

**UNIVERSITY OF BOLTON**

**GREATER MANCHESTER BUSINESS SCHOOL**

**BSC (HONS) BUSINESS MANAGEMENT**

**SEMESTER 1 EXAMINATIONS 2023/2024**

**FINANCIAL DECISION MAKING IN BUSINESS**

**MODULE NO: BAM4013**

Date: Tuesday 9<sup>th</sup> January 2024

Time: 10.00am – 1.00pm

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**INSTRUCTIONS TO CANDIDATES:**

There are 4 questions on this paper.

Answer ALL questions.

The exam is 3 Hours.

You can use a silent calculator.

This is an open book exam and only allowed to use a pre-approved signed portfolio.

Graph paper will be supplied.

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**Case Study (Please refer to this case study throughout the exam)**

**ICGC Ltd**

ICGC are a resilient and forward-thinking local retailer that has proudly been in operation for a decade.

ICGC Ltd is a distinguished and private limited company headquartered in the North West of England. The organisation was established in 2010 with a primary focus on food and beverage. Since its inception, the company has experienced remarkable growth, transcending its modest origins that currently boasts a workforce of over 25 dedicated professionals. Food and beverage have continually served as the lifeblood of ICGC Ltd. Today, the organisation boasts a diversified portfolio encompassing both the retail and wholesale sectors.

ICGC Ltd is proud to offer direct supply services to their customers, ensuring a seamless and efficient experience. Additionally, they plan to extend their wholesale operations to businesses throughout the United Kingdom, catering to their unique needs and requirements.

The organisation is fully dedicated to cultivating a workforce that is unwaveringly loyal and deeply committed. Their primary focus lies in delivering unparalleled customer service and upholding the highest standards of integrity.

At the core of all of their endeavours lies the bedrock of ICGC Ltd's operations - their value statement, named the 'ICGC Way'. This strategic initiative aims to precisely articulate and establish the organisational culture, thereby guaranteeing the ongoing survival of our time-honoured principles that will propel the exponential expansion of their enterprise through turbulent times.

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**Question 1**

|                     | Virgil | Tintin |
|---------------------|--------|--------|
| Sales Volume Units  | 3,000  | 4,000  |
|                     |        |        |
|                     | £      | £      |
| Unit selling price  | 6      | 12     |
| Unit variable costs | 3      | 4      |
| Total sales revenue | 18000  | 48000  |

**Required:****Question 1**

- A). Calculate the breakeven level of sales (in units) for each product (10 Marks).
- B). With the aid of a graph, explain the significance of the margin of safety for each product (10 Marks).
- C). Evaluate the fundamentals of a break-even analysis (5 Marks).
- (Total 25 marks)**

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### **Question 2 – Ratios**

ICGC Ltd has provided you with the financial statements for the last two years below:

#### **ICGC Ltd**

#### **Income Statement (Extract) for the year to 31st December**

|                   | 2022<br>£'000 | 2023<br>£'000 |
|-------------------|---------------|---------------|
| Turnover/Revenue  | 3000          | 2300          |
| Cost of Sales     | 600           | 500           |
| Expenses          | 900           | 1100          |
| Operating profit  | 1500          | 700           |
| Interest payable  | 80            | 40            |
| Profit before tax | 1420          | 660           |
| Tax               | 426           | 320           |
| Profit after tax  | <u>994</u>    | <u>340</u>    |

#### **Statement of financial position as at 31st December**

|  | £'000       | £'000       |
|--|-------------|-------------|
| Non-current assets                                       | 7000        | 8400        |
| Current assets   | 4460        | 4300        |
| Creditors: Amounts falling due within one year:          | 2060        | 2600        |
| Net current assets                                       | <u>2400</u> | <u>1700</u> |
| Total assets less current liabilities                    | 9400        | 10100       |
| Creditors: Amounts falling due after more than one year: |             |             |
| 8% bank loan   | 600         | 2000        |
|  | <u>8800</u> | <u>8100</u> |
| Share Capital:   |             |             |
| £1 Ordinary shares                                       | 7400        | 7400        |
| Reserves   | 1400        | 700         |
|  | <u>8800</u> | <u>8100</u> |
| <b>Notes:</b>  | £'000       | £'000       |
| Opening Inventory  | 300         | 400         |

**Question continues over the page**

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**Question 2 continued**

**Question 2**

**Required:**

A. You are required to calculate the following ratios for **both years** 2022 and 2023, clearly show workings:

- I. Gross Profit Margin
- II. Current Ratio (Working Capital)
- III. Acid Test Ratio (Quick Ratio)
- IV. Net (Operating) Profit Margin
- V. Return on capital employed (ROCE)

(2x marks each per ratio = 10 Marks).

B. In the light of your calculations comment on the performance of the company over the last two years.

(10 Marks).

**(Total 20 marks)**

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**Question 3:**

**Required:**

A. Using key terminology, outline the significance of using investment appraisals in a business organisation to support with investment decision making. The outline will be presented to newer members of the GCIC Ltd finance team

(10 Marks).

B. With the uncertainty in the economy, the directors have asked you to explain 5 different stakeholder GCIC Ltd may have and what are they interested from the financial statements.

(10 Marks).

C. The company is currently financed heavily by equity and debt. In a briefing to the board explain 5 alternative sources of finance.

(10 Marks).

**(Total 30 Marks)**

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**Question 4**

Notes:

80% of all sales are for cash with the remaining balance on credit and customers are given one month in which to pay.

Sales are expected to increase by 10% each month until November and will increase by 15% from December onwards.

The owner will add additional £10000 capital in November.

Purchases from suppliers are expected to be £6000 for the 6 months after August.

Twenty five percent of the purchases are for cash and the remainder on credit. Suppliers allow one month's credit.

Rent will rise to £1900 per month in September, payable on the 4th of each month.

There are not expected to be any further legal costs.

The business will buy new computers in November for £4000, half will be paid in November with the remainder in March 2023.

Running expenses are expected to increase by 5% per month, and are paid in the month in which they are incurred.

Wages are paid on the 20th of each month and are expected to remain the same for the next 6 months.

Drawings will increase by £300 per month from September.

Depreciation of fixed assets will be charged at 7.6833% on cost on a pro rata monthly basis using a reducing balance method.

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**Question 4 continued**

**Required:**

- A. Using the information on previous page (Page 7), fill in the Cash budget attached on the next page (Page 9).  
(10 marks)
- B. Comment on any issues that you think may be of an issue and suggest solutions where possible.  
(10 marks)
- C. How can a cash budget inform future decision making for businesses?  
(5 marks)
- (Total 25 Marks)**

**END OF QUESTIONS**

**PLEASE TURN THE PAGE FOR CASH BUDGET TEMPLATE**

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Student Number: \_\_\_\_\_

### ICGC Cash Budgets

|                            | August        | September | October | November |
|----------------------------|---------------|-----------|---------|----------|
|                            | £             | £         | £       | £        |
| <b>Receipts:</b>           |               |           |         |          |
| Sales - cash               | 20,000        |           |         |          |
| Sales - credit             |               |           |         |          |
| Other income               | 8,000         |           |         |          |
| <b>Total receipts</b>      | <b>28,000</b> |           |         |          |
|                            |               |           |         |          |
| <b>Payments:</b>           |               |           |         |          |
| Opening stock              | 6,000         |           |         |          |
| Purchases - cash           | 4,000         |           |         |          |
| Purchases - credit         |               |           |         |          |
| Rent                       | 900           |           |         |          |
| Legal costs                | 3,500         |           |         |          |
| New Equipment              |               |           |         |          |
| Shop fittings              | 15,000        |           |         |          |
| Running expenses           | 1,400         |           |         |          |
| Wages                      | 8,000         |           |         |          |
| Other expenditure          |               |           |         |          |
| Drawings                   | 850           |           |         |          |
| <b>Total payments</b>      | <b>39,650</b> |           |         |          |
|                            |               |           |         |          |
| <b>Opening balance</b>     | <b>10,000</b> |           |         |          |
| <b>Add total receipts</b>  | <b>28,000</b> |           |         |          |
|                            | <b>38,000</b> |           |         |          |
| <b>Less total payments</b> | <b>39,650</b> |           |         |          |
| <b>Closing balance</b>     | <b>-1,650</b> |           |         |          |

END OF EXAM