

UNIVERSITY OF BOLTON

Institute of Management

BSc (Hons) Business

SEMESTER 1 EXAMINATION 2018/2019

FINANCIAL MANAGEMENT & DECISION MAKING

MODULE NO. BMP 5006

Date: Thursday 17th January 2019

Time: 10.00 – 1.00

INSTRUCTIONS TO CANDIDATES:

There are Five questions on this paper.

Answer all questions.

This examination is 3 hours.

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Question 1

Ben Tighe has a small business which manufactures small toys. He has produced a summary of his costs and revenues below and has asked you to produce some management information.

Fixed Costs: = €300,000

Variable Cost: = €20 per unit

Forecast output (Sales): = 20,000 units

Selling Price: = €50 per unit

Required:

- a) Calculate the Breakeven points in Units 3 Marks
- b) Calculate the Margin of Safety in Units 3 Marks
- c) Draw a Breakeven graph which clearly states the Breakeven point 8 Marks
- d) Evaluate the usefulness of break- even analysis. 6 Marks

20 Marks

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Question 2

RineAir Ltd is considering investing in the following projects. The company anticipates a start-up investment cost of **£3,000,000 for Project X** and **£2,000,000 for Project Y**. Both will have a lifespan of 5 years. The net after tax cash flows of the projects are as follows:-

	<u>Project X (£)</u>	<u>Project Y (£)</u>
1	675,000	800,000
2	850,000	400,000
3	850,000	200,000
4	850,000	200,000
5	800,000	500,000

Note: Use a Discount factor of 10%.

- a) Calculate the **NPV of Project X and Y**. (12 Marks)
- b) Justify, with reasons, which of the projects should be undertaken. Consider financial and non-financial factors (3 Marks)
- c) Evaluate the NPV method of project appraisal. (5 Marks)

20 Marks

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Question 3

Evaluate the budgeting process as a tool for decision making and control.

(20 Marks)

Question 4

Experian Company has provided you with the financial statements for the last three years.

Experian Company Income Statement for the year ends

	<u>2014</u>	<u>2015</u>	<u>2016</u>
	£'000	£'000	£'000
Revenue	26,000	28,850	29,000
Cost of sales	12,000	12,500	13,000
Gross Profit	14,000	16,350	16,000
Distribution Costs	5,500	5,200	5,800
Administration Costs	3,000	3,150	3,050
Profit from Operations	5,500	8,000	7,150
Finance Costs	400	410	400
Profit Before Tax	5,100	7,590	6,750
Tax	1,200	1,210	1,250
Profit for the period	3,900	6,380	5,500

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Question 4 continued

Experian Company Statement of Financial Position

	<u>2014</u>	<u>2015</u>	<u>2016</u>
	£'000	£'000	£'000
<u>Non-Current Assets</u>			
Property, Plant and Equipment	11,800	12,000	12,500
<u>Current Assets</u>			
Inventories	5,100	5,000	5,200
Trade Receivables	4,500	4,750	4,600
Cash	700	1,000	900
Total Assets	22,100	22,750	23,200
<u>Equity & Liabilities</u>			
Share Capital	5,100	5,000	5,600
Share premium	1,500	1,500	1,500
Revaluation	1,000	1,000	1,000
Retained Earnings	6,800	6,900	6,800
Total Equity	14,400	14,400	14,900
<u>Non-current liabilities</u>			
Loan	4,200	4,500	4,600
<u>Current Liabilities</u>			
Trade & other payables	2,100	2,400	2,250
Tax	1,400	1,450	1,450
Total Liabilities	7,700	8,350	8,300
Total Equity & liabilities	22,100	22,750	23,200

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Question 4 continued

Required:

a) Calculate the following ratios:-

- i) Gross profit Percentage
- ii) Expenses to revenue percentage
- iii) Operating profit percentage
- iv) Return on Capital employed
- v) Current ratio
- vi) Quick/Acid test ratio

12 Marks

b)

Discuss the performance of the company between 2014 and 2016.

8 Marks

20 Marks

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Question 5

Digit Company has provided you with the following standard and actual costs.

<u>Standard cost card - Zog</u>	<u>Quantity Cost</u>	<u>Total unit cost £</u>
Material RM2	4 kg £1.20 per kg	4.80
Labour – grade II	1.2 hrs £8.00 per hr	9.60
Overheads	1.2 hrs £15.00	<u>18.00</u>
Total standard cost per unit		32.40

The standard cost for a Zog was calculated assuming an output of 5,000 units

Actual Costs/units

During the last production period the actual output was 5,600 units.
 22,960 kg of material was used at a total cost of £28,700.

Labour – Grade II – 8,000 hours worked at cost of £72,000.

Required

- a) Calculate
- | | |
|---------------------------------|---------|
| i) Total Material Cost Variance | 4 Marks |
| ii) Material Price Variance | 3 Marks |
| iii) Material Usage Variance | 3 Marks |
| iv) Total Labour Cost Variance | 4 Marks |
| v) Labour Rate Variance | 3 Marks |
| vi) Labour Efficiency Variance | 3 Marks |

20 Marks

END OF QUESTIONS

Present Value of £1

At rate 'r'

Period (after n years)	4%	6%	8%	10%	12%	14%	16%	18%	20%	22%	24%	30%	40%
1	0.9615	0.9434	0.9259	0.9091	0.8929	0.8772	0.8621	0.8475	0.8333	0.8197	0.8065	0.7692	0.7143
2	0.9246	0.8900	0.8573	0.8264	0.7972	0.7695	0.7432	0.7182	0.6944	0.6719	0.6504	0.5917	0.5102
3	0.8890	0.8396	0.7938	0.7513	0.7118	0.6750	0.6407	0.6086	0.5787	0.5507	0.5245	0.4552	0.3644
4	0.8548	0.7921	0.7350	0.6830	0.6355	0.5921	0.5523	0.5158	0.4823	0.4514	0.4230	0.3501	0.2603
5	0.8219	0.7473	0.6806	0.6209	0.5674	0.5194	0.4761	0.4371	0.4019	0.3700	0.3411	0.2693	0.1859
6	0.7903	0.7050	0.6302	0.5645	0.5066	0.4556	0.4104	0.3704	0.3349	0.3033	0.2751	0.2072	0.1328
7	0.7599	0.6651	0.5835	0.5132	0.4523	0.3996	0.3538	0.3139	0.2791	0.2486	0.2218	0.1594	0.0949
8	0.7307	0.6274	0.5403	0.4665	0.4039	0.3506	0.3050	0.2660	0.2326	0.2038	0.1789	0.1226	0.0678
9	0.7026	0.5919	0.5002	0.4241	0.3606	0.3075	0.2630	0.2255	0.1938	0.1670	0.1443	0.0943	0.0484
10	0.6756	0.5584	0.4632	0.3855	0.3220	0.2697	0.2267	0.1911	0.1615	0.1369	0.1164	0.0725	0.0346
11	0.6496	0.5268	0.4289	0.3505	0.2875	0.2366	0.1954	0.1619	0.1346	0.1122	0.0938	0.0558	0.0247
12	0.6246	0.4970	0.3971	0.3186	0.2567	0.2076	0.1685	0.1372	0.1122	0.0920	0.0757	0.0429	0.0176
13	0.6006	0.4688	0.3677	0.2897	0.2292	0.1821	0.1452	0.1163	0.0935	0.0754	0.0610	0.0330	0.0126
14	0.5775	0.4423	0.3405	0.2633	0.2046	0.1597	0.1252	0.0985	0.0779	0.0618	0.0492	0.0254	0.0090
15	0.5553	0.4173	0.3152	0.2394	0.1827	0.1401	0.1079	0.0835	0.0649	0.0507	0.0397	0.0195	0.0064
16	0.5339	0.3936	0.2919	0.2176	0.1631	0.1229	0.0930	0.0708	0.0541	0.0415	0.0320	0.0150	0.0046
17	0.5134	0.3714	0.2703	0.1978	0.1456	0.1078	0.0802	0.0600	0.0451	0.0340	0.0258	0.0116	0.0033
18	0.4936	0.3503	0.2502	0.1799	0.1300	0.0946	0.0691	0.0508	0.0376	0.0279	0.0208	0.0089	0.0023
19	0.4746	0.3305	0.2317	0.1635	0.1161	0.0829	0.0596	0.0431	0.0313	0.0229	0.0168	0.0068	0.0017
20	0.4564	0.3118	0.2145	0.1486	0.1037	0.0728	0.0514	0.0365	0.0261	0.0187	0.0135	0.0053	0.0012