UNIVERSITY OF BOLTON

GREATER MANCHESTER BUSINESS SCHOOL

BSC (HONS) BUSINESS MANAGEMENT

SEMESTER 1 EXAMINATIONS 2024/2025

FINANCIAL REPORTING FOR MANAGEMENT

MODULE NO: BMP6042

Date: Tuesday 7th January 2025 **Time: 2.00pm – 5.00pm**

INSTRUCTIONS TO CANDIDATES:

There are FOUR on this paper.

Answer ALL questions.

All questions carry equal marks.

Written Notes are allowed

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Question 1

An investment of £1,500,000 is made at the start of a project (Year 0). The project is expected to generate revenues, incur costs, and pay taxes over the next 5 years, as shown in the table below. The corporation tax rate is 20%, and the discount rate is 10%.

Given the following details:

Initial Investment: £1,500,000 (Year 0)

Revenues (Year 1-5):

Year 1: £900,000

Year 2: £900,000

Year 3: £600,000

Year 4: £900,000

Year 5: £900,000

Costs:

Materials: £100,000 per year

Labour: £50,000 per year

Overheads: £20,000 per year

Tax rate: 20%

Discount rate: 10% per year

Required

a) Calculate the NPV of this project using the provided information and assess whether the investment is financially viable based on the NPV result.

15 Marks

b) Critically discuss the limitations of using NPV as the sole metric for evaluating investment decisions. How might revenue fluctuations, unforeseen cost increases, or external factors such as economic changes and regulatory shifts impact the accuracy and reliability of an NPV analysis?

10 Marks

25 Marks

Please turn the page

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Question 2

Critically evaluate the use of short-term and long-term financing in managing a company's capital structure. Discuss the potential impact of each on liquidity, cost of capital, and financial stability. Consider the benefits and risks associated with each type of financing.

25 Marks

Question 3

ABC Manufacturing Ltd. produces two types of products, Product X and Product Y. The company is currently evaluating its costing methods to better understand the profitability and pricing strategies of its products. To achieve this, ABC Manufacturing Ltd. has decided to use Activity-Based Costing (ABC) to allocate overhead costs more accurately based on the actual consumption of activities by each product.

In order to make informed decisions about pricing and profitability, it is crucial for ABC Manufacturing Ltd. to calculate the ABC cost per unit for its products. The company has identified the following total costs associated with three key activities:

- **Material Handling Movements:** £200,000
- **Production Set Ups:** £350,000
- **Material Requisitions:** £125,000

The production and activity data for each product are as follows:

- **Product X:** 10,000 units produced, with 20 material handling movements, 50 production set ups, and 30 material requisitions.
- **Product Y:** 5,000 units produced, with 15 material handling movements, 10 production set ups, and 12 material requisitions.

Required:

a) Using the provided Activity-Based Costing (ABC) data, calculate the ABC cost per unit for Product X and Product Y. Analyse the cost implications of these calculations on the pricing strategy and profitability of both products for ABC Manufacturing Ltd. How might these insights influence the company's decision-making process regarding product pricing and cost management?

13 Marks

Question 3 continued over the page

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Question 3 continued

b) Critically discuss the advantages and limitations of using Activity-Based Costing (ABC) in allocating overhead costs. How does ABC improve cost accuracy compared to traditional costing methods? Evaluate its effectiveness in decision-making and potential challenges businesses may face in implementation.

12 Marks
25 Marks

Question 4

Darwen Company produces three products: X, Y, and Z. The company is currently assessing its financial performance and planning for profitability. To do this, they need to determine the breakeven sales revenue required and the sales revenue needed to achieve a targeted profit. The company has provided the following information:

- **Selling Price per Unit:**
  - Product X: £16
  - Product Y: £20
  - Product Z: £10
- **Variable Cost per Unit:**
  - Product X: £5
  - Product Y: £15
  - Product Z: £7
- **Budgeted Sales Volume:**
  - Product X: 50,000 units
  - Product Y: 10,000 units
  - Product Z: 100,000 units
- **Fixed Costs:** £450,000

Question 4 continued over the page

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Question 4 Continued

Required:

1. Calculate the total contribution margin for each product. **6 Marks**
2. Determine the breakeven sales revenue required for Darwen Company. **6 Marks**
3. Calculate the breakeven sales revenue necessary to achieve a profit of £600,000. **5 Marks**
4. Briefly discuss how these calculations can assist Darwen Company in making strategic decisions regarding product pricing and cost management. **8 Marks**

25 Mark

END OF QUESTIONS

PLEASE TURN THE PAGE FOR INTEREST RATES TABLE

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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	Interest rates (r)									
(n)	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	0705	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	Interest rates (r)									
(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
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

END OF EXAM