MARCH 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. a) Explain the BENEFITS of setting and implementing an agreed budget. [12]
   b) Explain the following terms:
      i A share prospectus
      ii A stock exchange [4 each]

2. The following data relates to a company:

	£000	£000	£000
Year ended 28/29 February	2014	2015	2016
Sales (all on credit)	120	140	155
Cost of sales	70	80	90
Expenses	35	40	45
Provision for tax	10	12	13
	====	====	====
£1 ordinary shares in issue	100,000	100,000	100,000
Share price	£1.30	£1.40	£1.50
Closing debtors	£15,000	£15,500	£15,900

TASKS

a) For EACH of the three years calculate the following ratios:
   i The gross profit percentage
   ii The net profit after tax percentage
   iii The expenses to sales percentage
   iv The debtor collection period in days
   v The EPS
   vi The PE ratio [2 each]

b) Analyse the trends revealed by the above ratios. [8]

continued overleaf

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

	£000
Initial investment	2,700
Cash flows:	
Year 1	700
Year 2	1,000
Year 3	1,100
Year 4	800
Year 5	500

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 sources of long-term finance available to a large company. [8]

4. a) Prepare a cash flow statement from the following data:

	£000
Purchase of new equipment	190
Purchase of new vehicles	100
Tax paid	95
Equity dividends paid	110
Proceeds from share issue	750
Repayment of long-term loans	380
Interest paid	40
Interest received	5
Cash inflow from operating activities	310

[6]

b) Outline the reasons for the cash flow statement. [5]

c) A company wishes to replace its fleet of vehicles. There are two possible options – to use Hire Purchase OR to lease the vehicles. Explain the TWO methods of finance AND outline the advantages and disadvantages of EACH method. [9]

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

	£
Selling price per unit	130
Direct material cost per unit	30
Direct labour cost per unit	35
Variable overhead cost per unit	30
Total fixed costs	760,000
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Budgeted production and sales 50,000 units.
Maximum possible production 70,000 units.

TASKS

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 65,000 units are made and sold. [4]

b) Sketch a break-even diagram/chart based on the budgeted data. [5]

c) Explain the importance of accounting ratios. [6]

continued overleaf

6. The following figures have been extracted from STJ's accounts for the three years to 29 February 2016:

	2014	2015	2016
	£000	£000	£000
Inventory (stock)	170	190	200
Accounts receivable (debtors)	370	380	390
Cash and bank	-	20	50
Accounts payable (creditors)	600	450	400
Bank overdraft	40	-	-

TASKS

a) Calculate the current ratio for EACH of the three years. [5]

b) Calculate the acid test ratio for EACH of the three years. [5]

c) Comment on the liquidity position of the company over the three years. [5]

d) Explain the benefits of setting and monitoring a cash budget. [5]

7. Write notes on FOUR of the following:

a) Accounting standards

b) A rights issue

c) A mortgage

d) Financial gearing (leverage)

e) The role of an auditor

f) IRR [5 each]