

ACC5502 Accounting and Financial Management

Assignment 2

S1 2017

Due date: 25th May 2017

This assignment is designed to give you an opportunity:

- ***apply management accounting concepts and finance frameworks...to increase the effectiveness of management decision making*** (Objective 2)
 - ***apply management accounting concepts ...to help assess the impact on organisational systems*** (Objective 3)
 - ***apply and use management accounting concepts and finance frameworks...to provide solutions to real world problems*** (Objective 4)
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Part One (60 Marks)

Question One

The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation.

Source: Adapted from Robert S. Kaplan and David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," Harvard Business Review (January-February 1996): 76.

Required:

1. Critically evaluate the above quote in regards to contemporary balance scorecard practice. You should review current business and academic literature relevant to management application and use of balance scorecards. Use appropriate sources to summarise and support your personal views about balance scorecards. Ensure you relate your discussion to the above quote. You should also make a determination as to whether you agree or disagree with this point of view.

(Guideline: 2000 – 2500 words.)

2. Using your knowledge of balanced scorecards and performance evaluation systems address the following:

- (a) Suggest refinements to the balanced scorecard system.
- (b) Discuss individual performance measurement. Identify advantages or disadvantages.
- (c) Suggest refinements to the performance evaluation system. *(Guideline: 800 - 1000 words)*

Part Two (40 Marks)

Answer the following questions:

(1) Doggy Clean Pty Ltd is considering investing in a new dog washing device with a higher pressure lower volume water flow system. This will reduce the amount of water used per dog wash and save approximately 2,000 litres of water per year. They expect that some customers will appreciate the benefit of saving water in Queensland and that the new device will attract new customers.

The following information has been provided:

Research costs to date \$5,000

Cost of machine purchase \$59,872

Expected increase in customer numbers per year – 200 new customers in first year and it is expected that these same 200 will stay for the life of the project

Contribution per customer per annum \$100

Cost per litre of water - \$0.01

Expected life of dog wash device (zero residual value) – 5 years

Cost of capital/desired minimum rate of return – 5%

Amortisation of research costs – Straight line

Doggy Clean Pty Ltd has a desired Payback Period of 2 years

- (a) Calculate the payback period of the project.
- (b) Calculate the Accounting Rate of Return (ARR) of the project.
- (c) Calculate the Net Present Value (NPV) of the project.
- (d) Calculate the Internal Rate of Return (IRR) of the project.
- (e) Based on these calculations alone, should Doggy Clean Pty Ltd buy the machine?
Use your calculations to justify your answer.
- (f) Are there non-economic considerations in making this decision? Explain.

(2) Ice Cold Ltd has a current breakeven point of 50,000 units. Which of the following would result in an increase to the breakeven point?

- a. a decrease in the variable costs per unit
- b. a decrease in the contribution margin per unit
- c. an increase in the selling price per unit
- d. a decrease in the fixed costs

(3) So Hot Ltd has 5,000 units in inventory that cost \$1.50 per unit to produce. Due to changing technology, the sales department is having difficulty selling the product. It will cost \$2,000 to scrap the units. What is the minimum price for which So Hot should sell these units?

(4) Bella Boutique Ltd has fixed costs of \$1,000,000 and variable costs are 50% of the selling price. To realise profits of \$250,000 from sales of 125,000 units, what must the selling price be per unit?

(5) Uearthed Company makes small widgets. The manufacturing costs per unit to produce a widget are as follows:

Direct Materials	\$200
Direct Labour	\$150
Variable Manufacturing Overhead	\$125
Fixed Manufacturing Overhead	\$90
Total Manufacturing Costs	\$565

Variable selling costs to obtain and fill orders normally average \$4 per unit when Uearthed sells widgets locally. Uearthed has recently paid \$120,000 to advertise in an international magazine. Uearthed has just received an order from a British Company for 1,000 widgets for a total offering price of \$450,000. The British Company will pay all shipping charges except the initial packaging costs which are expected to be \$1.50 per widget. Uearthed has excess capacity. Should Uearthed Company accept this one time only special order?

(6) Wheels and All Company makes skateboards, roller skates and roller blades. Roller skates are not as popular as they used to be and the company is considering dropping this product. Wheels and All currently sells 10,000 sets of roller skates each year for \$60 per set. Variable costs to manufacture the roller skates are \$54 per set. Fixed costs of \$75,000 can be avoided if Wheels and All do not produce roller skates. Analyse the following independent scenarios for Wheels and All.

(a) Prepare an analysis to determine whether or not the Company should discontinue the production of roller skates.

(b) Wheels and All can increase the sales volume to 14,000 sets of roller skates if they company is willing to spend an additional \$5,000 on advertising during the year. Prepare an analysis to determine if Wheels and All should continue or discontinue the production of roller skates based on this new information.

(c) Management have decided that it would be better to lower the selling price in order to increase the volume of skates sold. It was noted that volume would increase by 1,000 sets for every \$1 that the selling price was reduced. If management lowered the selling price by \$2 per set, should the company continue to manufacture roller skates?

General Requirements:

1. Answer each question using a heading indicating the question number. Part one and part two of the assignment should be answered within the same word document.
2. Full referencing is required in accordance with the USQ preferred Harvard Referencing style.
3. There is no specified word length for this assignment. However, be as concise and efficient in your writing as possible. Word limit guidelines are provided for part one only.
4. Assignment extensions will only be granted if there are extenuating circumstances. University policy provides that the maximum extension is 5 business days.
5. The assignment is to be submitted electronically. Submit the assignment using the link on the study desk. File types allowed include doc and docx. Only one file will be accepted. If more than one file is uploaded, only the first file listed will be marked. Do not submit a cover sheet.

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