

UNIVERSITY OF BOLTON

**SCHOOL OF BUSINESS AND CREATIVE
TECHNOLOGIES**

BUSINESS & MANAGEMENT PATHWAY

SEMESTER 1 EXAMINATIONS 2010/2011

BUSINESS FINANCE

MODULE NO: BAM1001/BAM1103

Date: 21st January 2011

Time: 1000am – 1200pm

INSTRUCTIONS TO CANDIDATES:

There are four sections 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.

Candidates must put their student number on all additional papers.

University of Bolton
School of Business and Creative Technologies
Business Management
Semester 1 Examination 2010/11
Business Finance
Module No. BAM1001/BAM1103

Section One: (30 marks)

Answer all questions using the Answer Sheet provided

Questions 1-10 are worth 1 mark each

Questions 11-20 are worth 2 marks each.

- 1) Which of the following is not an asset?
 - (a) Buildings
 - (b) Prepaid expense
 - (c) Office Equipment
 - (d) Accrued expense

- 2) Three of the following would usually be found under the heading **Current Assets** in a company balance sheet- but which one **is not** a current asset?
 - (a) Reserves
 - (b) Trade Receivables
 - (c) Cash
 - (d) Inventories

- 3) Three of the following would usually be found under the heading **Current Liabilities** in a company balance sheet-but which one **is not** a current liability?
 - (a) Bank Overdraft
 - (b) Share Capital
 - (c) Corporation Tax
 - (d) Trade Payables

University of Bolton
School of Business and Creative Technologies
Business Management
Semester 1 Examination 2010/11
Business Finance
Module No. BAM1001/BAM1103

- 4) In a limited liability company, shareholders limit their losses to which one of the following?
- (a) What they had paid, or agreed to pay, for their shares
 - (b) Their share of the company's balance sheet
 - (c) The stock market value of their shares
 - (d) Their share of the total liabilities of the company
- 5) In respect of a sole trader, which of the following is correct?
- (a) Profit does not alter capital
 - (b) Profit reduces capital
 - (c) Capital can only come from profit
 - (d) Profit increases capital
- 6) Which of the following best describes the **business entity** concept/convention?
- (a) All businesses are limited companies
 - (b) For both limited companies and sole traders there is a separate legal distinction between the business and its owner(s)
 - (c) A business entity is a sole trader only
 - (d) A business is always treated as separate entity from its owner(s) for accounting purposes

University of Bolton
School of Business and Creative Technologies
Business Management
Semester 1 Examination 2010/11
Business Finance
Module No. BAM1001/BAM1103

- 7) Given figures showing: Sales £8200; Opening stock £1300; Closing stock £900; Purchases £6400; the Cost of Sales figure is:
- (a) £6600
 - (b) £6200
 - (c) £7000
 - (d) £6800
- 8) Fixed costs are costs which:
- (a) Vary with the level of activity or output
 - (b) Stay constant until the business ceases to trade
 - (c) Usually stay constant regardless of the level of activity or output
 - (d) Vary with both time and level of activity or output
- 9) Which one of the following describes the depreciation method where each year's depreciation expense over the life of the asset is the same?
- (a) Straight Line Method
 - (b) Residual Value Method
 - (c) Reducing Balance Method
 - (d) Depreciable Amount Method

University of Bolton
 School of Business and Creative Technologies
 Business Management
 Semester 1 Examination 2010/11
 Business Finance
 Module No. BAM1001/BAM1103

10) Which of the following scenarios is **incorrect**?

	Assets £	Liabilities £	Capital £
(a)	7850	1250	6600
(b)	8200	2800	5400
(c)	9550	1150	8200
(d)	6540	1120	5420

11) The following amounts have been extracted from the accounts of Velcam Ltd for the year ended 31 December 2008:

All figures in £000

Sales 860
 Purchases 625
 Stock at 31 December 2008, 76
 Trade Receivables 120
 Prepaid Expenses 8
 Cash in hand 12
 Bank Overdraft 16
 Trade Payables 80
 Accrued expenses 6

What is the acid test ratio of Velcam Ltd at 31 December 2008, to 2 decimal places?

- (a) 1.50:1
- (b) 1.25:1
- (c) 1.28:1
- (d) 1.37:1

University of Bolton
School of Business and Creative Technologies
Business Management
Semester 1 Examination 2010/11
Business Finance
Module No. BAM1001/BAM1103

- 12) A restaurant chain has fixed monthly costs of £6,000. During a typical month, 1000 customers visit the restaurants spending an average of £36 each. The company's variable costs average £16 per customer. What is the break-even number of customers per month?
- (a) 750
 - (b) 1000
 - (c) 300
 - (d) 500
- 13) Using the restaurant chain in question 12, what is the company's margin of safety for a typical month?
- (a) 700
 - (b) 250
 - (c) 500
 - (d) 100
- 14) Using the restaurant chain example in question 12, how much profit or loss is made from 1,000 customers?
- (a) £10,000
 - (b) £12,000
 - (c) £14,000
 - (d) £20,000

University of Bolton
School of Business and Creative Technologies
Business Management
Semester 1 Examination 2010/11
Business Finance
Module No. BAM1001/BAM1103

- 15) Jonas started a business with £95,000 capital invested. During the year he withdrew £15,000 in cash and £5000 in goods for his own use. At the end of the first year he had a capital balance of £85,000. What was the profit/loss for the year?
- (a) Loss £30,000
 - (b) Loss £25,000
 - (c) Loss £10,000
 - (d) Profit £10,000
- 16) Beachcomber produces beach-balls and sells 15,000 per year. Variable costs per beach-ball are £0.60 and fixed costs amount to £3,000. What is the total cost per beach-ball?
- (a) £0.75
 - (b) £0.60
 - (c) £0.80
 - (d) £0.20
- 17) JCB Ltd purchases a new machine costing £40,000. If the reducing balance method of depreciation is used at an annual rate of 15%, what is the annual depreciation charge in year 2?
- (a) £6,000
 - (b) £5,100
 - (c) £3,400
 - (d) £4,335

University of Bolton
School of Business and Creative Technologies
Business Management
Semester 1 Examination 2010/11
Business Finance
Module No. BAM1001/BAM1103

18) A firm bought a machine for £3200. It is to be depreciated at a rate of 20% per annum using the straight line method. What would be the net book value of the machine after 2 years?

(a) £1920

(b) £2400

(c) £1800

(d) £1280

19) The relevant account balances of Samuel Ltd at 30th June 2008 are presented below:

	£
Cost of Sales	6,960
Directors' Salaries	1,350
Depreciation	725
Rent Expense	550
Corporation Tax	2,100
Loan Interest Payable	3,900
Office Expenses	900
Wages and Salaries	1,800
Sales	33,300

What is Samuel Ltd's operating profit for the year ended 30th June 2008?

(a) £21,015

(b) £17,115

(c) £15,015

(d) £8,11

University of Bolton
 School of Business and Creative Technologies
 Business Management
 Semester 1 Examination 2010/11
 Business Finance
 Module No. BAM1001/BAM1103

- 20) JLX company maintains a provision for doubtful debts equal to 5% of outstanding trade receivables. At 31 December 2008, its provision for doubtful debts was £29,300 with trade receivables of £586,000. However, a bad debt of £30,000 has still to be written off before the financial statements for the year ended 31 December 2008 are prepared. The effect of this adjustment will result in:
- (a) A reduction in the provision for doubtful debts of £1500
 - (b) An increase in the provision for doubtful debts of £1500
 - (c) A reduction in the provision for doubtful debts of £3000
 - (d) No change in the provision for doubtful debts

Section Two: (30 marks)

Twine Limited

Twine Limited produces spare parts for industrial machines. Extracts from the financial statements for 2008 and 2009 are shown below.

Income statements for the year ended 31 July				2008	2009
				£'000	£'000
Revenue				2805	3300
less Cost of sales				1300	2000
Gross profit				1505	1300
less Operating expenses				870	780
less Depreciation				220	210
Operating profit				415	310
less Interest				0	24
Profit before taxation				415	286
less Taxation				230	120
Profit for the year				185	166

University of Bolton
 School of Business and Creative Technologies
 Business Management
 Semester 1 Examination 2010/11
 Business Finance
 Module No. BAM1001/BAM1103

Balance sheets as at 31 July				2008	2009
				£'000	£'000
Non-current assets					
Property, and equipment				2120	1900
Current assets					
Inventories				420	575
Trade receivables				290	425
Cash				12	15
				722	1015
Total assets				2842	2915
Equity					
Ordinary share capital of £1 (fully paid)				1650	1650
Retained earnings				256	200
				1906	1850
Non-current liabilities					
Borrowings- bank loan				20	153
Current liabilities					
Trade payables				210	300
Other payables and accruals				52	47
Taxation				115	95
Short term borrowings (bank overdraft)				539	470
				916	912
Total equity and liabilities				2842	2915
				2008	2009
				£'000	£'000
Dividends paid on ordinary shares				210	190

Required:

- Present a set of financial ratios for Twine Limited for the financial years 2008 and 2009
(18 marks)
- Make an assessment of the performance of Twine Limited using your calculations.
(7 marks)
- Discuss the advantages and weaknesses of the use of basic financial ratios.
(5 marks)

Total 30 marks

University of Bolton
 School of Business and Creative Technologies
 Business Management
 Semester 1 Examination 2010/11
 Business Finance
 Module No. BAM1001/BAM1103

Section Three: (30 marks)

Newton Heather Ltd

The budgeted income statements for the period November 2010 to June 2011 are as follows:

	Nov £'000	Dec £'000	Jan £'000	Feb £'000	Mar £'000	Apr £'000	May £'000	Jun £'000
Sales revenue	85	87	88	88	90	93	80	82
Cost of goods sold	42	43	45	48	48	49	46	42
Salaries and wages	24	24	24	24	28	28	28	28
Electricity	4	4	4	4	8	8	8	14
Depreciation	5	5	5	5	6	6	6	6
Other overheads	4	4	4	4	6	6	6	6
Total expenses	79	80	82	85	96	97	94	96
Operating Profit	6	7	6	3	-6	-4	-14	-14

The company's plans are:

1. Customers are allowed two months credit.
2. The business plans to maintain a constant level of inventory, but will increase this level by £2,000 in both January and February.
3. Inventories purchases for November and December 2010 are paid for in the month of purchase. From January 2011 onwards, all inventories purchases will be made on two month's credit.
4. Salaries, wages and 'other overheads' will continue to be paid one month in arrears.
5. Electricity is paid quarterly in arrears in February and May.
6. At the end of June, the business intends to pay off part of some borrowings. This payment is to be such that it will leave the business with a cash balance of £25,000 at the end of June 2011.

Additional information provided in the examination:

7. The company plan to purchase a new machine in March. It will cost £15,000 and payment will be made in June
8. The opening cash balance in January £40,000.

SECTION THREE CONTINUED ON THE NEXT PAGE

University of Bolton
School of Business and Creative Technologies
Business Management
Semester 1 Examination 2010/11
Business Finance
Module No. BAM1001/BAM1103

SECTION THREE CONTINUED

Required:

- a) Prepare the cash budget for the six months ending 30 June 2011.
(20 marks)
- b) Analyse the key issues highlighted in Newton Heather's cash budget for the six 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.
(5 marks)

(Total 30 marks)

Section Four: (10 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.

(Total 10 marks)

END OF QUESTIONS