



# ICM

SEPTEMBER 2015

FINANCIAL MANAGEMENT

**Instructions to candidates:**

- a) Time allowed: Three hours (plus an extra ten minutes' reading time at the start – do not write anything during this time)
  - b) Answer any FIVE questions
  - c) All questions carry equal marks. Marks for each question are shown in [ ]
  - d) Non-programmable calculators are permitted in this examination
- 
1.
    - a) A successful company requires additional finance to replace a large fleet of vehicles. Suggest TWO possible sources of such finance AND discuss the advantages and disadvantages of EACH source. [12]
    - b) The same company also needs to increase their working capital. Explain the ways in which it might do this. [8]

2. The following information relates to KGM Ltd and has been taken from their books as at 31 August 2015:

	£
Turnover	1,800,000
Administration expenses	250,000
Cost of sales	500,000
Taxation for the year	150,000
Interest paid	25,000
Interest received	5,000
Distribution costs	300,000

**OTHER INFORMATION:**

- A dividend of 20 pence per ordinary share has been declared
- There are 1,000,000 £1 ordinary shares in issue
- The market price of an ordinary share on 31 August 2015 was £4.40 per share
- The total capital employed in the business on 31 August 2015 was £3,900,000

**TASKS**

- a) Prepare the income statement (profit and loss account) of KGM Ltd for the year ended 31 August 2015. [5]
- b) Calculate the following:
  - i The EPS
  - ii The PE ratio
  - iii The expenses to sales percentage
  - iv The operating profit (PBIT) as a percentage of total capital employed [8]
- c) Analyse the performance of KGM Ltd. [7]

NOTE: The equivalent ratios on 31 August 2014 were:

EPS 48 pence    PE ratio 13 times    Expenses to sales % 38%    PBIT 15.1%

*continued overleaf*

3. ALV Ltd is considering investing in a project which has the following cash flows:

	£000
Initial investment	3,200
Cash flows:	
Year 1	900
Year 2	1,400
Year 3	1,000
Year 4	700
Year 5	300

The cost of capital is 9%

Extracts from NPV (DCF) tables:

Rate of discount	8%	9%	10%
Year 0	1.000	1.000	1.000
Year 1	.926	.917	.909
Year 2	.857	.842	.826
Year 3	.794	.772	.751
Year 4	.735	.708	.683
Year 5	.681	.650	.621
Year 6	.630	.596	.564

**TASKS**

- a) Calculate the payback period (in years and months). [2]
  - b) Calculate the ARR (accounting rate of return). [2]
  - c) Calculate the NPV (net present value). [4]
  - d) Explain briefly if you think that the project is viable. [4]
  - e) Explain the BENEFITS of cash budgeting. [8]
4. a) Explain the purposes of financial ratios/performance indicators. [10]
- b) Explain the function of a stock exchange. [5]
- c) Explain the functions of a cash flow statement. [5]

5. A company makes a single product. The following is the cost structure:

	£
Selling price per unit	110
Direct labour cost per unit	25
Direct labour cost per unit	35
Variable overhead cost per unit	20
Total fixed costs	1,000,000
	=====

Budgeted production and sales 100,000 units

Maximum possible production 120,000 units

**TASKS**

- a) i Calculate the budgeted profit. [3]
- ii Calculate the break-even point in units. [2]
- iii Calculate the profit if an extra £120,000 was spent on marketing and 115,000 units are made and sold. [4]
- iv Calculate the profit if the price was set at £125 per unit, an extra £50,000 was spent on marketing and only 85,000 units were made and sold. [5]
- b) Sketch a break-even graph – based on the original budget. [6]

6. The following are the assets and liabilities of YQZ Ltd as at 31 August 2015:

	£000
Land and buildings	720
Bank overdraft	110
Accounts payable (creditors)	200
Goodwill	100
Accounts receivable (debtors)	300
Vehicles (net)	260
Ordinary share capital	600
Preference share capital	200
Share premium	120
Tax owing	110
Dividends owing	100
Equipment (net)	500
Inventory (closing stock)	220
Profit and loss account balance	310
Long-term loans	350

The following information has also been gathered:

Credit sales	3,600
Opening stock (inventory)	250
Purchases	1,340

#### TASKS

- a) Prepare the balance sheet of YQZ Ltd as at 31 August 2015. [8]
- b) Calculate the following ratios:
  - i Current
  - ii Acid test
  - iii The debtor collection period in days
  - iv The rate of stock turnover [2 each]
- c) Comment briefly on the financial position of YQZ Ltd as at 31 August 2015. [4]

7. Write notes on FOUR of the following:

- a) The role of an external auditor
- b) Accounting standards
- c) The use of flexible budgets
- d) Financial gearing (leverage)
- e) A rights issue
- f) An IPO
- g) A venture capitalist [5 each]