



ICM

DECEMBER 2016

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. Explain the following terms:

- a) An IPO [7]
- b) Equity shares [7]
- c) Gilt-edged securities [6]

2. The following information relates to WNC Ltd and has been taken from their books as at 30 November 2016:

	£
Turnover	1,900,000
Administration expenses	310,000
Cost of sales	580,000
Taxation for the year	110,000
Interest paid	40,000
Distribution costs	270,000
Proposed dividends	80,000

OTHER INFORMATION:

- There are 500,000 £1 ordinary shares in issue
- The market price of an ordinary share on 30 November 2016 was £15 per share

TASKS

- a) Prepare the profit and loss account of WNC Ltd for the year ended 30 November 2016. [6]
- b) Calculate the following:
 - i The EPS
 - ii The PE ratio
 - iii The dividend per share
 - iv The PBIT as a percentage of sales [2 each]
- c) Explain the principal benefits of using financial ratios/performance indicators. [6]

3. FPX plc is considering investing in a project that has the following cash flows:

	£000
Initial investment	3,400
Cash flows:	
Year one	1,000
Year two	1,200
Year three	1,600
Year four	1,000
Year five	500

The cost of capital is 9%

Extracts from NPV (DCF) tables:

Rate of discount	8%	9%	10%
Year one	.926	.917	.909
Year two	.857	.842	.826
Year three	.794	.772	.751
Year four	.735	.708	.683
Year five	.681	.650	.621
Year six	.630	.596	.564

Question 3 continues overleaf

TASKS

- a) Calculate the payback period. [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) Outline any 'non-financial' factors that might be considered by FPX plc during the decision making process. [4]
- f) Explain the importance of a post project review. [4]

4. a) Prepare a cash flow statement of a company called JWC plc for the year ended 30 November 2016 from the following data:

	£000
Purchase of new premises	290
Purchase of new computers	110
Tax paid	140
Equity dividends paid	90
Proceeds from share issue	650
Repayment of long-term loans	380
Interest paid	40
Interest received	5
Cash inflow from operating activities	360

- b) Comment on the cash flow position of JWC plc during the year ended 30 November 2016. [5]
- c) Explain the principal sources of long-term finance available to a plc. [10]

5. The following figures have been extracted from GCV Ltd's accounts for the two years to 30 November 2016:

	2015	2016
BALANCE SHEET CLOSING BALANCES:		
Inventory	£110,000	£180,000
Accounts receivable	£180,000	£290,000
Cash in bank	£20,000	-
Accounts payable	£130,000	£180,000
Bank overdraft	-	£30,000
Long-term loans	£200,000	£450,000
Issued share capital	£500,000	£500,000
Retained profit	£190,000	£200,000

TASKS

- a) For BOTH years calculate the following:
 - i The current ratio [3]
 - ii The acid test ratio [3]
 - iii The gearing percentage [3]
 - b) Evaluate the liquidity position of GCV Ltd. [5]
 - c) Explain the importance of using a cash budget to control and monitor the cash flow position of a business. [6]
6. a) Explain the principal function of a major stock exchange. [8]
- b) Explain the potential sources of short-term finance available to a large company. [12]
7. Write notes on FOUR of the following:
- a) Marginal costing
 - b) VAT
 - c) A rights issue
 - d) Intangible fixed assets
 - e) Break-even analysis
 - f) A master budget
 - g) Venture capitalists [5 each]