

**UNIVERSITY OF BOLTON**

**RAS AL KHAIMAH CAMPUS**

**BOLTON BUSINESS SCHOOL**

**MSC SUPPLY CHAIN MANAGEMENT**

**SEMESTER TWO EXAMINATION 2008/2009**

**FINANCE FOR MANAGERS**

**MODULE NO: EBU4013DL (RAK)**

Date: Friday 29<sup>th</sup> May 2009

Time: 1.00 p.m. – 4.00p.m.  
Duration: 3 Hours

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**INSTRUCTIONS TO CANDIDATES:**

There are 5 questions on this paper.

Answer question 1 and 3 of the remaining 4 questions.

All questions carry equal marks.

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**Question 1**

Middle East Logistics Ltd is a company that runs a logistics operation supplying food products to hotels in the area. The company is considering the construction of a distribution centre.

Two alternative strategies are being considered for this development as follows :-

**Low Investment Strategy**

The costs of construction and fitting out are £220,000. The unit will then incur maintenance costs of £10,000 per year (years 4 and 5) and other fixed costs (excluding depreciation) of £10,000 per year. The variable cost per load despatched is £4.

**High Investment Strategy**

The costs of construction and fitting out are £380,000. The unit will then incur maintenance costs of £30,000 per year (years 4 and 5) and other fixed costs (excluding depreciation) of £10,000 per year. The variable cost per load despatched is £1.

The company earns revenue of £8 per product shipped through the centre. Demand for products is variable based on the number of tourists visiting the area which is dependant on a number of factors. It is know that in any 5 year cycle the quality of the year is as follows:-

Season	Demand for Products	Frequency
Good	60,000	1
Moderate	40,000	3
Poor	15,000	1

You have been asked to prepare an independent appraisal of the project.

The chief executive of the company has commented as follows :-

*“the demand for products can be calculated by taking the average demand per year over the cycle. Just use this level of demand to asses the viability of the project”*

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**Question 1 continued...**

However a local business man has made the following comments:-

*“the problem with tourism in the middle east is that demand is based on a number of factors. In a poor season there is limited tourist trade and the factors that result in poor trade can influence several consecutive seasons. It might be wise to minimise the investment in the project”*

The company appraises investments using a 5 year time horizon and a 12% cost of capital.

The relevant discount factors are as follows:-

Time (Years)	Discount Factor
0	1
1	0.8929
2	0.7972
3	0.7118
4	0.6355
5	0.5674

1a Calculate the Net Present Value (NPV) of both projects using the methodology advocated by the Chief Executive and state which of the alternative strategies is optimal. **(10 marks)**

1b Identify the best and worst case scenario and calculate the NPV of both strategies (high investment and low investment) for each scenario. Having regard to this sensitivity analysis state, with reasons, which of the two strategies is optimal. **(15 marks)**  
**(Total 25 marks)**

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## Question 2

Midex Products Ltd has two main products, Alpha and Beta. The company uses a mark up on cost of  $\frac{1}{3}$  in order to calculate its selling prices. The two products have the following total unit costs and selling prices:-

Product	Alpha	Beta
Selling Price	£16	£32
Cost Price	£12	£24

The company decided to produce and sell 15,000 units of Alpha and 30,000 units of Beta although it believes that the potential annual demand is 20,000 units of Alpha and 40,000 units of Beta.

The process will have used all the available processing time. Every unit of Alpha requires an hour of processing time and every unit of Beta requires half an hour.

Fixed overhead was £360,000 for the year and this has been charged to the products on the basis of the total processing hours used. All other costs may be assumed variable in relation to the processing hours. In the current year it is estimated that £60,000 of the fixed overhead will be absorbed by Alpha and £300,000 will be assumed by Beta.

2a Calculate the profit that company expects to earn from the sales detailed above. Comment on the product mix adopted by Midex products and calculate what would have been the optimal plan. **(15 marks)**

2b The company uses a cost plus basis for setting its selling prices. Discuss why companies might want to use this as a basis for setting prices and why it might not be appropriate in all circumstances. **(10 marks)**

**(Total 25 marks)**

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**Question 3**

An established private company is looking to expand its operations. This will involve the acquisition of new premises and equipment as well as the introduction of new products which will require increased working capital.

Propose different sources of finance that might be appropriate and assess the advantages and disadvantages to the company of each method of finance.

**(20 marks)**

Identify and explain some conditions that would need to be agreed with a lender before any long term loan funding could be agreed.

**(5 marks)**

**(Total 25 marks)**

**Question 4**

Name the three primary accounting statements and give a brief description of the information they give to readers of the accounts. Compare and contrast the content of these statements and their relative use from the perspective of a purchaser assessing the financial strength of a potential supplier.

**(25 marks)**

**Question 5**

“every year we go through the same budgeting process and by the first day of the following year the information is out of date. The exercise is a complete waste of time”

Evaluate the arguments for and against the budgeting process and outline some alternatives to the traditional budget setting process.

**(25 marks)**

**END OF QUESTIONS**