

UNIVERSITY OF BOLTON

INSTITUTE OF MANAGEMENT

BSC (HONS) BUSINESS MANAGEMENT

SEMESTER 1 EXAMINATION 2022/2023

FINANCIAL MANAGEMENT AND DECISION MAKING

MODULE NO: BMP5006

Date: Tuesday 10 January 2022

Time: 10.00 – 1.00

INSTRUCTIONS TO CANDIDATES:

There are Five questions on this paper.

Answer ALL questions.

Use of a calculator is permitted.

This examination is 3 hours.

This is a closed book examination.

(A present value table is attached at the back of this question paper)

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Question 1

Terra Ltd plans to launch a marketing campaign for its new products and is considering two projects. The initial investments and the after-tax cash flows from two projects are shown below:

	Project A £	Project B £
Year 0 - Initial outlay	(35,000)	(37,000)
Year 1	5,000	40,000
Year 2	10,000	40,000
Year 3	35,000	25,000
Year 4	50,000	15,000
Year 5	70,000	10,000

a) The Marketing Manager says Project A is obviously better. Using payback method, do you agree with the Marketing Manager?

(5 marks)

b) Explain the uses, advantages and disadvantages of payback analysis as a method of investment appraisal.

(7 marks)

c) Terra's Finance Director uses net present value (NPV) to assess the projects, applying the cost of capital of 10%. What investment decision should be made based on NPV method?

(8 marks)

(Total: 20 Marks)

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Question 2

Activity-based Costing (ABC) involves the identification of the factors that cause the costs of an organisation's major activities. An effort is made to charge all support overheads to products/services on the basis of their usage of the factor causing the overheads. Thus, ABC allocates indirect costs to cost centres based on activities rather than departments.

- a) Explain the reasons for the development of ABC. **(10 marks)**
- b) Why does any organisation need to know the cost of the products it sells or services it provides? **(10 marks)**

(Total: 20 Marks)

Question 3

Budgeting is a critical part of planning, financial control, and performance management. Assume you are the managing director of a business. You are trying to encourage as many staff as possible to be involved in the budgeting process in the business. A staff meeting has been organised for next week and you have to present the advantages of participation in setting budgets.

- a) Evaluate some of the advantages of setting budgets that you would include in your presentation. **(10 marks)**
- b) Explain the four main functions of budgeting. **(10marks)**

(Total: 20 Marks)

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Question 4

The objective of responsibility accounting is to accumulate costs and revenues for each individual responsibility centre so that the deviations from a performance target can be attributed to the individual who is accountable for the responsibility centre.

- a) Identify the four types of responsibility centres in an organisation. **(10 marks)**
- b) Identify and explain the essential elements of an effective management control system. **(10marks)**

(Total: 20 Marks)

Question 5

Corporate objectives are relevant for the organisation as a whole and relate to key factors for business success.

- a) Identify and explain four main objectives of a corporate. **(10 marks)**
- b) In your opinion, which is the most significant objective of a corporate? **(10marks)**

(Total: 20 Marks)

END OF QUESTIONS

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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

Periods (n)	Discount rates (r)										
	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	1
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	2
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	3
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683	4
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621	5
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564	6
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513	7
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467	8
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424	9
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386	10
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350	11
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319	12
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290	13
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263	14
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239	15
(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	1
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694	2
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579	3
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482	4
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402	5
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335	6
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279	7
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233	8
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194	9
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162	10
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135	11
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112	12
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093	13
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078	14
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.074	0.065	15