

**UNIVERSITY OF BOLTON**

**BUSINESS AND CREATIVE TECHNOLOGIES**

**BUSINESS & MANAGEMENT PATHWAY**

**SEMESTER 2 EXAMINATIONS 2010/2011**

**BUSINESS FINANCE**

**MODULE NO: BAM1001/BAM1103**

Date: 3<sup>rd</sup> June 2011

Time: 10:00am – 12:00pm

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**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.

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**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 one of the following assets could be described as a current asset?
  - (a) Goods for resale
  - (b) Machinery to manufacture goods for resale
  - (c) Buildings to house the machinery
  - (d) Land on which the buildings stand
  
- 2) Three of the following would **not** usually be found under the heading Non-current assets in a company balance sheet- but which one **is** a non-current asset?
  - (a) Capital
  - (b) Working capital
  - (c) Property
  - (d) Annual depreciation

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- 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) Depreciation
  - (c) Accrued wages
  - (d) Trade Payables
- 4) Fixed costs are costs which:
- (a) Stay constant until the business ceases to trade
  - (b) Vary with both time and the level of output or activity
  - (c) Vary with the level of output or activity
  - (d) Usually stay constant regardless of the level of activity or output
- 5) For the final accounts that we have calculated for sole traders which of the following statements is true?
- (a) Depreciation is an important expense and should be recognised as a cash payment
  - (b) Depreciation is only seen on the face of the income statement
  - (c) Depreciation is not a cash payment but is an expense
  - (d) Depreciation is associated with current assets only

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- 6) Which of the following best describes the historic cost concept/convention?
- (a) Is the current replacement cost of a non-current asset
  - (b) It is an accounting requirement for limited companies only
  - (c) It is not as accurate as the net book value
  - (d) That value of assets should be based on the acquisition cost or purchase price
- 7) Regarding the availability of dividends for shareholders, which of the following statements is true?
- (a) Revenue reserves and capital reserves are available for dividends
  - (b) Revenue reserves only are available for dividends
  - (c) Revenue reserves and capital reserves are not available for dividends
  - (d) Revenue reserves are not available for dividends
- 8) If a business pays for only 11 months rent during a financial year, what accounting term is given to the outstanding one month's rent?
- (a) Repayment
  - (b) Prepayment
  - (c) Underpayment
  - (d) Accrual

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

	Assets £	Capital £	Liabilities £
(a)	8950	6500	2450
(b)	6980	5200	1960
(c)	8680	7290	1390
(d)	8660	1840	6820

10) A Profit is earned if:

- (a) Assets exceed Expenditure
- (b) Cash Receipts exceed Cash Payments
- (c) Income exceeds Expenditure.
- (d) Income exceeds Liabilities

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- 11) A business opened its financial period with 100 bicycles, then bought 600 bicycles during the period. It sold 500 bicycles during the financial period, but customers paid for only 400. Each bicycle was bought for £100 and sold for £150. What is the value of sales to be included in the firm's income statement for the period?
- (a) £75,000
  - (b) £52,500
  - (c) £105,000
  - (d) £60,000
- 12) Using the information in question 11, what gross profit would be shown for the financial period?
- (a) £75,000
  - (b) £50,000
  - (c) £25,000
  - (d) £20,000
- 13) Using the information in question 11, what is the value of closing stock to be shown on the balance sheet?
- (a) £45,000
  - (b) £30,000
  - (c) £15,000
  - (d) £20,000

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- 14) A business has a trade receivables' balance of £400,000 at the end of its financial period. One customer owing £40,000 is bankrupt, and there is no possibility of getting the debt paid. A further 2% of debtors are considered doubtful. What receivables' total will be included as a current asset in the balance sheet at the end of the financial year?
- (a) £400,000
  - (b) £352,800
  - (c) £352,000
  - (d) £36,200
- 15) Jones Ltd purchases a new machine costing £48,000. If the straight line method of depreciation is used assuming a four year life and a scrap value of £18,000, what is the annual depreciation charge in year 4?
- (a) £8,000
  - (b) £12,000
  - (c) £5,700
  - (d) £7,500
- 16) Using the information in question 15, what is the machine's net book value at the end of year two?
- (a) £33,000
  - (b) £18,000
  - (c) £7,500
  - (d) £40,500

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17) A top dress designer sells silk dresses for £500 each. Each dress uses 18 labour hours at £10 an hour; materials costing £40 and other variable costs of £5. Fixed costs total £55,000 per quarter. How many dresses does the designer need to sell each quarter to break even?

- (a) 245
- (b) 275
- (c) 110
- (d) 305

18) A firm has the following values in the financial statements.

	£m
Inventories	598
Trade receivables	175
Trade payables	406
Credit purchases	800
Cash at bank	102
Revenue	1458
Cost of sales	1018

What is the acid test ratio

- (a) 2.16:1
- (b) 0.68:1
- (c) 1.30:1
- (d) 0.060:1

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19) Using the information in question 18, based on 365 days in the year what is the trade payables payment period?

- (a) 185.23 days
- (b) 190.33:1
- (c) 190.33 days
- (d) 158.23 days

20) JFK company maintains a provision for doubtful debts equal to 7% of outstanding trade receivables. At 31 December 2010, its provision for doubtful debts was £45,200 with trade receivables of £635,000. However, a bad debt of £22,000 has still to be written off before the financial statements for the year ended 31 December 2010 are prepared. The effect of this adjustment will result in:

- (a) A reduction in the provision for doubtful debts of £2290
- (b) An increase in the provision for doubtful debts of £2290
- (c) No change in the provision for doubtful debts
- (d) The bad debt will need to be included in JFK's non-current liabilities

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**Section Two: ( 30 marks)**

**Case: Ali Designs Company**

Ali Designs is planning to manufacture a self-assembly garden bench that they hope to sell to garden and leisure centres in the North West of England. Market research has indicated a demand for this product and they forecast sales initially to be 2000 benches per month. They have identified the following plans:

- Direct labour: £9.50 per hour
- 4 labour hours required per bench
- Direct materials: £32 per bench
- Other Variable costs : £6 per bench
- Monthly fixed costs: £25,000

They are conducting further market research before identifying a selling price. In addition, they are considering an option of renting a machine to save some of the labour costs identified above.

**Additional information:**

The management of Ali Designs have suggested a selling price of £96 per bench and are seeking to earn a target profit of £20,000 per month.

**Required:**

a) Calculate/provide

- The contribution per bench sold
- The number of benches that need to be sold monthly to break even
- The margin of safety and monthly profit at the forecasted monthly sales level
- The number of benches that need to be sold each month to earn the target monthly profit
- Explain clearly the meaning of “margin of safety” to Ali Designs and discuss whether the monthly target is achievable

**17 Marks**

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b) If Ali Designs takes up the option to rent a labour saving machine, monthly fixed costs would increase by £4,500 but the direct labour hour required per bench would reduce by 1 hour.

- What would be the implications on the break-even point and monthly profits if this opportunity were taken up by the management of the company?
- What would be your advice to the management of the company about this option?

**8 Marks**

c) Advise the management of Ali Designs of the advantages and disadvantages of using break-even analysis for planning purposes

**5 Marks**

**(Total 30 Marks)**

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**Section Three: ( 30 marks)**

**Bradley Limited**

Bradley Limited produces spare parts for the motor industry. Extracts from the financial statements for 2010 and 2011 are shown below together with benchmark data for the sector.

**Benchmark Data**

Operating profit margin	(8%)
Return on capital employed	(9%)
Current ratio	(2:1)
Gearing ratio	(12%)
Trade receivables settlement period	(30 days)
Acid test ratio	(0.8:1)

Income statement for the year ended 28 February 2011

	2010	2011
	£'000	£'000
Revenue	12125	16589
Operating Profit	1235	1568
Interest charges	32	128
Profit before taxation	<u>1203</u>	<u>1440</u>
Taxation	650	680
Profit for the year	<u><u>553</u></u>	<u><u>760</u></u>

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Statement of Financial Position as at 28 February 2011

	2010 £'000	2011 £'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Premises at cost	4650	8580
Plant and equipment (net)	1689	4896
	<u>6339</u>	<u>13476</u>
<b>Current assets</b>		
Inventories	3120	4350
Trade receivables	1800	5600
	<u>4920</u>	<u>9950</u>
Total assets	<u>11259</u>	<u>23426</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	3000	3000
Reserves	5281	9600
	<u>8281</u>	<u>12600</u>
<b>Non-current liabilities</b>		
Borrowings - loans	1220	4675
<b>Current liabilities</b>		
Trade payables	936	2645
Taxation	320	420
Short term borrowings (all bank overdraft)	502	3086
	<u>1758</u>	<u>6151</u>
<b>Total equity and liabilities</b>	<u>11259</u>	<u>23426</u>

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**Required:**

- a) Calculate, for each year (using year end figures) appropriate ratios

**18 Marks**

- b) Make an assessment of the performance of Bradley Limited using your calculations and the benchmark data.

**7 Marks**

- c) Explain the limitations of the use of accounting ratios.

**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**

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## MULTIPLE CHOICE ANSWER SHEET

**Student Number:** \_\_\_\_\_

**IMPORTANT:** Before attempting any question read carefully the instructions on the question paper.

***Select ONE answer for each question by encircling the appropriate letter for each question on this answer sheet. Insert the answer sheet into your answer booklet***

1. a b c d

2. a b c d

3. a b c d

4. a b c d

5. a b c d

6. a b c d

7. a b c d

8. a b c d

9. a b c d

10. a b c d

11. a b c d

12. a b c d

13. a b c d

14. a b c d

15. a b c d

16. a b c d

17. a b c d

18. a b c d

19. a b c d

20. a b c d