

UNIVERSITY OF BOLTON

INSTITUTE OF MANAGEMENT

MBA BUSINESS ADMINISTRATION

SEMESTER 1 EXAMINATION 2022/2023

FINANCIAL MANAGEMENT AND DECISION MAKING

MODULE NO: MBA7011

Date: Monday 9 January 2022

Time: 2.00 – 5.00

INSTRUCTIONS TO CANDIDATES:

There are Five questions on this paper.

Answer all questions.

All questions carry equal marks.

This exam is 3 hours

You must hand in this exam paper with your answer booklet

Present Value Table is attached at the end of this exam paper

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Question 1

Holly 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	(150,000)	(165,000)
Year 1	40,000	70,000
Year 2	50,000	80,000
Year 3	65,000	50,000
Year 4	78,000	20,000
Year 5	84,000	15,000

a) The Marketing Manager says Project A is obviously better. Using payback method, propose your decision towards favourable project. Do you agree with the Marketing Manager?

(7 marks)

b) Justify the main problems of payback method that this example reveals.

(5 marks)

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

(8 marks)

(Total: 20 Marks)

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Question 2

Ginny Ltd assembles tables and sells them to a wholesaler in the UK. It manufactures three different types of tables. These tables all use the same materials. Ginny has a labour-intensive factory where all staff are skilled in the manufacture of all three types of tables, and staff can be moved immediately from the production of one board to another at no additional cost. The budgeted figures for the forthcoming month are as follows:

	Product P	Product Q	Product R
Direct materials (£5/foot)	£15	£10	£20
Direct labour (£2/hour)	£24	£30	£27
Variable overheads	£10	£15	£12
Sales price	£95	£115	£110
Sales demand	1,200	1500	1400

The supply of materials is limited to 15,000 feet during the period and labour hours are limited to 9,000 hours.

Your team is required to develop the product plan which should maximise profits. To assist in the development of the product plan, you should identify the following:

- a) Identify the scarce resource/limiting factor **(5 marks)**
- b) Propose the optimal production plan **(9 marks)**
- c) Estimate the maximum contribution. **(2 marks)**
- d) Justify the other qualitative factors which might alter your decision. **(4 marks)**

(Total: 20 Marks)

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Question 3

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 4

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

(Total: 20 Marks)

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Question 5

It has been suggested that one of the problems of separation of ownership and control might be that managers do not always act to maximize shareholder wealth.

- a) Critical evaluate above statement with relevant examples and consequences.
(10 marks)
- b) What are corporate objectives? Justify 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, that is $(1+r)^{-n}$ where r = interest rate; n = number of periods until payment or receipt.

Periods (n)	Interest 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
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
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149

Periods (n)	Interest rates (r)									
	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	0.593	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	0.079	0.065
16	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031
20	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026