Managerial Finance

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Question 1

1.1 Ratio calculation

RATIO ANALYSIS				
ELEMENT	**FORMULA**		**ENERGY HUB LTD.**	**FRESH FARMS LTD.**
Profitability Ratio				
ROCE	Net Operating Profit / Total Capital Employed	%	4.68%	14.13%
Return on Assets	Net Operating Profit / Total assets	%	4.05%	13.43%
Asset Turnover	Turnover / Total assets	x	1.43	1.39
Gross Profit Margin	Gross Profit / Turnover	%	23.71%	46.31%
Net Operating Profit Margin	Net Operating Profit / Turnover	%	2.82%	9.64%
Efficiency Ratio				
Receivable Collection Period (R)	Trade Receivable / Turnover x 365	days	21.42	92.11
Payables Payment Period (P)	Trade Payables / Cost of sales x 365	days	45.21	23.96
Inventory Days	Inventory / Cost of Sales x 365	days	28.08	9.22
Liquidity Ratio				
Current ratio	Current Assets / Current Liabilites	x: 1	1.14	7.75
Financial Risk or Gearing Ratio				
Gearing	Non-Current Liabilities / Total Capital Employed	%	32.11%	27.60%
Interest Cover Ratio	Net Operating Profit / Interest Charges	x	2.24	7.31

1.2 Business Report

Introduction

This research paper covers an analytical review of the financial status of the Energy Hub Ltd. and Fresh Farms Ltd. Analysis will use the essential financial metrics such as profitability, financial solvency, and liquidity for the purpose of analysis (Angelov *et al.* 2021). This report will be able to clarify each company's strong and weak sides, as well as could be used for spotting the best things in common for both of the companies.

Financial ratio analysis

Profitability Ratio

ROCE

Contrary to ROCE that translates into the profitability ratio of a company, ROCE searches to discover how efficiently a company generates profits from the capital it possesses. It evaluates both EBIT (earnings before interest and taxes) and the ratio of invested capital (account reach amount for total assets minus current liabilities). The ROCE regularly exceeding 10% implies the company is well-run and has a more effective use of assets. Fresh Farm Ltd's ROCE is much better than Energy Hub ltd. whose ROCE is around 14%.

Return on Assets

Return on Assets (ROA) ratio evaluates, in what way the company's assets get utilised for earning money. It refers to a proportion of net profit gained by one company after being divided by the total assets of this company, hence expressed in percentages. Increased ROA indicates

that the company is receiving the maximum profit at implications like equipment or inventory available the company has (Sausan *et al.* 2020). The ROA of Fresh Farm Ltd is also better than Energy Hub Ltd. The difference is 9%.

Asset Turnover

Asset turnover tells us how well a company operates at its assets that are meant to serve the revenue generation purpose. Consider an example of the number of times a company buys the physical stocks and sells them in a particular term or season. By calculating it through net sales divided by average assets total. The ratio with a higher number shows that it is selling more assets for the less assets owned, possibly showing that it has productive operations. Asset turnover of both the companies seems to be slightly similar. But Energy Hub's AT is 1.43.

Gross Profit Margin

"Gross profit margin is expressed as a percentage, which is an indicator of profitability. Indirect cost and profits grow or decline". However, it highlights how much the rest of the money from the sales is enough to cover the costs of producing the products. A verbal description: the profit margin, in short, is the money after deducting the cost for sourcing materials and labour (Nariswari and Nugraha 2020). Fresh Farms Ltd's Gross Profit Margin is 2 times better than their competitor. Their GPR is like 43.31%.

"Net Operating Profit Margin"

"Much like gross margin, net operating profit margin is also a profitability less". But it differs from the COGS only regarding all the operating expenses, not just the ones of selling the main product (Mahdi and Khaddafi 2020). Net Operating Profit Margin of Fresh Farm Ltd is also better than Energy Hub Ltd. The difference is like 7.

Efficiency Ratio

Receivable Collection Period (R)

The receivable collection period presents the usual period when an enterprise recovers customer payment from credit sales. The ratio for Energy hub ltd is 21.42 and Freshfarm Ltd is 92.11. This indicates that Energy Hub ltd has a better collection period as compared to the other. By considering this, the turnaround time for these invoices is similar to the time from when invoices are made to when they turn into money. In this, also the stats of Energy hub ltd is better.

Payables Payment Period (P)

The payables payment period shows the length of time a company uses to pay its suppliers for orders made during the credit period (Oktavia and Indrati 2021). Through it, the company

displays the degree of efficiency in processing its invoices and what influence that has on the category of Household Consumer Products suppliers. The payable period of Energy Hub is 45 days whereas the payable of Freshfarm Ltd is 24 days. This seems that Energy Hub Ltd is purposefully holding onto cash or rather, stressing on the negotiations of better payment terms. The payables payment period of Fresh Farms Ltd is much more than Energy hub.

Inventory Days

Inventory days, in this context, inform business owners how many days they have to get rid of their current inventory. Conceptualise it as an analogue of product lifecycle. Thereby, it is the average age of an item in the store (Ashraf, 2020). The inventory days of Energy Hub Ltd is 28 days and for Freshfarm Ltd is 9 days. This means that the Energy hub takes a lot of time to restock their inventory as compared to the other. It seems they are unable to sell their products fast.

Liquidity Ratio

Current ratio

"The current ratio, which determines a company's short-term financial status, consists of a ratio of current assets to current liabilities". It is a ratio of how quickly a firm can make good its current liability (like, accounts payable) by using current assets (such as cash and inventory). This presupposes a majority ratio (at least 1) that shows one's ability to take care of debts in the short term (Sari *et al.* 2022). Current Ratio of Fresh Farms Ltd is much better. It indicates that they have a lot of liquid money to get some cash.

Financial Risk or Gearing Ratio

Gearing

The gearing ratio shows the ratios between the share of debt and shareholder investment. High gear ratio essentially represents a strong reliance on borrowed money, but also it amplifies the returns. Although it could be high risk, it may increase returns through a high gearing ratio (GEZER and KINGIR 2020). The ratio of Energy Hub Ltd is 32.11% and Freshfarm Ltd is 27.6%. This indicates that Fresh Farm Ltd's gearing is much less than their competitor. It indicates their less liabilities.

Interest Cover Ratio

The interest coverage ratio reveals whether a company is able to easily make interest payments on its debt or not. It contrasts the profitability before interest and taxes (EBIT) against a given company's interest expenses. The interest cover ratio of Energy Hub Ltd is 2.24 and Freshfarm

Ltd is 7.31. A greater ratio implies that the borrower has a larger amount of cash to cash any check on the interest obligation (Diana and Sriyono 2021). The interest cover ratio of Fresh Farm Ltd is much better than Energy Hub Ltd. The company has much better stats.

Conclusion

Through all the data, it can be understood that Fresh Farm Ltd is much better in all ways to be profitable than Energy Hub Ltd. It can give the investors good insights to make much better decisions for their own. However, it is recommended to invest in Freshfarm Ltd to get a better return on investment.

1.3 "Working capital management (WCM) of both companies"

Through an analysis, the financial ratios indicate strategies in working capital management (WCM) between Energy Hub Ltd. and Fresh Farms Ltd.

- **Inventory Management:** Fresh Farms Ltd. proves that it is the undefeated champion in this region . Their inventory turnover ratio (1.39x) is a clear sign that the company is being operated efficiently because they are effectively selling their stock, which do not remain unsold and tie up the money for a long time. This could end up in the provision of fresher produce for the consumers (Zhang *et al.* 2021). This enhancement is essential and has to be upheld. The absence of such a ratio for Energy Hub Ltd. however is one of the pitfalls of the analysis as it does not allow for a direct comparison, however, higher numbers would still suggest suitable improvement.
- **Cash Conversion Cycle (CCC):** It is quite difficult to make out CCC (Current Ratio) for either company decisively due to the fact that both companies have insufficient DATA (Days Sales Outstanding) available. While some discoveries exist there is the various information available. Fresh Farms Ltd. can brag for its shorter inventory holding period (9.22 days) in which Energy Hub Ltd. holding their inventory for 28.08 days is quite high (Kolias *et al.* 2020). This can imply that the inventory of Fresh Farms is optimised more competently. Among other things, Fresh Farms benefits from having the DPO of 23.96 days with suppliers while it takes 45.21 days with Energy Hub Ltd. It can perhaps be an indication of a better credit arrangement or we are in a stronger position to negotiate with their suppliers, meaning that the liquidity should also be good.
- **Liquidity and Risk:** The key ratio now provides a diverging image. Fresh Farms Ltd. (7.75) has best short-term prospects regarding paying the debts on time, Energy Hub Ltd. (1.14) has the least prospects of the same (Setiawan *et al.* 2021). Nevertheless,

though, for Fresh Farms Ltd. higher gearing ratio (27.60%) in contrast to Energy Hub (32.11%), the implications seem fairly risky—i.e. relying slightly less on debt financing.

The unique approach Fresh Farms Ltd. applies in inventory management operations gives it a competitive advantage and helps the company to negotiate better supplier terms. Accordingly it is worth keeping in mind a relatively lower current ratio which can be a warning signal about the potential problem with short-term liquidity management (Begenau, 2020). As opposed to that, Energy Hub Ltd. might have a competitive advantage by paying attention to inventory management and, perhaps, extending the payment terms with suppliers to bring the b.. Conducting DSO analysis for two companies would not only give a more general understanding of their strategies but also provide a holistic picture.

1.4 Possible sources of funding MyShop Plc

Sources of funding	**Reasons**
Bank Loans	Along with bank loans, debt financing approaches offer MyShop Plc in a coordinated way with regular payments and fixed interest rates. It may be another option if they're looking for a fixed amount and have a good credit record.
Equity Financing	MyShop can access everlasting capital from equity financing for financing long-term development plans (Meslier *et al.* 2020). Conversely, this decreases the holdings of already owning shares.
Venture Capitalists	Venture capital is an option of equity financing related to partnering with a VC. VCs provide important funding but they might have a say in MyShop Plc's steering, which can consequently influence the strategic processes, thereby undermining the organisation.
Debt Financing	The last debt tool that we could discuss is a line of credit (Giaretta and Chesini 2021). It helps MyShop Ltd to cover quick short-term needs or for seasonal difficulties merely

	paying the interest on that used sum.

Conclusion

From the financial ratios given, one who is looking to invest in Fresh Farms Ltd. will have a better investment outlook as compared to MyShop Plc (Oosterom and Hall 2022). Their slow inventory turnover indicates good inventory management, thus might result in more fresh products on hand. Moreover, they own higher current ratios which shows that they can fulfil the short-term obligations in a better way as compared to Energy Hub Ltd.

Question 2A

2.1.1. Marginal Costing Income Statement

MARGINAL COSTING INCOME STATEMENT		
2.1.1. (A) Axor	**Amount (m)**	**Amount (m)**
Sales		£ 7,920.00
Variable Cost:		
Materials	£ (2,520.00)	
Labour	£ (2,520.00)	
Total variable Cost		£ (5,040.00)
Contribution Margin		**£ 2,880.00**
Fixed Cost:		
Fixed Overheads	£ (1,260.00)	
Total Fixed Cost		£ (1,260.00)
Operating Profit		**£ 1,620.00**

MARGINAL COSTING INCOME STATEMENT		
2.1.1. (B) Bozon	**Amount (m)**	**Amount (m)**
Sales		£ 5,280.00
Variable Cost:		
Materials	£ (1,680.00)	
Labour	£ (2,520.00)	
Total variable Cost		£ (4,200.00)
Contribution Margin		**£ 1,080.00**
Fixed Cost:		
Fixed Overheads	£ (1,260.00)	
Total Fixed Cost		£ (1,260.00)
Operating Profit		**£ (180.00)**

MARGINAL COSTING INCOME STATEMENT		
2.1.1. (C) Carbon	**Amount (m)**	**Amount (m)**
Sales		£ 3,780.00
Variable Cost:		
Materials	£ (1,680.00)	
Labour	£ (2,520.00)	
Total variable Cost		£ (4,200.00)
Contribution Margin		**£ (420.00)**
Fixed Cost:		
Fixed Overheads	£ (1,260.00)	
Total Fixed Cost		£ (1,260.00)
Operating Profit		**£ (1,680.00)**

2.1.2. Adjusted Marginal Cost Statement showing the results if Galaxy Holdings Directors stops making Bozon.

2.1.2 ADJUSTED MARGINAL COSTING STATEMENT BY SHOWING THE RESULD IF GALAXY HOLDINGS DIRECTORS STOP MAKING BOZONS		
ELEMENT	**AMOUNT**	
Normal amount of production cost (Axor + Bozon + Carbon)	£	17,220.00
Adjustment in Production cost by avoiding BOZON cost of production	£	11,760.00
Normal amount of sales (Axor + Bozon + Carbon)	£	16,980.00
Adjustment in Production cost by avoiding BOZON sales value	£	11,700.00
Change in Total Cost	£	5,460.00
Change in Total Sales Value	£	5,280.00
Marginal Costing	**£**	**0.97**

Galaxy Holding shall be positively influenced through the discontinuation of Bozon production since the expected benefits from the cost side. The price equation indicates that the total cost could decrease by £5,460, being bigger than the sales value lost, wherein £5,280. This is priced at £0.97 since this represents marginal cost as well (O'Hare *et al.* 2022). Nevertheless, this observation doesn't account for the effect on manufacturing cost effectiveness and revenue from the other products which may also be produced by the company (Nordhagen *et al.* 2021). Ceasing Bozon Production could also create tension. Nevertheless, the main resource use could be channelled to ensure smooth operation in other areas. An in-depth study is a key before deciding whether to be involved.

2.1.3. Adjusted Marginal Costing Statement showing the results if Galaxy Holdings Directors stop making Carbon.

2.1.3 ADJUSTED MARGINAL COSTING STATEMENT BY SHOWING THE RESULD IF GALAXY HOLDINGS DIRECTORS STOP MAKING CARBON		
ELEMENT	**AMOUNT**	
Normal amount of production cost (Axor + Bozon + Carbon)	£	17,220.00
Adjustment in Production cost by avoiding CARBON cost of production	£	11,760.00
Normal amount of sales (Axor + Bozon + Carbon)	£	16,980.00
Adjustment in Production cost by avoiding CARBON sales value	£	13,200.00
Change in Total Cost	£	5,460.00
Change in Total Sales Value	£	3,780.00
Marginal Costing	**£**	**0.69**

The view of Galaxy Holdings to stop Carbon production for some time can be seen as an adequate move to make the necessary assessments. As the Adjusted Marginal Costing Statement indicates that the wholesale price is decreased to £26/unit (down from £37/unit

without the discount), the reduced sales amount of 494 units will result in a £11,760 reduced cost (Lu and Duan 2024). The lower sales amount of 494 units, however, brings down the total revenue from £16,960 (without discount Actually, this date does not demonstrate any effects of increasing the marginal cost because of the absence of standard data such as ideal expenditures for production and sales figures. As well, in-depth study should be done to uncover the possibility of disruption in production, customers swapping to other products, and the company's ultimate profitability before the final decision making by the company's leaders of the merger between Galaxy Holdings.

2.1.4. What practical actions can Galaxy Holdings take to improve profitability of products Bozon and Carbon?

To improve profitability of Bozon and Carbon, Galaxy Holdings can explore several avenues:To improve profitability of Bozon and Carbon, Galaxy Holdings can explore several avenues:

- **Cost Reduction:** Examine the reduction and the likely possibility of cutting the cost of raw materials and production procedures both for Bozon and Carbon (Wang *et al.* 2022).
- **Sales & Marketing:** Employ more aggressive sales tactics that will result in marketing campaigns aimed at increasing awareness and thus, demand for Bozon and Carbon. Look into the probable options of utilising discounts and promotions for new customers to be lured.
- **Price Optimization:** Analyze product production costs as well as the market competition to establish whether the prices for either Bozon or Carbon are high enough to front the sales volume without seeing a decline.
- **Production Efficiency:** Examine production processes to get rid of the aspects that probably contribute to the total cost of production for Bozon Cor and Carbon (Javaid *et al.* 2022).

Question 2b

ELEMENT	0	1st year sales revenue	2nd year sales revenue	3rd year sales revenue
CASH FLOW BEFORE COST OF CAPITAL	£ 7,74,240.00	£ 6,00,600.00	£ 6,12,612.00	£ 6,24,864.24
COST OF CAPITAL	12%	0.892	0.797	0.711
CASH FLOW AFTER COST OF CAPITAL	£ (7,74,240.00)	£ 5,35,735.20	£ 4,88,251.76	£ 4,44,278.47
1) NET PRESENT VALUE		£ 6,94,025.44		
2) PAYBACK PERIOD		1.3		
2.1) CASH FLOW PER YEAR BEFORE COST OF CAPITAL		£ 6,12,692.08		
2.2) TOTAL INVESTMENT		£ 7,74,240.00		
3) INTERNAL RATE OF RETURN		42%		
4) DISCOUNTED PAYBACK PERIOD		1.6		
2.1) CASH FLOW PER YEAR AFTER COST OF CAPITAL		£ 4,89,421.81		
2.2) TOTAL INVESTMENT		£ 7,74,240.00		

SUMMARY OF FINDINGS			
METHOD	RESULT	CRITERIA	DECISION
NET PRESENT VALUE	£ 694,025.44	MUST BE POSITIVE	ACCEPT
PAYBACK PERIOD	1 YEAR 3 MONTH	MUST BE LESS THAN 3 YEARS	ACCEPT
INTERNAL RATE OF RETURN	42%	MUST BE LESS THAN 3 YEARS	ACCEPT
DISCOUNTED PAYBACK PERIOD	1 YEAR 6 MONTH	MUST BE LESS THAN 3 YEARS	ACCEPT

2.2.1. "Net Present Value (NPV)"

The "Net Present Value (NPV)" for that investment is situated at £694,025.44 figure. Looking at the time value of money, the expected returns with the underlying money flows of the company would be positive for Galaxy Holding Plc

2.2.2. "Payback period (PBP) and Discounted Payback Period (DPBP)"

While the payback period (PBP) is 1 year 3 months. The Discounted Payback Period (DPBP) is, in this case showcasing 1 year 6 months, and the value shows that this period is less than 3 years. That demonstrates the expenditure liquidates the costs rapidly (Imteaz *et al.* 2021).

2.2.3. Internal Rate of Return

Galaxy Holding Plc returned 42% as IRR on the job it took on. The high incidence of the IRR (internal rate of return), much higher than the costs of capital makes the investment very attractive. In simpler terms, the goal of the project is to earn returns that substantially surpass the lowest return rate that is acceptable for the MyShop Plc company.

2.2.4. "Based on your calculations do you recommend the investment is made and the opening of the new manufacturing unit?"

Synthesis of Galaxy Holding Plc should embrace any opportunity in the manufacturing unit of the new plant. The project has a positive NPV of £694,025.44 which means that the company will have income despite the fact that we discount future costs because of the time value of money. Beside the mentioned Payback Period of 1.6 years' duration the enterprise will recover the invested capital quickly (Dokl *et al.* 2022). And beyond that, the IRR of 42% is far much larger than any likely cost of capital, pointing out the chances of the project to succeed. This

situation pointedly advocates that the firm should go ahead and put up the new factory to satisfy the growing demand.

2.2.5. "Limitations of the above project appraisal techniques used and any other recommendations to the board".

Limitations:

- **NPV and IRR rely on estimates:** This approach requires estimating cash flow figures and the appropriate discount rate, both of which can be subject to errors and can distort the results (Wang, 2021).
- **IRR can have multiple solutions:** Sometimes the IRR calculation brings two or even multiple alternative answers, and choosing among them becomes complicated because one has to find the best option.
- **PBP doesn't consider entire cash flow:** This approach only aims for the payback period and draws no concern for cash inflows beyond this time point.

Recommendations:

- **Sensitivity analysis:** Engage into a sensitivity analysis in order to unsettle the impact of altering the assumptions (discount rate, the cash flows) on the NPV and IRR.
- **Consider non-financial factors:** Look at the strategic advantages, market risks and qualitative issues alongside financial numbers (Fijałkowska and Hadro 2022).
- **Consult with experts:** Contact financial experts in order to make sure that the analysis is done throughout.

Acknowledging the mentioned limitations and applying a comprehensive assessment will lead the board for a more in depth judgement.

QUESTION 3

3.1. "In light of the scenario above, rank these three wedding ring variants (Gold, Silver and Bronze) in the order in which they must be produced by Elegancy Jewellers Ltd – Rank 1 being the one to be prioritised. Clearly show your workings".

3.1. I FIXED AND VARIABLE OVERHEAD USING HIGH / LOW METHOD							
ELEMENT	GOLD		SILVER		BRONZE		TOTAL
	AMOUNT	UNIT	AMOUNT	UNIT	AMOUNT	UNIT	
High	£1,695,600.00	9,420.00	£ 684,000.00	6,840.00	£ 97,500.00	3,900.00	
Low	£1,520,750.00	8,690.00	£ 535,800.00	5,640.00	£ 58,140.00	3,230.00	
Change	£ 174,850.00	730.00	£ 148,200.00	1,200.00	£ 39,360.00	670.00	
Variable overhead per unit	£ 239.52		£ 123.50		£ 58.75		
Total variable Overhead	£2,256,283.56		£ 844,740.00		£ 229,110.45		
Semi-variable Overhead	£ 760,000.00		£ 190,000.00		£ 120,000.00		£1,070,000.00

3.1.II MARGINAL COST CARD				
ELEMENT	GOLD	SILVER	BRONZE	TOTAL
Revenue	£3,997,400.00	£1,511,520.00	£ 387,600.00	£5,896,520.00
Units	£ 8,690.00	£ 5,640.00	£ 3,230.00	£ 17,560.00
Selling Price Per Unit	£ 460.00	£ 268.00	£ 120.00	£ 848.00
Total Variable Cost:	£3,344,100.00	£1,299,600.00	£ 292,500.00	£4,936,200.00
Variable Overhead Per Unit	£ 624.34	£ 230.43	£ 214.06	£ 1,068.82
Contribution Per Unit	£ (164.34)	£ 37.57	£ (94.06)	£ (220.82)
RANK	3 (GOLD)	1 (SILVER)	2 (BRONZE)	

Marginal cost cards reflected that the silver got rank one, gold item got rank 3 and the bronze item got rank 2. This rank distribution calculation starts from the fixed and variable overhead by using a high and low method of working. In this segment a high amount and low amount came into existence then the changing the amount of variables displayed and resulted in variable overhead per unit, total variable overhead and semi variable overhead.

3.2 "Budgeted Production Schedule and a Marginal Costing Income Statement- Silver Rings Contract is honoured".

3.2 BUDGET PRODUCTION SCHEDULE CONSIDERING THE SILVER RING CONTRACT IS HONOURED				
ELEMENT	**GOLD**	**SILVER**	**BRONZE**	**TOTAL**
Available annual coating machine capacity of 14,598 hours				
Unites required	4,364.00	15,950.00	5,220.00	
Coating machine Hours	0.80	0.50	0.60	
Total amount of Coating machine hours	3,491.20	7,975.00	3,132.00	14,598

PREPARING MARGINAL COST INCOME STATEMENT AS PER ABOBE (3.2) BUDGETED SCHEDULE				
ELEMENT	**GOLD**	**SILVER**	**BRONZE**	**TOTAL**
Sales revenue	£2,007,440.00	£4,274,600.00	£ 626,400.00	£6,908,440.00
sales (Unit)	4,364.00	15,950.00	5,220.00	25,534.00
Variable cost:				
Raw Material Cost Per Unit (As per 2023)	£ 180.00	£ 100.00	£ 25.00	
Raw Material	£ 785,520.00	£1,595,000.00	£ 130,500.00	£2,511,020.00
Direct labour Cost Per Unit (As per 2023)	£ 175.00	£ 90.00	£ 50.00	
Direct Labour	£ 763,700.00	£1,435,500.00	£ 261,000.00	£2,460,200.00
Semi Overhead Cost Per Unit (As per 2023)	£ 80.68	£ 27.78	£ 30.77	
Semi Overhead	£ 352,084.93	£ 443,055.56	£ 160,615.38	£ 955,755.87
Total Expenditure:	**£1,901,304.93**	**£3,473,555.56**	**£ 552,115.38**	**£5,926,975.87**
Contribution Per Product	£ 106,135.07	£ 801,044.44	£ 74,284.62	
Net Profit				**£ 981,464.13**

7450 units of production silver item Plus 8500 that comes with pre-sanctioned order from Rebecca Reeves (Altamimi and Liu 2022). According to the budget production schedule considering the silver ring contract is honoured the profitable amount this played 918464.13.

3.3 "Budgeted Production Schedule and a Marginal Costing Income Statement- Silver Rings Contract is honoured".

3.3 BUDGET PRODUCTION SCHEDULE CONSIDERING THE SILVER RING CONTRACT IS DISHONOURED				
ELEMENT	**GOLD**	**SILVER**	**BRONZE**	**TOTAL**
Available annual coating machine capacity of 14,598 hours				
Unites required	9,676.00	7,450.00	5,220.00	
Coating machine Hours	0.80	0.50	0.60	
Total amount of Coating machine hours	7,740.80	3,725.00	3,132.00	14,598

PREPARING MARGINAL COST INCOME STATEMENT AS PER ABOBE (3.3) BUDGETED SCHEDULE				
ELEMENT	**GOLD**	**SILVER**	**BRONZE**	**TOTAL**
Sales revenue	£4,450,960.00	£1,996,600.00	£ 626,400.00	£7,073,960.00
sales (Unit)	9,676.00	7,450.00	5,220.00	22,346.00
Variable cost:				
Raw Material Cost Per Unit (As per 2023)	£ 180.00	£ 100.00	£ 25.00	
Raw Material	£1,741,680.00	£ 745,000.00	£ 130,500.00	£2,617,180.00
Direct labour Cost Per Unit (As per 2023)	£ 175.00	£ 90.00	£ 50.00	
Direct Labour	£1,693,300.00	£ 670,500.00	£ 261,000.00	£2,624,800.00
Semi Overhead Cost Per Unit (As per 2023)	£ 80.68	£ 27.78	£ 30.77	
Semi Overhead	£ 780,653.93	£ 206,944.44	£ 160,615.38	£1,148,213.76
Total Expenditure:	**£4,215,633.93**	**£1,622,444.44**	**£ 552,115.38**	**£6,390,193.76**
Contribution Per Product	£ 235,326.07	£ 374,155.56	£ 74,284.62	
Net Profit				**£ 683,766.24**

The budget production schedule considering the silver ring contract is this or not then the profitability will be assumed as 683766.24. That is lower than the previous.

3.4 "Considering quantitative and qualitative issues, critically evaluate then advise Elegancy Jewellers Ltd's Directors whether to satisfy (honour) or breach (dishonour) the Smart Wedding Supplies' Silver Rings Contract".

Quantitative Factors:

- **Profitability:** Accomplish the Marginal Costing Income Statement concerning this image. (981464.13 Profit from the by accepting the 8500 Silver product contract. Also could cover the fixed overheads and give a profit, accepting the challenge could be a good sign.
- **Coating Machine Capacity:** Compare a production volume of 7,450 units which takes 3,725 hours for production with available machine capacity of 14,598 hours (Sun *et al.* 2020). If this contract's fulfilment doesn't have an impact on production capacity, then it might be possible to follow the contract terms under this condition.

Qualitative Factors:

- **Customer Relationship:** Unperformed deal under contract may impair adeptness of Elegancy and its future contracts with Smart Wedding Supplies. Examine the value of this association.
- **Alternative Sales Opportunities:** Do other company's sales channels that may bring more profits than this contract exist?

Recommendation:

Considering both quantitative and qualitative factors:

It is possible that the contract leads to more profitable business after including 8500 silver items additional from the market demand and that is also pre-sanctioned but profitable. The business organisation must consider the 3.2 section of this calculation where the budget production schedule considering the silver ring contract is honoured (Park *et al.* 2020). It not only gives the profitable sign but also a significant opportunity to enter into a new business environment by avoiding potential competition in the market.

3.5 "Budgeting serves various purposes including planning, control, motivation and communication. Explain to Elegancy Jewellers Ltd directors the importance of budgeting in light of the purposes above".

Success of Elegancy Jewellers Ltd firmly depends on the budgeting. undefined

- **Planning:** A budget that is clearly defined serves as a foundation which spells out projected sales, costs and profits. You can obtain that through spending your money on raw materials, hiring staff, marketing, which you then invest for the future.
- **Control:** Finances can be controlled through budgets that work as a benchmark to check how well you are doing financially (Heaton *et al.* 2023). By analysing the real results that are showing higher or lower results than the budgeted figures, you come to know which the areas are. This enables the timely adjustments before the crisis arises to ensure financial stability.
- **Motivation:** Budgets provide the container where sales, production and cost targets are achievable. This inspires employees to work-efficiently implying their effectiveness leads to the attainment of the company's overall goals.
- **Communication:** Funds are essential in the communication process of different departments (Wang *et al.* 2021). They give a collective sense of financial expectations,

which leads to the departments working together well towards the actualisation of the objectives.

Through the installation of a robust budgeting system, Elegancy Jewellers Ltd will be able to make sound decisions, be in charge of the finances and inspire the workforce to contribute in the attainment of the visionary financial goals for the company.

3.6. "Critically examine the assumptions and limitations of the Cost-Volume-Profit Analysis technique in relation to Elegancy Jewellers Ltd".

Cost-Volume-Profit (CVP) Analysis can be a valuable tool for Elegancy Jewellers Ltd, but it's important to understand its limitations:Cost-Volume-Profit (CVP) Analysis can be a valuable tool for Elegancy Jewellers Ltd, but it's important to understand its limitations:

- **Linearity Assumption:** CVP states that costs and production volume are linear and so are the subsequent profits (Okpala and Osanebi 2020). Nevertheless, Elegancy Jewellers Ltd should benefit from scale economies contrary to those situations where costs don't increase but are independent of production volume.
- **Fixed Costs:** CVP assumes that, even amid swings in sales revenue, fixed costs remain constant. However, given this, there are specific fixed costs that might increase in the course of product volume variations (e.g., overtime pay).
- **Selling Price Stability:** CVP is based on the assumption that all the products sold at the same price. In a scenario of Elegance Jewellers Ltd, it will be necessary to adjust prices as the competition and or demand changes.

In the case of these assumptions, their use often results in a distortion of the results.

These assumptions can lead to inaccurate results. Additionally, CVP doesn't consider factors like:

- **Product Mix:** It considers a product with a single item and price, whereas the Elegancy Jewellery Ltd.s rather sells rings of different varieties with the different margins.
- **Marketing and Promotional Costs:** These, in turn, can signal the lack of clients or sales and won't be included in the CVP formula directly (Infante and Mardikaningsih 2022).

Although CVP might possess some shortcomings as a tool for comprehending the impact of costs, production volume, and profitability on Elegancy Jewellers Ltd, it still remains a valuable tool. Through an admission of its deficiencies, the company stays away from making wrong choices.

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