JUNE 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. The summarised financial statements of QPL Ltd for 2015 and 2016 were as follows:

QPL Ltd Position Statements as at 31 May:

	2015		2016	
NON-CURRENT ASSETS	£000	£000	£000	£000
Fixed assets at cost	22,000		36,000	
Depreciation	(10,000)	12,000	(18,000)	18,000
CURRENT ASSETS				
Inventory	9,000		15,000	
Accounts receivable	16,000		21,000	
Bank	6,000		2,000	
		31,000		38,000
		--------		--------
TOTAL ASSETS		43,000		56,000
		======		======
CURRENT LIABILITIES				
Accounts payable	6,000		2,000	
Taxation	3,000		3,000	
Dividends	2,000		3,000	
		11,000		8,000
NON-CURRENT LIABILITIES				
Long-term loans		3,000		11,000
CAPITAL AND RESERVES				
Ordinary shares (£1)	10,000		16,500	
Profit and loss account	19,000		20,500	
		29,000		37,000
		--------		--------
TOTAL LIABILITIES		43,000		56,000
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QPL Ltd Income Statement for the year ended 31 May 2016:

	£000
Operating profit	9,000
Interest paid	(1,500)

Profit before tax	7,500
Taxation	(3,000)

Profit after tax	4,500
Dividend	(3,000)

Retained profit	1,500

Question 1 continues overleaf

TASKS

a) Prepare a cash flow statement for QPL Ltd for the year ended 31 May 2016. [10]

b) Calculate the following:
   - i The dividend per share for BOTH years [3]
   - ii The EPS for year ended 31 May 2016 [2]

c) Identify the major inflows and outflows of cash during the year ended 31 May 2016. [5]

2. A company is about to bring a new product to the market. The following budgeted data has been assembled:

	£
Direct material cost per unit	32
Direct labour cost per unit	37
Variable overhead cost per unit	49
Selling price per unit	190
Fixed overheads allotted to the product	750,000

The first draft budgeted production and sales is 16,000 units.
The maximum possible output is 20,000 units.

TASKS

a) Calculate the first draft budgeted profit. [3]

b) Calculate the first draft budgeted break-even point. [2]

c) The marketing department have carried out some market research and are convinced that if an extra £75,000 was spent on marketing, sales would rise to 17,800 units. Calculate the profit. [3]

d) It is thought that if the selling price is increased to £210 per unit, it would still be possible to sell 14,000 units. Calculate the profit. [3]

e) The production department think that by improving the quality and packaging of the product by spending an extra £6 per unit making the product, sales would rise to 16,700 units. The selling price would be kept at £190. Calculate the profit. [3]

f) Fully evaluate the above options. [6]

3. The following information relates to HRX Ltd and has been extracted from their books as at 31 May 2016:

	£
Turnover (all credit sales)	2,950,000
Selling and distribution costs	260,000
Taxation for the year	180,000
Inventory 01 06 15	230,000
Purchases	980,000
Inventory at 31 05 16	240,000
Administration expenses	270,000
Interest paid	80,000
Proposed ordinary dividend	100,000

Issued ordinary share capital	1,000,000
Current market price per ordinary share	9
Total closing accounts receivable (debtors)	220,000

TASKS

a) Prepare the income statement for the year ended 31 May 2016. [5]

b) Calculate the following:
   - i The gross profit to sales percentage
   - ii The operating profit (PBIT) to sales percentage
   - iii The earnings per share (EPS)
   - iv The PE ratio
   - v The debtor collection period in days [10]

c) HRX Ltd is considering expanding, and needs to raise more capital. The company is considering making a significant rights offer. Discuss the benefits of raising finance via a rights issue. [5]

continued overleaf

4. ALO plc is considering investing in a project that has the following cash flows:

	£000
Initial investment	2,800
Cash flows:	
Year one	600
Year two	800
Year three	1,100
Year four	400
Year five	300

The cost of capital is 8%.

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

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) Suggest what possible long-term sources of finance are available to ALO plc. [8]

5. a) Explain the **budgetary control process**. [12]
b) Outline the function of a **balance sheet** (position statement). [8]

6. The following data relates to FDI Ltd, a manufacturing company, as at 31 May 2016:

	£000
Premises	900
Stocks and WIP (inventory)	400
Bank overdraft	50
Cash in hand	10
Accounts receivable	320
Accounts payable	260
Long-term loan	350
Prepayments	15
Accruals	25
Plant and equipment	240
Vehicles	140
Share capital	350
Retained earnings	?

TASKS

a) Prepare the position statement (balance sheet) of FDI Ltd as at 31 May 2016. [6]
b) Calculate TWO liquidity ratios based on this data. [4]
c) Discuss the benefits of leasing high value equipment. [5]
d) Outline the benefits of maintaining an efficient cash budgeting system. [5]

7. Explain FOUR of the following:

a) Share capital
b) A master budget
c) Variances
d) Sale and leaseback
e) The potential dangers of high gearing
f) The role of performance indicators [5 each]