



ICM

MARCH 2018

FINANCIAL DECISION MAKING – PRE-ISSUED CASE STUDY & GUIDELINES

Instructions to candidates (please read carefully):

- a) The following case study provides some basic information that can be used in your analysis during the examination
- b) A copy of this material will be available in the examination and, therefore, you should NOT take this case study into the examination room
- c) You are allowed to prepare notes for this examination. Your notes should be a maximum of two pages (four sides) of A4. **These notes can be taken into the examination and should be attached to your answer script on completion of the examination**
- d) **As part of your prepared notes, you are advised to calculate (and tabulate) a full range of performance indicators/financial ratios, and be prepared to take a view on the recent performance of MANSION plc**
- e) The three hour examination will consist of FOUR compulsory questions
- f) Non-programmable calculators are permitted in this examination

Scenario:

Mansion plc is a well-established, large building company, which mostly builds medium to large-scale residential housing developments. It concentrates on two principal market sectors – self-financed housing projects (i.e. not on a Joint Venture basis), and Joint Ventures with local Government.

Mansion plc was first registered as a private limited company in 1962, and expanded through the 1960s and 1970s. It 'went public' in 1984. During the 1990s it started getting involved with the Public Sector projects. During this new century it has managed to survive the economic downturn and is now exceedingly busy, building homes to meet the ever increasing demand in the UK for residential housing. Mansion plc is considering looking for Joint Venture partners to tender for work in Northern Ireland, France, and Belgium.

The Key Performance Indicators (KPIs) are:

- Revenue increase
- EBIT margin
- Good liquidity
- Increasing the number of homes built
- Reducing their reliance on borrowed finance
- To increase the ownership of plant and equipment

In the Mansion plc mission statement there are references to quality, innovation, service, cost control, and safety standards.

The following information refers to the period 1 March 2013 to 28 February 2018:

Year to 28 Feb.	2014	2015	2016
	£000	£000	£000
Sales	7,200	8,900	10,100
Cost of sales	3,600	4,300	4,900
Other expenses + int. paid	3,000	3,500	3,950
Current assets	1,600	1,800	1,900
Current liabilities	800	850	900
	=====	=====	=====
Homes built	85	105	120

continued overleaf

The consolidated income statements for the year to 28 February 2017 and 2018 are as follows:

	2017	2018
	£000	£000
Turnover (all credit sales)	12,500	15,000
Cost of sales	(5,900)	(7,000)
Other expenses	(4,700)	(5,500)
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Operating profit (EBIT)	1,900	2,500
Interest paid	(190)	(170)
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Profit before tax	1,710	2,330
Provision for tax	(300)	(400)
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Profit after tax	1,410	1,930
Equity dividend declared	(200)	(200)
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Retained profit	1,210	1,730
	=====	=====

The consolidated position statement as at 28 February 2017 and 2018 are as follows:

	2017	2018
Non-current assets	3,100	4,600
Cumulative depreciation	(800)	(1,100)
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	2,300	3,500
	-----	-----
Current assets		
Inventory	1,750	1,900
Accounts receivable	600	500
Bank	-	50
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	2,350	2,450
	-----	-----
Total assets	4,650	5,950
	=====	=====
Equity and reserves		
Share capital	500	500
Retained profit	1,770	3,500
	-----	-----
	2,270	4,000
Non-current liabilities		
Loans	1,200	700
Current liabilities		
Accounts payable	600	650
Bank overdraft	80	-
Tax owing	300	400
Dividends	200	200
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	1,180	1,250
	-----	-----
Total liabilities	4,650	5,950
	=====	=====
Number of homes built	140	170

Note: Most of the inventory is made up of land holdings, houses under construction and unsold completed houses.