



ICM

MARCH 2017

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 following data relates to OCD plc:

Year ended 28 February	2015	2016	2017
	£000	£000	£000
Sales	120	140	170
Cost of sales	70	80	95
Expenses	35	45	50
Provision for tax	8	11	13
	=====	=====	=====
£1 ordinary shares in issue	200,000	200,000	200,000
Share price	£1.10	£1.20	£1.25

TASKS

- a) For EACH of the THREE years calculate the following ratios:
 - i The gross profit to sales percentage [3]
 - ii The net profit before tax to sales percentage [3]
 - iii The EPS [6]
- b) Analyse the profitability of OCD plc over the three-year period. [8]

2. AQP Ltd manufactures a product which has the following cost data:

	£
Selling price per unit	120
Direct material cost per unit	27
Direct wages cost per unit	29
Variable overhead cost per unit	28
Associated total fixed costs	600,000

The current maximum possible capacity is 30,000 units.

The company currently has a UK demand for 26,000 units priced at £120 each, and they have never exported this product.

Due to the possibility of BREXIT, the current UK Government is keen to export goods to non-EU countries. As a result of this policy the company could export 10,000 units at £100 each.

The relevant cost data as regards the possible export contract is as follows:

	£
Government 'one off' grant available to the company	35,000
Additional annual fixed costs associated with increasing the production capacity	75,000

The revised capacity would then be 45,000 units.

TASKS

- a) i Calculate the current budgeted profit as regards the UK sales. [4]
- ii Calculate the budgeted first year profit/loss as regards the export order. [4]
- iii State the total combined profit of the 'home' and 'export' orders. [1]
- b) Sketch and fully label a break-even chart/graph. [6]
- c) Explain the benefits of cash budgets. [5]

continued overleaf

3. a) Explain the sources of short-term finance available to a company. [10]
 b) List FOUR efficiency ratios. [4]
 c) Explain the importance of credit control. [6]

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

	£000
Purchase of new equipment	190
Purchase of new vehicles	80
Tax paid	90
Equity dividends paid	120
Proceeds from share issue	750
Repayment of long-term loans	300
Interest paid	30
Interest received	5
Cash inflow from operating activities	280

- b) Explain the sources of long-term finance available to a company. [6]
 c) Explain briefly what you understand by the term **group accounts**. [10]
 [4]

5. The following figures have been extracted from HLZ Ltd's accounts for the two years to 28 February:

	2017	2016
BALANCE SHEET (position statement) closing balances:		
Inventory (stock)	£210,000	£190,000
Accounts receivable (debtors)	£480,000	£210,000
Cash in bank	-	£30,000
Accounts payable (creditors)	£280,000	£200,000
Bank overdraft	£40,000	-
Long-term loans	£760,000	£170,000
Issued share capital	£600,000	£600,000
Retained profit	£360,000	£320,000

TASKS

- a) For BOTH years calculate the following:
- i The current ratio [4]
 - ii The acid test ratio [4]
 - iii The gearing percentage [4]
- b) Evaluate the liquidity position of HLZ Ltd. [8]
6. a) Explain the major benefits of an efficient budgetary control system. [12]
 b) Explain the importance of the use of financial ratios and other performance indicators in the management of a large business. [8]
7. Write notes on FOUR of the following:
- a) The principal role of a central bank
 - b) An IPO
 - c) Crowd funding
 - d) A rights issue
 - e) Accounting standards
 - f) An auditor's report
 - g) Payback period
- [5 each]