).
- Budgeted variable production costs are \$200 per KleenAir (75% of these costs are paid for in the month they are incurred and 25% in the month after they are incurred).

Sehat Ltd's accounting policies include

- Providing for depreciation at a rate of 4% per quarter on the net book value (i.e. cost less depreciation) of plant and equipment outstanding at the end of each quarter;
- Valuing inventory (or 'stock') at a standard production cost of \$320 per KleenAir.

In early January 2017, Sehat Ltd's executives meet in order to discuss commercial strategy for the coming year. The sales director advocates an aggressive strategy (Strategy A), involving new investment, high inventories and an expansion of sales.

The financial director advocates a conservative strategy (Strategy B) involving no new investment, minimising inventories and the adoption of a 'tight' credit policy on sales. Relevant details concerning the two strategies are described in the following section.

Strategy A

- Acquire a new production equipment at a cost of \$720,000 in January on the payment term of cash on delivery.
- Offer 70% (by sales value) of customers, two months' credit and require the rest to pay immediately.
- Sell KleenAir at a rate of 1,350 units per month (quarters 1 and 2) and 1,650 units per month (quarters 3 and 4).
- Produce KleenAir at a rate of 1,800 units per month (quarters 1 and 2) and 1,650 units per month (quarters 3 and 4).
- A review of outstanding debts at the end of 2017 is forecast to result in a bad debt write-off totalling \$128,000 (all relating to quarter 4 sales).

Strategy B

- Continue the existing credit policy of offering 30% (by sales value) of customers one month's credit and require the rest to pay immediately.
- Sell KleenAir at a rate of 1,200 units per month (quarters 1 and 2), 1,500 units per month (quarter 3) and 1,650 units per month (quarter 4).
- Produce KleenAir at a rate of 1,275 units per month (quarters 1 and 2) and 1,500 units per month (quarters 3 and 4).
- A review of outstanding debts at the end of 2017 is forecast to result in a bad debt write-off totalling \$20,000 (all relating to quarter 4 sales).

Requirements:

Note: In preparing your answer you may assume that cash is held on current account where it earns no interest and any cash deficit requirement is satisfied by drawing down on the overdraft facility.

- a) Prepare a cash-flow budget and a profit budget for Sehat Ltd on the basis of Strategy A. The budgets should be split into quarterly intervals showing cash-flow and profit forecasts for each individual quarter.
- b) Prepare a cash-flow budget and a profit budget for Sehat Ltd on the basis of Strategy B. The budgets should be split into quarterly intervals showing cash flow and profit forecast for each individual quarter.
- c) Compare and contrast the two sets of budgets you have prepared in answer to requirements a) and b). Advise Sehat Ltd's management on the relative merits of the two alternative strategies. Advise which strategy should be adopted and why.

Mark scheme guidelines on next page.

Faculty of Business Environment and Society (BES)
381ACC Performance Management 2016-2017

Student ID :

Mark

Student Name: -----

Assessment criteria	Mark Allocation	Very poor → Excellent				
		0-4	5-8	9-12	13-16	17-20
Preparation of strategy A	20	0-4 <input type="checkbox"/>	5-8 <input type="checkbox"/>	9-12 <input type="checkbox"/>	13-16 <input type="checkbox"/>	17-20 <input type="checkbox"/>
Preparation of strategy B	20	0-4 <input type="checkbox"/>	5-8 <input type="checkbox"/>	9-12 <input type="checkbox"/>	13-16 <input type="checkbox"/>	17-20 <input type="checkbox"/>
Compare and contrast the two sets of budgets	20	0-4 <input type="checkbox"/>	5-8 <input type="checkbox"/>	9-12 <input type="checkbox"/>	13-16 <input type="checkbox"/>	17-20 <input type="checkbox"/>
Quality of the advice to the company as to which strategy should be adopted and why.	30	0-6 <input type="checkbox"/>	7-12 <input type="checkbox"/>	13-17 <input type="checkbox"/>	18-24 <input type="checkbox"/>	24-30 <input type="checkbox"/>
Overall Presentation, grammar, syntax & referencing	10	0-2 <input type="checkbox"/>	3-4 <input type="checkbox"/>	4-6 <input type="checkbox"/>	6-8 <input type="checkbox"/>	8-10 <input type="checkbox"/>

Additional feedback: