

UNIVERSITY OF BOLTON
SCHOOL OF BUSINESS AND CREATIVE
TECHNOLOGIES
BUSINESS MANAGEMENT PATHWAY
SEMESTER 2 EXAMINATIONS 2009/2010
(INCLUDING REFER/DEFERS)
BUSINESS FINANCE
MODULE NO: BAM1001

Date: Friday 4th June 2010

Time: 10:00 – 12:00

INSTRUCTIONS TO CANDIDATES:

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

Answer **ALL** questions.

Silent calculators may used

This is a closed book examination. Students may **ONLY** bring the **ORIGINAL** case study document into the examination which may be annotated with written notes. The original case study **MUST** be submitted (attached) to the answer booklet.

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Answer ALL questions

Question One

Fish and Co

The management of Fish and Co have suggested a unit sales price of £50 per box and are seeking to make a profit of £160,000 in the first year. Capacity is 12,000 units per annum.

Required:

(a) Calculate the following:

(i) The contribution per unit sold

(ii) The break even sales (units) for one month

(iii) The number of units that would need to be sold, per month, in order to achieve the target annual profit.

(15 marks)

(b) Prepare a chart to show the break-even point and other important values to the managers.

(10 Marks)

(c) Provide brief notes explaining the advantages and drawbacks of basic break-even analysis. Your comments should relate to the needs of Kelly and Co.

(5 Marks)

TOTAL 30 MARKS

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Question 2

Carter and Brown

The directors of Carter have also now provided you with accounting information for a competitor called Brown and a summary of the industry averages for a set of standard accounting ratios.

	Carter 2009 £'000	Brown 2009 £'000
Revenue	125	250
Purchases	60	120
Profit before tax	25	40
Profit after tax	20	32
Premises at cost	100	120
Inventories	25	60
Trade receivables	20	30
Cash	15	0
	<hr/>	<hr/>
	60	90
Trade payables	40	35
Bank overdraft	0	25
	<hr/>	<hr/>
	40	60
£1 Ordinary Shares	100	100
Reserves	20	50
	<hr/>	<hr/>
	120	150

**Question 2 continued over
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Question 2 continued

Industry Averages:

Return on capital	24%
Profit margin	20%
Stock turnover	53 days
Current ratio	2:1
Acid test	0.9:1
Debtor collection	60 days
Creditor payment	90 days

Required:

(a) Present a set of financial ratios for Carter and Brown for 2009

(15 Marks)

(b) Make an assessment of the performance of Carter and Brown using your calculations and the industry averages.

(10 Marks)

(c) Discuss the advantages and weaknesses of the use of basic financial ratios.

(5 Marks)

TOTAL 30 MARKS

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Question Three

Concorde

The managers of Concorde would like you to extend the budget for an additional month. In addition to the original information Cooper will also need to pay an insurance premium of £600 in August 2010.

Required:

a) Prepare the following:

- (i) A sales budget showing the units sold and the total value of sales in each of the SEVEN months.
- (ii) A purchases budget
- (iii) Concorde's cash budget for August to February 2011.

(20 Marks)

b) Analyse the key issues highlighted in Concorde's cash budget for the seven months and provide advice that might help the company to manage its cash flow.

(5 Marks)

c) Discuss the key advantages and possible limitations of cash budgeting activities and explain your treatment of the depreciation of the motor vehicle.

(5 Marks)

TOTAL 30 MARKS

Question Four

The final 10 marks will be allocated for professional skills; including the use of appropriate terminology, the design of calculations and the presentation of data.

TOTAL 10 MARKS

END OF QUESTIONS

**Case study follows
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Student I.D. number

Case Study

You work as a trainee business manager and have been asked to provide feedback on three cases. The cases are open requests for help and guidance. You will be required to provide each company with a clear financial analysis making appropriate use of techniques and theory from the Business Finance learning materials.

Note that some additional data/information will be supplied on the day of the assessment.

The examination will be closed-book. You WILL be able to bring the original copy of this case study with annotated handwritten notes. The case study MUST then be submitted in the answer booklet. All work submitted for marking MUST be handwritten in the booklet.

You will need a calculator.

Each question will be worth 30 marks. The final 10 marks will be allocated for professional skills; including the use of appropriate terminology, the design of calculations and the presentation of data.

It is critically important that you attend the examination and submit some work.

Case 1 – Kelly and Co.

Kelly and Co, manufacture crates. They have plans to open a new production plant which will start making a single product in July 2010.

They have identified the following values:

Direct materials per unit £6
Direct labour per unit £4
Variable overhead per unit £11
Annual fixed costs £170,000
Forecast sales 500 units per month

The management are seeking guidance in how they might arrive at a suitable sales price for their new product.

**Case study continued over
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Case study continued

Case 2 – Carter and Brown

You have been given the following accounting information for Carter. The information is for the accounting year ended 31 December 2009. You will be supplied with comparative data for Brown and some industry data at a later date.

	Carter 2009 £'000
Revenue	125
Purchases	60
Profit before tax	25
Profit after tax	20
Premises at cost	100
Inventories	25
Trade receivables	20
Cash	15
	<hr/> 60
Trade payables	40
Bank overdraft	0
	<hr/> 40
£1 Ordinary Shares	100
Reserves	20
	<hr/> 120

**Case study continued over
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Case study continued

Case 3 - Concorde

Concorde wish to develop a cash budget for the six months from August to January 2011.

They have supplied the following initial data:

Concorde will introduce an initial cash balance of £40,000 in August, but will immediately pay a deposit/rent for the hire of premises (£10,000). Rent of £1000 per month will be due from September, but after April they will receive a payment holiday in December.

Sales in August will be 160 units but will then rise by 10 units each month. The initial sales price will be £60 but Concorde plan to increase the price by £5 in December.

The customers will pay 20% in the month of purchase and will then have two months credit.

Concorde will make an immediate cash purchase of 160 units, but will then purchase further units one month in advance. Advanced purchases will have one month credit. Concorde will pay £35 per unit.

A delivery van will be purchased in August at a cost of £16,000. Depreciation will be charged on the delivery van at a rate of 20% per annum.

Staff salaries will be £4,000 per month paid one month in arrears. However, there will be a pay rise of 10% in December 2010.

END OF CASE STUDY

END OF PAPER