OCD055

UNIVERSITY OF BOLTON

OFF CAMPUS DIVISION

IDM BOTSWANA

MSC SUPPLY CHAIN MANAGEMENT

SEMESTER 1 EXAMINATION 2018/2019

FINANCE FOR MANAGERS

MODULE NO: EBU7005

DATE: 12th January 2019 **TIME: 3 hours**

INSTRUCTIONS TO CANDIDATES:

THERE ARE SIX QUESTIONS ON THIS PAPER.
ANSWER ANY FOUR QUESTIONS.

ALL QUESTIONS CARRY EQUAL MARKS
PRESENT VALUE TABLES INCLUDED AT THE BACK OF THIS EXAMINATION PAPER.

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Question 1

You are the manager of the Procurement function and have been asked to prepare the budget for your department. Discuss various stages of budgeting and critically analyse the advantages and disadvantages of using the traditional method of budgeting.

(25 marks)

Question 2

A bike manufacturing is considering adding a new production line in Gaborone it would require an investment of $ 1,960,000.
Each bike would be sold as $720 and the forecast demand over the next five years is as follow:

Year 1	2000 bikes
Year 2	2500
Year 3	2000
Year 4	2000
Year 5	1500

After this period it is expected that demand will fall back and it would be viable that the equipments to be sold for $800000. Other information is given as follows:

Estimated costs
Direct costs $300 per Bike
Promotion costs $210,000 (year one only)
Other costs $200,000 per year

Depreciation policy
Depreciation is provided for on a straight-line basis

Cost of capital
Its cost of capital is 10%

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Question 2 continued over the page.
Please turn the page.

Required:

a) Calculate the accounting rate of return based on the average capital.

(2 marks)

b) Calculate the payback period

(2 marks)

c) Calculate the net present value

(6 marks)

d) Calculate the internal rate of return

(6 marks)

e) Based upon your calculations determine whether the company should go ahead with the investment, provide justifications for your decision.

(4 marks)

f) Which one of the investment appraisal methods is, in your opinion, the most reliable, explain your choice?

(5 marks)

Question 3

A small shoe manufacturer is going to invest on opening new production lines to expand their business in another region of the country. However, they need to evaluate their available sources of finances for this new investment. Provide an analysis of their available sources and what sources do you advise them to use for this new development, you need to justify your advice.

(25 marks)

Question 4

Pricing is an important factor for organisations' survival in the market. Compare and contrast different pricing strategies and analyse which pricings strategy is more suitable for a company intending to start the business in luxury holidays.

(25 marks)

Question 5

Risk needs to be considered in various aspects of the business including finance. Compare and contrast different types of financial risks and the ways in which a logistics provider can mitigate them.

(25 marks)

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Question 6

Company A is specialising in the production and installation of wooden dining tables and chairs. Their fixed cost is $ 800,000 a year and their cost is provided in table below:

Product	6 sits	8 sits	10 sits
Materials:			
Wood	$160,000	$200,000	$220,000
Fittings	$30,000	$40,000	$45,000
Labour:			
Installers	$90,000	$150,000	$180,000
Selling price	$800,000	$1,000,000	$1,200,000
Expected Annual Demand (units)	850	400	300

Installers are currently paid $12 per hour and are difficult to recruit. Consequently it is estimated that only 15400 installers' hours will be available next year.

a. Determine the most profitable mix for next year and calculate the resulting profit.

(10 marks)

b. Awarding installers a pay rise of $2 per hour would enable the company to attract sufficient additional labour to enable the demand for the products to be satisfied. Evaluate this option in terms of:

(i) Profitability
(ii) Any other factors which should be considered

(15 marks)

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Present Value Table

Present value of 1 i.e. $(1 + r)^{-n}$
Where r = discount rate
n = number of periods until payment

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.594	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.074	0.065

END OF QUESTIONS