

**INSTITUTE OF MANAGEMENT**

**BUSINESS AND MANAGEMENT PATHWAY**

**SEMESTER 1 EXAMINATIONS 2018/2019**

**FINANCIAL MANAGEMENT AND DECISION**

**MODULE NO: MBA7011**

Date: Monday 14<sup>th</sup> January 2019

Time:

14.00 – 17.00

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**INSTRUCTIONS TO CANDIDATES:**

There are Five questions on this paper.

Answer all questions.

All questions carry equal marks.

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Institute of Management  
 Business and Management pathway  
 Semester 1 Examination 2018/2019  
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 Module No. MBA 7011

**Question 1**

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

- a) Calculate the **NPV of Project X and Y**.

**Note: Use a Discount factor of 10%.**

(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.

(3 Marks)

- d) Explain the limitations of the **Weighted Average Cost of Capital (WACC)**.

(2 Marks)

**Total 20 Marks**

PLEASE TURN THE PAGE...

Institute of Management  
 Business and Management pathway  
 Semester 1 Examination 2018/2019  
 Financial Management and Decision Making  
 Module No. MBA 7011

**Question 2**

Game Ltd produces two products in three departments. Details are shown below.

	Product Y: hours per unit.	Product Z: hours per unit	Available hours
Department A	5	10	13,000
Department B	6	12	10,000
Department C	10	8	12,000
Selling price	£24	£20	
Variable Cost	£16	£10	

Use Linear programming to calculate the optimum production levels.

(a) Calculate the objective function

(2 Marks)

(b) Formulate the constraints.

(4 Marks)

(c) Draw the graph identifying the feasible region.

(8 Marks)

(d) Identify the optimal production quantities of Product Y and Product Z.

(3 Marks)

(e) Calculate the total contribution for your optimum production quantities calculated in (d) above.

(3 Marks)

**Total 20 Marks**

PLEASE TURN THE PAGE...

Institute of Management  
Business and Management pathway  
Semester 1 Examination 2018/2019  
Financial Management and Decision Making  
Module No. MBA 7011

**Question 3**

In relation to Corporate Governance,

a) **Explain the following:** -

- i) The role of The Chief Executive Officer (CEO)
- ii) The Annual General Meeting
- iii) The role of The Chairman
- iv) The role of Finance Director (10 Marks)

b) **Explain the roles of the following committees:-**

- i) Audit Committee
- ii) Risk Committee (10 Marks)

**Total 20 Marks**

**Question 4**

**Critically evaluate** the budgeting process as a tool for decision making and control.

**(20 Marks)**

**Total 20 Marks**

PLEASE TURN THE PAGE...

Institute of Management  
Business and Management pathway  
Semester 1 Examination 2018/2019  
Financial Management and Decision Making  
Module No. MBA 7011

**Question 5**

**Evaluate** the following types of finance and discuss the implications for choosing one particular source rather than another when undertaking investment decisions?

- Commercial Mortgage
- Long Term Loan
- Overdraft
- Finance Lease
- Equity Finance
- Factoring

**(20 Marks)**

**Total 20 Marks**

**END OF QUESTIONS**

PAST EXAMINATION PAPER