ST MARY’S UNIVERSITY

**TWICKENHAM, LONDON**

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

Level **FOUR**

Title: **Financial Decision Making**

Code: **MGT4012**

Semester: **TWO**

Date: **May 20th 2019**

Time: **9:30 – 11:30 AM**

TIME ALLOWED: **TWO** HOURS

**(This assessment is worth 40% of the final module grade)**

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.**

**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.**

**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. Statistical analysis can assist decision making 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. Management Information Systems provide?

1. Access to external sources of data but not internal sources.
2. Access to internal sources of data but not external sources.
3. Links from planning to forecasting and remedial revisions.
4. Links from data analysis, implementing action and control.

3. 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.

4. Secondary data is?

1. Primary data.
2. Originally collected as primary data.
3. Expensive to collect.
4. None of the above.

5. 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.

6. Which of the following is **NOT** a method of data presentation?

a) Z graph.

b) Bell graph.

c) Ogive graph.

d) None of the above.

7. The calculation of average in a data sequence measures?

1. The medium.
2. The mean.
3. The mode.
4. None of the above.

8. Which of the following statements best describes the capital market?

1. Institutions that have money to invest.
2. Companies that are trying to raise capital.
3. Individuals and institutions that have money to invest.
4. Stocks and shares.

9. 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.

10. The FTSE 100 index is?

1. A composite index.
2. A duel weighted index.
3. A fixed base index.
4. A chain base index.

11. Which of the following factors are investors most likely **NOT** to consider

when buying shares?

1. The past and current share prices.
2. The risks involved.
3. The company’s cash flow.
4. An estimate of future dividends.

12. Which of the following is **NOT** a share price movement 'analysis' technique?

1. Bollinger Bands.
2. Parabolic SRA.
3. Simple moving average.
4. Linear Regression.

13. A stock market in which prices are falling, or are expected to fall, is known as?

1. A bull market
2. A buffalo market
3. A bison market
4. None of the above

14. A reserve is?

1. Part of the equity of a company.
2. Part of the current borrowing of a company.
3. Debentures issued by a company.
4. Part of the fixed assets of a company.

15. The price to earnings ratio measures?

1. Market price of a share.
2. Return in terms of profit available to ordinary shareholders.
3. Number of times dividends can be paid from the profit available.
4. Number of years the stock market believes the current level of earnings per share will be sustained.

16. A company has authorized share capital of 400,000 shares of 50p each.

Only 200,000 have been issued, called up and paid for in full. The called-up share capital fully paid is?

1. £50,000
2. £100,000
3. £200,000
4. £400,000

17. If a company has issued 250,000 ordinary shares and the profit available

to ordinary shareholders is £10,000 what are the earnings per share?

1. 2p
2. 3p
3. 4p
4. 5p
5. What is the main external source of finance for established businesses?
6. Shares.
7. Bank loans.
8. Retained profit.
9. Asset-based finance.
10. Constructing a cash flow forecast is?
11. A method for ensuring control.
12. A valuable planning exercise.
13. A way of increasing capital.
14. A way of recording what the business owes.
15. A cash flow statement shows?
16. The predicted cash inflows and outflows.
17. The predicted cash position at the end of the accounting period..
18. When cash is expected to be received or paid.
19. When cash has been received or paid.
20. Positive cash flow is?
21. Cash flowing into the business.
22. Cash flowing out of the business.
23. Payments made to suppliers.
24. Money put into the business by the owner.
25. In a cash budget if more cash has gone out than has come in, it is known as?
26. A loss.
27. A cash deficit.
28. A negative cash flow.
29. A cash surplus.
30. If a business anticipates a cash deficit, it can improve the financial position by?
31. Increasing the time given to credit customers to repay amounts owed.
32. Delaying any payments it has to make.
33. Making all payments as soon as possible.
34. Withdrawing any money it has in the bank.
35. If the business trades on credit, the money owed by customers should be entered into the cash flow forecast?
36. When the sales are expected to be made.
37. The month after the sales are expected to be made.
38. When it is expected the customers will pay.
39. At the end of the accounting period.
40. You would use the capital investment appraisal technique of discounted payback period when?
41. Profitability of the project must be taken into account.
42. The time taken to recover the investment must be taken into account.
43. The full life of the project must be taken into account in present day values.
44. The capital employed must be taken into account.
45. A project has a cash outflow in year 0 of £17,700 and cash inflows for the first and subsequent years of £3,600 per annum. The payback period is:
46. 4.75 years
47. 4.88 years
48. 4.92 years
49. None of the above
50. An advantage of a discounted cash flow technique is?
51. The time value of money is taken into account.
52. The entire life of the project is taken into account.
53. The discount rate is known.
54. Future cash flows are known.
55. A facility where stock / supplies are held may be considered as a?
56. Capital cost.
57. Cost unit.
58. Cost centre.
59. None of the above.
60. An example of a variable cost is?
61. Storeman’s wages.
62. Production manager’s salary.
63. Electricity to power a cutting machine.
64. None of the above.
65. If direct materials are £4.50 per unit, direct wages are £6.50 per unit and indirect

Costs are apportioned at £4 per unit and the profit mark up is 10% of the production cost, the selling price is?

1. £4.95
2. £7.15
3. £12.10
4. £16.50
5. Contribution per unit of production is calculated by?
6. Subtracting variable costs from fixed costs.
7. Subtracting selling price from direct costs.
8. Subtracting selling price from fixed costs.
9. None of the above.
10. If 1,000 units have been sold for £50.00 per unit, variable costs are £10.00 per unit and total fixed costs are £30,000, the profit is?
11. £50,000
12. £40,000
13. £30,000
14. £10,000
15. The break-even point can be defined as?
16. When all costs have been paid.
17. Sales revenue achieves the target set.
18. Neither a profit nor loss is recorded.
19. None of the above.

**SECTION B**

**YOU MUST ANSWER THIS QUESTION.**

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

1. Kirk runs a small chain of chocolate shops, called Perfect Delights, selling high quality, artisan made chocolate in boxes. Kirk recently introduced a system of budgetary control and the following table shows the budgeted and actual revenue and expenditure for April 2019.

|  |  |  |
| --- | --- | --- |
|  | Budget (£) | Actual (£) |
| Sales Revenue:  Choice boxes and separate items  Large boxes  Median boxes  Small boxes | 15,500  34,000  46,500  83,000 | 14,700  35,650  41,320  91,750 |
| Revenue expenditure:  Cost of sales  Administration overheads  Selling and distribution overheads | 32,500  56,500  57,500 | 35,670  55,200  59,270 |

###### Required

1. Prepare a budget report for Perfect Delights calculating the profit (or loss) for the month of January 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 business has achieved the budgeted profit for the month.

**(4 marks)**

1. i) Explain the purpose of budgetary control. **(5 marks)**

ii) Explain the four key stages in budgetary control. **(4 marks)**

1. Describe the main problems that can be experienced when a system of budgetary control is introduced and the typical advantages it can bring. **(10 marks)**

**(Total 33 marks)**

**SECTION C**

**You must answer ONLY ONE question from this section.**

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

**1.)**

The Roger Jolly Sailing Club Ltd wishes to expand and is considering two capital investment projects. Project 1 is to extend the jetty to provide extra moorings and Project 2 is to refurbish the bar and restaurant at the boatyard. Both projects require the same amount of capital (£ 200,000) to be invested in year 0 (zero). However, the net cash flows each project is expected to generate over the next four years are likely to differ. The following table gives details of the estimated annual net cash flows. (Assume the annual net cash flows arise evenly throughout the year)

|  |  |  |
| --- | --- | --- |
|  | **Project A** | **Project B** |
| Year | Net cash inflow | Net cash inflow |
| 1 | £80,000 | £110,000 |
| 2 | £90,000 | £90,000 |
| 3 | £100,000 | £90,000 |
| 4 | £110,000 | £90,000 |

**Required**

The finance director has asked you to use your knowledge of capital investment appraisal techniques to analyse the financial information available for the two projects.

1. Calculate the 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 a discount factor of 8% (see table below).

**(16 marks)**

1. Use the results of your analysis to recommend a decision of which of the two projects is the more favourable. Explain your reasons.

**(5 marks)**

1. Discuss the advantages and disadvantages of the simple payback and net present value capital investment appraisal techniques.

**(8 marks)**

**(continued over page….)**

|  |  |
| --- | --- |
|  | **Discount factor** |
| **Year** | **at 8%** |
| 1 | 0.926 |
| 2 | 0.857 |
| 3 | 0.794 |
| 4 | 0.735 |

**(Total 33 marks)**

**2.)**

Shoe manufacturer Comfort-Soles Ltd produces two styles of trainers. The Sporty design is a multipurpose sports trainer and the Trek is for designed for walkers.

The budget details of these products for April 2019 are as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | **Sporty** |  | **Trek** |
| Sales volume in units |  |  | 5,000 |  | 2,500 |
|  |  |  | £ |  | £ |
| Selling price per unit |  |  | 20 |  | 30 |
| Direct materials per unit |  |  | 8 |  | 9 |
| Direct labour per unit | |  | 2 |  | 3 |
| Fixed costs for the month |  |  | 10,000 |  | 10,000 |

**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)**

1. Briefly explain the reason why the company should rank these products according to their total contribution rather than their contribution per unit.

**(2 marks)**

1. 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.

**(5 marks)**

1. 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)**

1. With reference to your calculations made in parts a), b), c) and d) discuss the limitations of marginal costing that Comfort-Soles Ltd should be aware of when using this techniques to support business decision making. **(6 marks)**

**(Total 33 marks)**

**END OF EXAM**

**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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| **33** |  |

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