

UNIVERSITY OF BOLTON
BOLTON BUSINESS SCHOOL
BUSINESS MANAGEMENT PATHWAY
SEMESTER 2 EXAMINATION 2008/2009
BUSINESS FINANCE
MODULE NO: BAM1001

Date: Tuesday 26th May 2009

Time: 10:00 – 12:00

INSTRUCTIONS TO CANDIDATES:

There are **THREE** questions on this paper.

Answer **ALL** questions.

Silent calculators may be used.

This is a closed book examination.

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Answer ALL questions

You are to take the role of a trainee business manager working for [Cusson's Ltd.](#) The management have commissioned you to prepare three A4 "reports" for a client company (Babcock's PLC).

Case Study

The tasks are open requests for help and guidance. Using the data provided, you should provide each company with a clear financial analysis making appropriate use of techniques and theory from the Business Finance learning materials.

Q1

Below are the profit and loss accounts and balance sheets for Babcock's PLC for the years 2006, 2007 and 2008:

Profit and Loss Account for y/e 31 st Dec	2006	2007	2008
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Sales	500,000	560,000	650,000
Cost of Sales	<u>(250,000)</u>	<u>(300,000)</u>	<u>(380,000)</u>
Gross profit	250,000	260,000	270,000
Administrative expenses	(45,000)	(86,000)	(98,000)
Distribution expenses	<u>(30,400)</u>	<u>(51,900)</u>	<u>(74,000)</u>
Operating profit	174,600	122,100	98,000
Interest	<u>(25,600)</u>	<u>(35,600)</u>	<u>(19,000)</u>
Net profit before tax	149,000	86,500	79,000
Taxation	<u>(59,600)</u>	<u>(34,600)</u>	<u>(31,600)</u>
Net profit after tax	89,400	51,900	47,400
Dividends paid	(20,000)	(15,000)	(15,000)
Retained profit brought forward	<u>10,000</u>	<u>79,400</u>	<u>116,300</u>
Retained profit	79,400	116,300	148,700
<u>Balance Sheet as at 31st December</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
<u>Fixed assets:(shown at NBV)</u>			
Premises	460,000	420,000	580,000
Fixtures and Fittings	<u>23,000</u>	<u>20,000</u>	<u>17,000</u>
	<u>483,000</u>	<u>440,000</u>	<u>597,000</u>

**Q1 continued over
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Question 1 continued

Current assets:

Stock	50,000	60,000	76,000
Debtors	31,500	68,400	150,000
Bank/cash	<u>15,000</u>	<u>23,000</u>	<u>5,000</u>
	<u>96,500</u>	<u>151,400</u>	<u>231,000</u>

Creditors due within 12 mths:

Creditors	<u>64,600</u>	<u>92,000</u>	<u>190,000</u>
Working Capital	<u>31,900</u>	<u>59,400</u>	<u>41,000</u>
Total assets less current liabilities	514,900	499,400	638,000

Creditors due after 12 mths

Long-term loan	<u>(248,000)</u>	<u>(268,000)</u>	<u>(240,000)</u>
Net assets	<u>266,900</u>	<u>231,400</u>	<u>398,000</u>

Share capital and reserves:

Ordinary Share Capital	100,000	100,000	100,000
Preference Share Capital	87,500	15,100	149,300
General Reserves	<u>79,400</u>	<u>116,300</u>	<u>148,700</u>
Shareholders' funds	<u>266,900</u>	<u>231,400</u>	<u>398,000</u>

Required:

Make an assessment of the progress of the company, in respect of profitability, liquidity, efficiency and shareholder value over the three years using whatever performance indicators you feel are appropriate. You are expected to use no more than two ratios in each category to aid your analysis.

Ratio Calculations **(16 Marks)**

Interpretation and Analysis of Business performance **(24 Marks)**

Total 40 Marks

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Q2

Patel Limited, an associated company of Babcock's PLC manufactures hand Crafted eggs.

The Budgeted production costs for 25,000 boxes of eggs for May 2009 was as follows :-

Direct materials		
10,000 kilos at £5 per kilo		£50,000
Direct labour		
1,000 hours at £7.50 per hour		£7,500

Actual results were as follows:

No. of boxes of eggs produced:		27,500
Direct material		
11,300 kilos at £4.96 per kilo		£56,048
Direct labour		
980 hours at £7.80 per hour		£7,644

Required;

(a) Calculate the following variances for May 2009:

- (i) total material variance
- (ii) direct material usage
- (iii) direct material price
- (iv) total labour variance
- (v) direct labour efficiency
- (vi) direct wage rate

(15 marks)

(b) Identify two different levels of activity that may be used when setting standards and identify the strengths and weaknesses of each

(5 Marks)

Total 20 marks

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Q3

Babcock's Plc has three production departments – Assembly, Finishing, Polishing, and a Canteen department that works for the production depts. In the ratio 30%, 30% and 40% respectively.

The following costs and relevant data, which represent normal activity levels have been budgeted for the period ended 31st December 2009.

	Assembly 000's	Finishing 000's	Polishing 000's	Canteen 000's	Totals 000's
Direct Wages	240	280	320	0	840
Direct Materials	160	120	80	0	360
Indirect Materials	80	100	40	240	460
Depreciation					680
Rates					200
Power					1,600
Personnel					200
Insurance					400

Relevant Data for the business to be used in overhead apportionments

Direct Labour Hrs	8,000	9,000	15,000	0	32,000
Machine Hours	15,000	20,000	3,000	2,000	40,000
Floor area (m)	1,000	2,000	1,000	3,000	7,000
Fixed Asset	£260,000	£240,000	£80,000	£120,000	£700,000
Employees	50	60	100	50	260

Required:

- a) Prepare an overhead apportionment sheet for Babcock's Plc for the period ended 31st December 2009. **(25 Marks)**
- b) Calculate appropriate overhead absorption rates for Assembly, Finishing and Polishing. **(9 Marks)**
- c) The following data is available for the actual results for Assembly as at 31st December 2009:-

**Question 3(c) continued over
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Question 3(c) continued

Actual Overheads	£2,380,000
Actual Labour Hours	18,000
Actual Machine Hours	32,000

Calculate the under/over recovery of overheads for the assembly Department.

(6 Marks)

Total 40 Marks

END OF QUESTIONS