ST MARY’S UNIVERSITY

**TWICKENHAM LONDON**

BA/BA(ITT)/BSc Degree Examination students registered for

Level **FOUR**

Title: **Financial Decision Making**

Code: **MGT4012**

Semester: **RESIT**

Date: **3rd July 2019**

Time: **13:30-15:30 PM**

TIME ALLOWED: **TWO** HOURS

Instructions to Candidates:

**PLEASE SUBMIT YOUR EXAMINATION PAPER WITH YOUR EXAMINATION SCRIPT. A TREASURY TAG HAS BEEN PROVIDED. ENTER YOUR REGNUM IN THE SPACE BELOW:**

**REGNUM: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**EXAM INSTRUCTIONS**

**Answer ALL multiple choice questions in SECTION A. You MUST put your answers on the grid provided at the back of this exam paper.**

**The question in SECTION B is COMPULSORY.**

**Answer ONE question from SECTION C**

**Candidates are permitted to bring one approved calculator into this examination.**

**SECTION A: MULTIPLE CHOICE QUESTIONS.**

**One-third of the total exam marks are allocated to this section.**

**Answer all the multiple choice questions by writing the appropriate option (A,B,C,D) on the answer sheet provided at the back of this exam paper.**

**Please do not transcribe your answers to multiple choice questions into your answer-book. Only the answers to multiple choice questions that you indicate on the answer sheet provided will be marked.**

**Remember to write your REGNUM on the top of the answer sheet and attach it to your hand written exam script AND the examination paper at the end of the exam using the treasury tag provided.**

1. To assist business decision making statistical analysis can be used in a variety of different ways. This might include?

1. Collecting information.
2. Summarising & communicating numbers.
3. Analysing & interpreting data.
4. All of the above.

2. Statistics is a collection of procedures and principles for gaining and analysing

information in order to help people make decisions when faced with...?

a) Competition.

b) Instructions.

c) Uncertainty.

d) None of the above

3. The degree to which two or more data variables are related and change together is

referred to as?

1. Compatibility.
2. Correlation.
3. Likeness.
4. Similarity.

4. In the context of business decision making the term M.I.S. generally refers to?

1. Management information service.
2. Management information software.
3. Management information system.
4. None of the above.

5. Which of the following is **not** an external source of information for a business?

1. Customer satisfaction.
2. Logistic processes.
3. Actions of competitors.
4. Economic data

6. To convert raw data into useful information it has to be?

a) Created.

b) Transferred.

c) Designed.

d) Transformed.

7. Quantitative data is?

1. Anything that can be measured in numbers.
2. Less reliable than qualitative data.
3. Not reliant on numbers, it is completely descriptive.
4. All of the above.

8. Which of the following is **not** a type of data?

1. Attribute.
2. Parameter.
3. Variable.
4. All of the above.

9. Quantitative data can be broken up into?

1. Discrete and variable data.
2. Attributes and nominal indicators.
3. Continuous and discrete components.
4. None of the above.

10. Primary data is?

1. Freely available.
2. Originally collected as secondary data.
3. Often expensive to collect.
4. Usually unreliable.

11. Which of the following is not a sampling method approach?

1. Stratified.
2. Systematic.
3. Cluster.
4. None of the above.

12. Sampling methods are used to?

a) Identify the size of a population.

b) Take a census of a population.

c) Calculate averages from a census.

d) Identify possible trends in a population.

13. The ‘7 critical components’ are a method / approach to determine the?

a) Differences in representatives of a survey.

b) Soundness of a statistical study.

c) Differences in representatives of a population.

d) All of the above.

14. A histogram is a variation of a?

a) Line graph.

b) Pie chart.

c) Lorenz curve.

d) Bar chart.

15. The value of the middle item of a data distribution once all of the items have been

arranged in order of magnitude is referred to as?

1. The average.
2. The median.
3. The mean.
4. The mode.

16. Quartiles, deciles and percentiles, and any other similar dividing points for

analysing a frequency distribution, are referred to collectively as the?

1. Range
2. Mean deviation.
3. Cumulative frequency
4. Quantiles.

17. The key value criteria for inclusion in the FTSE100 Share Index is a PLC’s?

1. Earnings per share.
2. Annual profit
3. Market Capitalisation.
4. All of the above.

18. A company has authorized share capital of 300,000 shares of 70p each. Only

150,000 have been issued, called up and paid for in full. The called-up share capital fully paid is?

1. £150,000
2. £105,000
3. £115,000
4. £300,000

19. The most comprehensive information about the financial affairs of a company is

found in the?

1. Statement of financial position.
2. Annual report.
3. Stock market.
4. Statement of comprehensive income.

20. Which of the following is **not** a characteristic of a limited liability company?

1. Limited liability companies are governed and controlled by legislation.
2. The company can raise capital by selling shares to the public.
3. Shareholders cannot be held liable for the debts of the business in the event of its financial failure.
4. The company’s annual report provides data about the performance of the business.

21. All ordinary shareholders receive a dividend whether profits are made or not?

a) True

b) False

22. A stock market in which prices are raising, or are expected to rise, is known as?

1. A bear market.
2. A tiger market.
3. A bull market.
4. A vulture market.

23. A businesses gearing ratio refers to:

1. The ratio of capital to labour in the productive process.
2. The speed at which the business can grow.
3. The proportion of debt to equity finance held by the business.
4. An estimate of future dividends.

24. If a company has issued 150,000 ordinary shares and the profit available to

ordinary shareholders is £7,500 what are the earnings per share?

1. 5p
2. 6p
3. 7p
4. 9p

25. The interest on company borrowings is paid before dividends on ordinary shares?

1. True.
2. False.

26. A ‘finance gap’ can be best described as?

1. The capital involved in a project.
2. A loan of money for a particular purpose.
3. Asset-based finance.
4. None of the above.

27. A cash flow forecast can be used to decide whether future profits will be sufficient?

1. True.
2. False.

28. If cash outflows exceed cash inflows, it is known as a?

1. Profit.
2. Cash deficit.
3. Negative cash flow.
4. Cash surplus.

29. A cash flow forecast shows?

1. the predicted cash inflows and outflows
2. the predicted cash position at the end of the accounting period
3. when cash is expected to be received or paid
4. when cash has been received or paid

30. A disadvantage of discounted cash flow techniques is?

1. The time value of money is not taken into account.
2. The entire life of the project is not taken into account.
3. Comparisons cannot be made with other opportunities.
4. Non-financial factors are not taken into account.

31. A project has an outlay of £25,000 in year 0 and net cash flows of £10,000 for the

next three years, the payback period is?

1. 2 years
2. 2.25 years
3. 2.5 years
4. 3 years

32. If the contribution for 1,000 units is £650 and the variable costs are 45p per unit,

the total sales figure for 350 units is:

1. £70.00
2. £157.50
3. £385.00
4. £492.50

33. If 500 units have been sold for £5,000 and the variable costs per unit are £6.00,

 the total contribution is:

1. £2,000
2. £3,000
3. £5,000
4. £8,00

**SECTION B**

**YOU MUST ANSWER THIS QUESTION.**

**One third of the exam marks are allocated to this section.**

Timepiece Ltd is a small company that sells and repairs watches and clocks. Having recently introduced a system of budgetary control the owners have asked you to assist them with interpreting the data for April.

The following table shows the budgeted and actual revenue and expenditure for April 2016.

|  |  |  |
| --- | --- | --- |
| **Timepiece Ltd** | **Data for** | **April** |
|  | Budget | Actual |
|  | £ | £ |
| **Sales revenue** |  |  |
| Men's watches | 20,000 | 19,523 |
| Women's watches  | 15,000 | 14,155 |
| Children's watches | 10,000 | 9,482 |
| Clocks | 5,000 | 5,240 |
| **Revenue expenditure** |  |  |
| Cost of sales | 25,000 | 23,562 |
| Administration expenses | 10,000 | 9,468 |
| Finance costs | 2,500 | 2,470 |

*Required*

1. Prepare a budget report for Timepiece Ltd, calculating the profit (or loss) for the month of April AND all the variances **(10 marks)**
2. Interpret your budget report by briefly commenting on the overall revenue variance, the overall expenditure variance and the extent to which the financial objectives forthe month have been achieved.**(4 marks)**
3. i) Explain the principal purpose of budgetary control. **(5 marks)**

ii) Explain the four key stages in budgetary control. **(6 Marks)**

1. Describe main advantages of budgetary control **and** significant problems that can occur. **(8 marks)**

**(Total 33 marks)**

**SECTION C**

**You must answer ONE question from this section. One third of the exam marks are allocated to this section.**

1).

Ironworks Ltd manufactures two railing products, the Alumni and the Iron. The budgeted figures for October 2016 are provided below:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Alumni** |  |  |  | **Iron** |  |
| Sales volume (units) |  |  | 5,000 |  |  |  | 2,500 |  |
|  |  |  | £ |  |  |  | £  |  |
| Selling price |  |  | 50 |  |  |  | 70 |  |
| Direct materials per unit |  |  | 20 |  |  |  | 24 |  |
| Direct labour per unit (limiting factor) |  | 5 |  |  |  | 6 |  |
| Fixed costs for the month |  |  | 60,000 |  |  |  | 60,000 |  |

**Required:**

Conduct the following cost-volume-profit analysis to help the managing directors consider the effect on profitability of changes in the level of sales activity next year.

1. Prepare a marginal cost statement that calculates the budgeted net profit for each product. Rank the products according to their total contribution. **(15 marks)**
2. Briefly explain the disadvantage of ranking a product according to its contribution per unit rather than its total contribution. **(2 marks)**
3. Calculate the contribution per limiting factor for each product on the assumption that the supply of direct labour is limited. Show ALL your workings and rank the products according to your analysis. **(3 marks)**
4. Calculate the breakeven point in units AND sales revenue for each product. Show the formula in words and ALL your workings. Interpret your results by explaining what is meant by the breakeven point. **(5 marks)**
5. With reference to your calculations made in parts a), b), c) and d) discuss how contribution analysis and break-even analysis can be used to assist IronworksLtd’s decision making. **(8 marks)**

2)

American Way Inc. are set to expand and have $800,000 to invest in either a bar or a cafe diner in Boston and have asked you to provide information that will help them choose which is the more favourable of two potential projects. Details of the annual net cash flows are as follows and these are assumed to arise evenly throughout the year:

|  |  |  |
| --- | --- | --- |
|  | **Bar** | **Cafe** |
| Year | $ | $ |
| 1 |  500,000 | 300,000 |
| 2 |  400,000 | 400,000 |
| 3 |  400,000 | 470,000 |
| 4 |  280,000  | 560,000  |

**Required:**

1. Calculate the *simple* payback period for each project, showing your workings.

**(4 marks)**

1. Calculate the *discounted* payback period for each project and the net present value for each project using an interest rate of 20% (see table below).

**(18 marks)**

1. Discuss the advantages and disadvantages of the discounted payback and net present value capital investment appraisal techniques and include an interpretation of the results of your analysis to recommend a decision to American Way Inc. as to which of the two projects is the more favourable investment.

**(11 marks)**

|  |  |
| --- | --- |
|  | **Discount factor** |
| **Year** | **at 20%** |
| 1 | 0.833 |
| 2 | 0.694 |
| 3 | 0.579 |
| 4 | 0.482 |

**(Total 33 marks)**

1. In the context of the London Stock Exchange provide an explanation for the following:
2. FTSE100. **(5 marks)**
3. Price / earnings and earnings per share investor ratios. **(10 marks)**
4. Annual Reports. **(6 marks)**
5. Internal influences on a quoted share price value. **(6 marks)**
6. External influences on a quoted share price value. **(6 marks)**

**(Total 33 marks)**

**END OF EXAMINATION**

**MGT4012 Financial Decision Making**

**Answer Sheet to Multiple Choice Questions**

**Reg. Number**

 **……………………………………..**

**Insert your letter to your answer next to the question number**

|  |  |
| --- | --- |
| **Question Number** | **Answer (a, b, c or d)** |
| **1** |  |
| **2** |  |
| **3** |  |
| **4** |  |
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| **32** |  |
| **33** |  |

**Please attached this to your exam script with the treasury tag provided**