Question Three Many candidates gained full marks in answering part (a),picked up reasonable marks on parts (b) and (d),but in many cases gave poor answers to part (c). Part (a) required candidates to calculate the cost of a current inventory ordering policy,and the change in inventory management costs when the economic ordering quantity (EOQ) model was used to find the optimum order size.A number of answers failed to gain full marks because they did not calculate the change in inventory management costs,even after correctly calculating these costs under the current ordering policy and after applying the EOQ model. Poorer answers showed a lack of understanding of the relationship between ordering costs and holding costs,and an inability to calculate these costs. In part (b),candidates were required to describe briefly the benefits of a just-in-time (JIT) procurement policy.No credit was given for discussing the disadvantages of such a policy,as these were not required.Many answers gave a short list of benefits,rather a description of the benefits,and so were not able to gain full marks. Part (c) asked candidates to calculate and comment on whether a proposed change in receivables management (offering an early settlement discount) was acceptable,and to calculate the maximum

discount that could be offered. Some candidates gained full marks for calculating correctly the reduction in financing cost, the cost of the discount and the net benefit of offering the discount. The reduction in financing cost and the cost of the discount were both based on credit sales for the year of $87.6 million. Poorer answers based their calculations on current trade receivables of $18 million, even though the question stated that the early settlement discount would be offered to 25% of credit customers. Comparing current trade receivables and current credit sales showed that current receivables paid on average after 75 days, a credit period that would be reduced to 60 days through improved operational procedures. Some candidates assumed incorrectly that the current trade receivables period was 60 days and made incorrect calculations as a result. The maximum discount that could be offered would be equal to the benefit gained from the discount, i.e. the saving in administration and operating costs added to the reduction in financing cost. Feedback from markers indicated that some answers to this part of question 3 were disorganised, with unlabelled calculations and a lack of explanation. It is important to help the marking process by labelling calculations, explaining workings and using correct notation, e.g. '$ per year', $m', days' and so on. Part (d) required candidates to discuss the factors that should be considered in formulating working capital policy on the management of trade receivables. Poorer answers offered a list of actions that could be met in trade receivables management, such as "send out letters to trade receivables", "call customers on the telephone", "produce an aged receivables analysis

regularly". Working capital policy on trade receivables management should consider what period of credit to offer, how to determine the amount of credit offered, when creditworthiness needs to be assessed and to what extent, and so on, and it is often informed by the trade receivables management policies of competitors. The policy should provide the framework within which the actions referred to above would be undertaken. #0000ff>2011

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