

UNIVERSITY OF BOLTON

Institute of Management

BSc (Hons) Business

SEMESTER ONE EXAMINATION 2018/19

FINANCIAL REPORTING FOR MANAGEMENT

MODULE NO. BAM 6008

Date: Friday 24 May 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

Don Hilton has a small business which manufacturer's 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 | 1 Marks |
| b) Calculate the Margin of Safety in Units | 1 Marks |
| c) Draw a Breakeven graph and interpret your findings | 8 Marks |
| d) Evaluate the usefulness of break- even analysis as a tool for decision making. | 10 Marks |

20 Marks

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Question 2

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

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

Note: Use a Discount factor of 10%.

- a) **Calculate** the NPV of Project X. (5 Marks)
- b) **Calculate** the Internal Rate of Return of Project X (4 Marks)
- c) **Justify**, with reasons, whether the project should be undertaken. Consider financial and non-financial factors (5 Marks)
- d) **Evaluate** the NPV method of project appraisal. (6 Marks)

20 Marks

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Question 3

Dawn Plc is undergoing a review of the companies risk management process. You are the finance manager of Dawn Plc and you have been asked by the board of directors to produce a report on the importance of risk management and to discuss the elements of the risk process that should be embedded in the risk management process at Dawn Plc.

(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>2017</u>	<u>2018</u>	<u>2019</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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Experian Company Statement of Financial Position

	<u>2017</u>	<u>2018</u>	<u>2019</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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Note:

Experian Company has £10m ordinary shares in issue.
Share price currently is £9.60
Dividends paid during the three years were 2017: £1,000,000 – 2018: £950,000 –
2019: £1,200,000

Required:

- a) **Calculate any** relevant ratios for the years 2017 to 2019

6 Marks

- b)

Discuss the performance of the company between 2017 and 2019.

14 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 - Digi</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
Fixed Overheads	1.2 hrs £15.00	<u>18.00</u>
Total standard cost per unit		32.40

The standard cost for a Digi was calculated assuming a budget 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.
 Actual Overheads £92,000

Required

a) Calculate

- | | |
|--------------------------------------|---------|
| i) Material Price Variance | 1 Marks |
| ii) Material Usage Variance | 2 Marks |
| iii) Labour Rate Variance | 1 Marks |
| iv) Labour Efficiency Variance | 2 Marks |
| v) Fixed Overhead Volume variance | 2 Marks |
| vi) Fixed Overhead capacity variance | 2 Marks |

- b) **Discuss** possible reasons for the adverse or favourable variance calculated
 In your answer to a) above. 10 Marks

20 Marks

END OF QUESTIONS

Present Value of £1

At rate 'r'

Period (after n years)	At rate 'r'															
	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			