



# **Financial Management**

**31 May 2016**

## **Examination Paper**

**Answer any FOUR (4) questions.**

**Clearly cross out surplus answers.**

**Failure to do this will result in only the first FOUR (4) answers being marked.**

**Time: 3 hours**

**The maximum mark for this paper is 100.**

**Any reference material brought into the examination room must be handed to the invigilator before the start of the examination.**

**A discount factors table is provided at the beginning of the question paper.**

**Candidates are allowed to bring in a scientific calculator for this module.**

**Graph paper will be provided by the centre.**

### Discount factors table

Year	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%
1	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877
2	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769
3	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675
4	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592
5	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519
6	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456
7	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400
8	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351
9	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308
10	0.676	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270
11	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261	0.237
12	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231	0.208
13	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204	0.182
14	0.577	0.505	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181	0.160
15	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160	0.140
16	0.534	0.458	0.394	0.339	0.292	0.252	0.218	0.188	0.163	0.141	0.123
17	0.513	0.436	0.371	0.317	0.270	0.231	0.198	0.170	0.146	0.125	0.108
18	0.494	0.416	0.350	0.296	0.250	0.212	0.180	0.153	0.130	0.111	0.095
19	0.475	0.396	0.331	0.277	0.232	0.194	0.164	0.138	0.116	0.098	0.083
20	0.456	0.377	0.312	0.258	0.215	0.178	0.149	0.124	0.104	0.087	0.073
21	0.439	0.359	0.294	0.242	0.199	0.164	0.135	0.112	0.093	0.077	0.064
22	0.422	0.342	0.278	0.226	0.184	0.150	0.123	0.101	0.083	0.068	0.056
23	0.406	0.326	0.262	0.211	0.170	0.138	0.112	0.091	0.074	0.060	0.049
24	0.390	0.310	0.247	0.197	0.158	0.126	0.102	0.082	0.066	0.053	0.043
25	0.375	0.295	0.233	0.184	0.146	0.116	0.092	0.074	0.059	0.047	0.038
26	0.361	0.281	0.220	0.172	0.135	0.106	0.084	0.066	0.053	0.042	0.033
27	0.347	0.268	0.207	0.161	0.125	0.098	0.076	0.060	0.047	0.037	0.029
28	0.333	0.255	0.196	0.150	0.116	0.090	0.069	0.054	0.042	0.033	0.026
29	0.321	0.243	0.185	0.141	0.107	0.082	0.063	0.048	0.037	0.029	0.022
30	0.308	0.231	0.174	0.131	0.099	0.075	0.057	0.044	0.033	0.026	0.020
31	0.296	0.220	0.164	0.123	0.092	0.069	0.052	0.039	0.030	0.023	0.017
32	0.285	0.210	0.155	0.115	0.085	0.063	0.047	0.035	0.027	0.020	0.015
33	0.274	0.200	0.146	0.107	0.079	0.058	0.043	0.032	0.024	0.018	0.013
34	0.264	0.190	0.138	0.100	0.073	0.053	0.039	0.029	0.021	0.016	0.012
35	0.253	0.181	0.130	0.094	0.068	0.049	0.036	0.026	0.019	0.014	0.010
36	0.244	0.173	0.123	0.088	0.063	0.045	0.032	0.023	0.017	0.012	0.009
37	0.234	0.164	0.116	0.082	0.058	0.041	0.029	0.021	0.015	0.011	0.008
38	0.225	0.157	0.109	0.076	0.054	0.038	0.027	0.019	0.013	0.010	0.007
39	0.217	0.149	0.103	0.071	0.050	0.035	0.024	0.017	0.012	0.009	0.006
40	0.208	0.142	0.097	0.067	0.046	0.032	0.022	0.015	0.011	0.008	0.005
41	0.200	0.135	0.092	0.062	0.043	0.029	0.020	0.014	0.010	0.007	0.005
42	0.193	0.129	0.087	0.058	0.039	0.027	0.018	0.012	0.009	0.006	0.004
43	0.185	0.123	0.082	0.055	0.037	0.025	0.017	0.011	0.008	0.005	0.004
44	0.178	0.117	0.077	0.051	0.034	0.023	0.015	0.010	0.007	0.005	0.003
45	0.171	0.111	0.073	0.048	0.031	0.021	0.014	0.009	0.006	0.004	0.003

## Answer any FOUR (4) questions

**Question 1**

ABC Ltd is considering purchasing a new machine. They operate in a stable market and therefore the predictions for future cash flows are reasonably certain. The relevant facts concerning the two choices are as follows:

	Machine A	Machine B
Capital Expenditure Required	£65,000	£56,000
Estimated life in years	5	4
Residual value	0	0
New cash flow after taxation each year	£25,000	£24,000

- a) Calculate the payback period for each machine. **6**
- b) Calculate the net present value of each machine, using a discount rate of 10%. **13**
- c) State with reasons which machine you would recommend. **6**

**Total 25 Marks**

## Question 2

The following are the summarised financial statements of Yorko Ltd for the past two years.

<b>Income statements for the year ended 30 November</b>				
	<b>2014</b>		<b>2015</b>	
	£000	£000	£000	£000
Revenue		4,940		6,850
Less Cost of sales				
Opening inventories	630		930	
Purchases	<u>3,320</u>		<u>4,770</u>	
	3,950		5,700	
Less Closing inventories	<u>930</u>	<u>3,020</u>	<u>1,150</u>	<u>4,550</u>
Gross profit		1,920		2,300
Expenses		(1,460)		(1,850)
<b>Operating profit</b>		<u>460</u>		<u>450</u>

<b>Statements of Financial Position as at 30 November</b>				
	<b>2014</b>		<b>2015</b>	
	£000	£000	£000	£000
<b>Non-current assets</b>		2,600		3,210
<b>Current assets</b>				
Inventories	930		1,150	
Trade receivables	820		1,630	
Bank	<u>20</u>	<u>1,770</u>	<u>310</u>	<u>3,090</u>
<b>Total assets</b>		<u>4,370</u>		<u>6,300</u>
<b>Equity</b>				
£1 ordinary shares	1,000		1,800	
Share premium	-		400	
Reserves	<u>2,810</u>	3,810	<u>3,260</u>	5,460
<b>Current liabilities</b>		<u>560</u>		<u>840</u>
<b>Total equity and liabilities</b>		<u>4,370</u>		<u>6,300</u>

Assume trade receivables at start of 2014 period = £820,000

Assume that all sales revenue is from credit sales.

	<b>Marks</b>
<b>a)</b> Calculate, showing workings, the following ratios for both years:	
I. Gross Profit Margin	<b>2</b>
II. Operating Profit Margin	<b>2</b>
III. Return on Capital employed (ROCE)	<b>2</b>
IV. Current ratio	<b>2</b>
V. Acid test ratio	<b>2</b>
VI. Average Inventory Turnover Period (AITP)	<b>2</b>
VII. Average Trade Receivables Settlement Period (ATRSP)	<b>2</b>
<b>b)</b> Evaluate the financial performance of Yoriko.	<b>7</b>
<b>c)</b> Explain two benefits of using ratios to assess financial performance.	<b>4</b>

**Total 25 Marks**

### **Question 3**

<b>a)</b> Explain <i>benchmarking</i> and how it can be used to improve performance.	<b>10</b>
<b>b)</b> Explain the role of management accounting in supporting <i>benchmarking</i> .	<b>3</b>
<b>c)</b> Identify THREE (3) key questions to ask in designing a performance report.	<b>3</b>
<b>d)</b> Explain how answering each of the THREE (3) questions identified in (c) impact upon the design of the report.	<b>9</b>

**Total 25 Marks**

**Question 4**

- a) Provide an overview of IAS 1 (Presentation of Financial Statements) **and** explain how it impacts upon the preparation of financial statements. **10**
- b) What is the aim of companies presenting a *statement of changes in equity* **and** what might it show? **5**
- c) What is a *statement of cash flows* as required under IAS1? **3**
- d) Explain the indirect method of calculating the cash flow. **7**

**Total 25 Marks****Question 5**

- a) Explain the concept of *corporate governance* highlighting the distinct role and responsibilities of shareholders and the board. **10**
- b) It is claimed much of the success of the UK Governance code is the 'comply' or 'explain' reporting requirement. Explain this requirement and why it is so successful. **6**
- c) Explain *business process re-engineering* (BPR) and some of its benefits. **6**
- d) Identify THREE major goals of BPR. **3**

**Total 25 Marks****End of paper**