

UNIVERSITY OF BOLTON

OFF CAMPUS DIVISION

IN-SERVICE TRAINING TRUST (ISTT)

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 FOUR questions ONLY.

All questions carry equal marks.

Question 1

The Board of Directors of Design Ltd is considering in a new project. The project requires buying of new machinery among other things, and the project is expected to have a life of 5 years. Details are as follows:

Project

Below are the details:

Amounts in K'000

	Yr1	Yr2	Yr3	Yr4	Yr5
Revenue	400	500	600	615	575
Operating Costs (Excluding depreciation)	300	350	380	390	400
Depreciation	90	90	90	90	90

The machinery will cost K500, 000 and will be sold for K50, 000 at the end of year 5. The company's cost of capital is 12% per annum.

Required:

- a. Calculate the following:
 - i. Payback Period (3 marks)
 - ii. Net Present Value (4 marks)
 - iii. Internal Rate of Return for project (8 marks)

- b. Prepare a report to the Board of Directors highlighting the strengths and weaknesses of Net Present Value, Payback period and Internal Rate of Return methods of evaluating projects.
(10 marks)

(Total 25 marks)

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Question 2

Critically evaluate five different types of pricing strategies available for a profit making company
(Total 25 marks)

Question 3

Didi limited and Mimi enterprise are two companies both operating in the retail industry and are located in Lusaka. Business operations of Didi limited and Mimi enterprise are restricted to the local market, but Didi limited has started to have an inward look, wondering what could possibly be done to improve and expand their business. To this effect, the Board of Directors of Didi limited are trying to revise the company's strategies to ones that will enable penetration of other markets including the international market. The Directors have bench- marked the company's performance to that of Mimi enterprise, their closest rival in the industry. All transactions of both companies are denominated in Zambian Kwacha. The following are financial statements for the two companies:

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Question 3 continued

Company	<u>Didi</u>		<u>Mimi</u>	
	'K'	'K'	'K'	'K'
Profit and Loss Accounts:				
Sales		80,000		120,000
Less cost of goods sold				
Opening stock	25,000		22,500	
Purchases	<u>50,000</u>		<u>91,000</u>	
	75,000		113,500	
Closing stock	<u>15,000</u>	<u>60,000</u>	<u>17,500</u>	<u>96,000</u>
Gross profit		20,000		24,000
Less depreciation	1,000		3,000	
Other expenses	<u>9,000</u>	<u>10,000</u>	<u>6,000</u>	<u>9,000</u>
Net profit		<u>10,000</u>		<u>15,000</u>

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Question 3 continued

Company	<u>Didi</u>		<u>Mimi</u>	
Balance Sheet:	‘K’	‘K’	‘K’	‘K’
<u>Fixed Assets</u>				
Equipment at cost	10,000		20,000	
Less Depreciation to date	<u>8,000</u>	<u>2,000</u>	<u>6,000</u>	<u>14,000</u>
<u>Current Assets</u>				
Stock	15,000		17,500	
Debtors	25,000		20,000	
Bank	5,000		2,500	
	45,000		40,000	
<u>Current Liabilities</u>				
Creditors	<u>5,000</u>	<u>40,000</u>	<u>10,000</u>	<u>30,000</u>
		<u>42,000</u>		<u>44,000</u>
<u>Financed by:</u>				
Capital		38,000		36,000
Net Profit		<u>10,000</u>		<u>15,000</u>
		48,000		51,000
Less Drawings		<u>6,000</u>		<u>7,000</u>
		<u>42,000</u>		<u>44,000</u>

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Question 3 continued

At its last meeting, the Board of Directors of Didi limited were trying to compare the company's financial performance with their competitor, Mimi enterprise, and were wondering how the company compares.

Required

As Director of Finance of Didi limited, the Chairperson of the Board has requested you to write a report which will be presented to the Board at its forthcoming meeting. The report should critically evaluate the financial performance of both companies using ratio analysis, and where appropriate should suggest strategies that will help Didi limited improve its performance. **(Total 25 marks)**

Question 4

Critically evaluate FIVE sources of finance available to a company listed on the Lusaka Stock Exchange (LuSE). **(Total 25 marks)**

Question 5

Critically analyse the different 'types' of cost and 'cost behaviour.' In your analysis give examples of costs, and should cover the following: **(Total 25 marks)**

Variable costs
Semi- variable costs
Fixed costs
Semi- fixed costs
Direct costs
Indirect costs
Overhead costs
Relevant costs
Non – relevant costs
Avoidable costs
Non-avoidable costs
Sunk costs
Committed costs
Opportunity costs

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Question 6

(a) Critically analyze circumstances in which break-even analysis aid the decision making process? Give appropriate examples to justify your answer. **(8 marks)**

(b) Omega enterprises manufactures one product. Below are details applicable to the product:

	K'
Variable costs per unit	144
Total fixed costs	72,000
Selling price per unit	164
Number of units sold	6,000

Required:

(i) Calculate the break-even quantity and the break-even value. **(9 marks)**

(ii) Critically evaluate the limitations of break-even analysis **(8 marks)**

(Total 25 marks)

END OF QUESTIONS