

Question Bank

01/2024

Task 12.2, page 210-211

The discounted payback period is **3 years and 6 months** (not 3 years and 7 months per the solution on p.211)

Year	Discounted Cashflow £000	Cumulative cashflow £000
0	(1,000)	(1,000)
1	495	(505)
2	235	(270)
3	205	(65)
4	145	80

Payback occurs between year 3 and year 4.

$(65/145) \times 12 \text{ months} = 5.38 \text{ months}$, rounded up to 3 years and 6 months.

Task 14.4, page 110

The question should be

Which performance measure could lead to dysfunctional decision making, and in what circumstance would that occur?

Answer, page 232

Performance measure	Manager of Craft	Hobby Company Board
ROI	Reject	Reject
RI	Reject	Reject

Using ROI could lead to dysfunctional decision making if the project generated an ROI that is over the company cost of capital of 15% but under the current ROI of 20%. If the project itself generated a return between 15-20% the manager will still reject the proposal because it lowers the overall divisional ROI, but the board would accept it because it is above the cost of capital.

Practice Assessment 3 Task 2a, page 299

There are two errors in the question:

Calculate the following items to be included in V Ltd's budget.

	Item	Current system	New system
1	The total amount of kg required for production BEFORE wastage (£)		
2	The total amount of kg required DUE TO wastage (kg)		
	The total COST of material required for production INCLUDING wastage (£)		
	The total SAVING from the new inventory system (£)		

- 1) The £ should be replaced with kg
- 2) The sentence should state "The amount of kg required DUE TO wastage "(kg)