

UNIVERSITY OF BOLTON
FACULTY OF WELL-BEING AND SOCIAL SCIENCES
BUSINESS MANAGEMENT PATHWAY
SEMESTER 1 EXAMINATIONS 2011/2012
BUSINESS FINANCE
MODULE NO: BAM1001

Date: 20th January 2012

Time: 10:00am to 12noon

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
Faculty of Wellbeing and Social Sciences
Business Management Pathway
Semester 1 Exams 2011-12
Business Finance
Module Number BAM1001

Section One: (30 marks)

Answer all questions by recording the question number and letter in your answer book.

Questions 1-10 are worth 1 mark each

Questions 11-20 are worth 2 marks each.

- 1) Which of the following is **not** a current asset?
 - (a) Cash at bank
 - (b) Trade receivables
 - (c) Trade payables
 - (d) Inventories

- 2) Three of the following would usually be found under the heading **Non-current Assets** in a company balance sheet. But which one is not a non-current asset?
 - (a) Property
 - (b) Fixtures and fittings
 - (c) Motor vans
 - (d) Loan repayable in 10 months

- 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) Revenue Reserves
 - (c) Corporation Tax
 - (d) Trade Payables

PLEASE TURN THE PAGE...

University of Bolton
Faculty of Wellbeing and Social Sciences
Business Management Pathway
Semester 1 Exams 2011-12
Business Finance
Module Number BAM1001

- 4) In a limited liability company, preference shareholders would expect which one of the following?
- (a) That they will receive a dividend in every year
 - (b) That they will receive a dividend in preference to the ordinary shareholders
 - (c) That they have a preference to buy additional shares when shares are sold
 - (d) To have unlimited liability
- 5) In respect of a sole trader, which of the following is correct?
- (a) Drawings do not alter capital
 - (b) Drawings reduce capital
 - (c) Capital can only come from profit
 - (d) Drawings increase capital
- 6) Which of the following best describes the **historic cost** concept/convention?
- (a) The value of assets should be based on the current cost
 - (b) Assets should be valued at replacement cost
 - (c) The value of assets should be based on the acquisition cost
 - (d) The historic cost convention is only applied to limited companies

PLEASE TURN THE PAGE...

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Faculty of Wellbeing and Social Sciences
Business Management Pathway
Semester 1 Exams 2011-12
Business Finance
Module Number BAM1001

- 7) Given figures showing: Sales £12200; Opening stock £2300; Closing stock £1900; Purchases £7400; the Cost of Sales figure is:
- (a) £4400
 - (b) £9700
 - (c) £7800
 - (d) £11600
- 8) Semi-fixed costs are costs which:
- (a) Exclude fixed costs from the calculation
 - (b) Stay constant until the business ceases to trade
 - (c) Usually stay constant regardless of the level of activity or output
 - (d) Contain a element of both fixed and variable costs
- 9) Which one of the following describes the depreciation method where each year's depreciation expense over the life of the asset is lower in each year?
- (a) Straight Line Method
 - (b) Residual Value Method
 - (c) Reducing Balance Method
 - (d) Depreciable Amount Method

PLEASE TURN THE PAGE...

University of Bolton
 Faculty of Wellbeing and Social Sciences
 Business Management Pathway
 Semester 1 Exams 2011-12
 Business Finance
 Module Number BAM1001

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

	Assets £	Liabilities £	Capital £
(a)	7850	1250	6660
(b)	8200	2800	5400
(c)	9550	1150	8600
(d)	6540	1120	5430

11) The following amounts have been extracted from the accounts of Jones Ltd for the year ended 31 December 2011:

All figures in £000

Sales	1860
Purchases	1625
Stock at 31 December 2011	760
Trade Receivables	120
Prepaid Expenses	80
Cash in hand	120
Bank Overdraft	165
Trade Payables	810
Accrued expenses	68

What is the working capital ratio of Jones Ltd at 31 December 2011, to 2 decimal places?

- (a) 1.03:1
- (b) 1.40:1
- (c) 1.04:1
- (d) 1.17:1

University of Bolton
Faculty of Wellbeing and Social Sciences
Business Management Pathway
Semester 1 Exams 2011-12
Business Finance
Module Number BAM1001

- 12) A restaurant chain has fixed monthly costs of £18,700. During a typical month, 1000 customers visit the restaurants spending an average of £41 each. The company's variable costs average £19 per customer. What is the break-even number of customers per month?
- (a) 312
 - (b) 1000
 - (c) 850
 - (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) 150
- 14) Using the restaurant chain example in question 12, how much profit or loss is made from 1,000 customers?
- (a) £3,000
 - (b) £32,300
 - (c) £3,300
 - (d) £41,000

PLEASE TURN THE PAGE...

University of Bolton
Faculty of Wellbeing and Social Sciences
Business Management Pathway
Semester 1 Exams 2011-12
Business Finance
Module Number BAM1001

- 15) Alison started a business with £195,000 capital invested. During the year she withdrew £45,000 in cash and £25,000 in goods for her own use. At the end of the first year she had a capital balance of £85,000. What was the profit/loss for the year?
- (a) Loss £30,000
 - (b) Loss £55,000
 - (c) Loss £40,000
 - (d) Profit £40,000
- 16) Owen makes wedding cakes and sells 200 each year. Variable costs per cake are £50 and fixed costs amount to £10,000. What is the total cost per cake?
- (a) £250
 - (b) £100
 - (c) £200
 - (d) £210
- 17) BCJ 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 net book value at the end of year 3?
- (a) £40
 - (b) £5,100
 - (c) £24,565
 - (d) £18,000

PLEASE TURN THE PAGE...

University of Bolton
Faculty of Wellbeing and Social Sciences
Business Management Pathway
Semester 1 Exams 2011-12
Business Finance
Module Number BAM1001

18) A firm bought a machine for £16200. 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) £9,720
- (b) £8,100
- (c) £7,920
- (d) £1,620

19) The relevant account balances of Jackson Ltd at 30th June 2011 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 Jackson Ltd's operating profit for the year ended 30th June 2011?

- (a) £21,015
- (b) £17,115
- (c) £15,015
- (d) £8,111

PLEASE TURN THE PAGE...

University of Bolton
Faculty of Wellbeing and Social Sciences
Business Management Pathway
Semester 1 Exams 2011-12
Business Finance
Module Number BAM1001

- 20) JLS company maintains a provision for doubtful debts equal to 7% of outstanding trade receivables. At 31 December 2011, its provision for doubtful debts was £35,300 with trade receivables of £626,000. However, a bad debt of £60,000 has still to be written off before the financial statements for the year ended 31 December 2011 are prepared. The effect of this adjustment will result in:
- (a) A reduction in the provision for doubtful debts of £4320
 - (b) An increase in the provision for doubtful debts of £4320
 - (c) A reduction in the provision for doubtful debts of £4382
 - (d) No change in the provision for doubtful debts

END OF SECTION ONE

PLEASE TURN THE PAGE...

University of Bolton
 Faculty of Wellbeing and Social Sciences
 Business Management Pathway
 Semester 1 Exams 2011-12
 Business Finance
 Module Number BAM1001

Section Two: (30 marks)

Case: Robinson Limited

Robinson Limited produce and supply spare parts for industrial appliances. Extracts from the financial statements for 2010 and 2011 are shown below together with industry benchmark data for key ratios for 2011.

Industry benchmark data for 2011

Operating profit margin	5.00%
Return on shareholders funds	3.00%
Acid test	1.50:1
Inventories turnover period	60 days
Trade receivables settlement period	40 days
Trade payables settlement period	35 days

Income statement for the year ended 31 December

	2010	2011
	£'000	£'000
Revenue	3865	4510
less cost of sales	2950	3500
Gross profit	915	1010
Less expenses	600	800
Operating Profit	315	210
Interest charges	70	100
Profit before taxation	245	110
Taxation	140	100
Profit for the year	105	10

PLEASE TURN THE PAGE...

University of Bolton
 Faculty of Wellbeing and Social Sciences
 Business Management Pathway
 Semester 1 Exams 2011-12
 Business Finance
 Module Number BAM1001

Statement of Financial Position as at 31 December

	2010 £'000	2011 £'000
ASSETS		
Non-current assets	1600	1900
Current assets		
Inventories	500	600
Trade receivables	450	600
Cash	100	120
	<u>1050</u>	<u>1320</u>
Current liabilities		
Trade payables	280	500
Taxation	220	200
	<u>500</u>	<u>700</u>
Working capital	<u>550</u>	<u>620</u>
Total assets less current liabilities	2150	2520
Non-current liabilities		
Borrowings - loans	600	870
Net Assets	<u>1550</u>	<u>1650</u>
	<u><u>1550</u></u>	<u><u>1650</u></u>
EQUITY AND LIABILITIES		
Equity		
Share capital	500	500
Reserves	1050	1150
Total equity and liabilities	<u>1550</u>	<u>1650</u>
	<u><u>1550</u></u>	<u><u>1650</u></u>

Required:

- a) Present a set of financial ratios for Robinson Limited for the financial years 2010 and 2011. Your calculations should focus on the ratios listed for the industry.
18 Marks
- b) Make an assessment of the performance of Robinson Limited using your calculations.
7 Marks
- c) Discuss the advantages and weaknesses of the use of basic financial ratios.
5 Marks

Total 30 Marks

PLEASE TURN THE PAGE...

University of Bolton
 Faculty of Wellbeing and Social Sciences
 Business Management Pathway
 Semester 1 Exams 2011-12
 Business Finance
 Module Number BAM1001

Section Three: (30 marks)

Case: Joyce

Joyce is starting a business, selling cycling spares and bicycle service equipment using £45,000 capital.

Start up costs which will be paid in full on 1 April 2012:

	£
Inventory	50,000
Computer	3,000
Till	1,000
Fixtures and fittings	3,500

In the first six months of trading she plans the following sales and purchases of inventory.

	Sales £	Purchases £
April	1,500	2,600
May	4,800	3,980
June	5,500	6,830
July	6,640	8,500
August	8,620	8,520
September	10,200	6,250

Other expenses are expected to be:

	Total £	Details
Rent	6,000	Payable in quarterly instalments starting in April
Insurance	1,200	Payable in April
Phone	1,000	Quarterly first payment in June
Water rates	750	Payable in May
Business rates	1,500	Payable in April
Wages	3,600	£300 each month one month in arrears
Subscriptions	400	Half in May and remainder in November
Sundry expenses	2,400	£200 to be paid each month.

Joyce will draw living costs from the business each month equal to £1,000. Joyce's assets will be depreciated on a straight-line basis over 4 years.

PLEASE TURN THE PAGE...

University of Bolton
Faculty of Wellbeing and Social Sciences
Business Management Pathway
Semester 1 Exams 2011-12
Business Finance
Module Number BAM1001

Additional information provided in the examination:

1. In October 2012 she plans the following sales and purchases of inventory.

	Sales £	Purchases £
October	8600	4600

2. Most sales will be for cash, but 25% are planned to be made on credit to other organisations. Credit sales to be settled in the month following invoicing.
3. Purchases of inventory will be made on credit. Payment will be made in full the month following purchase.

Required:

- a) Prepare the cash budget for the period ending 31 October 2012.

20 Marks

- b) Analyse the key issues highlighted in Joyce's cash budget 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

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CASE STUDY

CASE STUDY: BAM1001

Student Number

You are required to enter your student number here
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The examination will be closed-book. However, you WILL be able to bring this original copy of this case study, with annotated handwritten notes, which must be submitted with the answer booklet.

Your comments can ONLY relate to the specific topics in the case study.

Case: Joyce

Joyce is starting a business, selling cycling spares and bicycle service equipment using £45,000 capital.

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Insurance	1,200	Payable in April
Phone	1,000	Quarterly first payment in June
Water rates	750	Payable in May
Business rates	1500	Payable in April
Wages	3600	£300 each month one month in arrears
Subscriptions	400	Half in May and remainder in November
Sundry expenses	2400	£200 to be paid each month.

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Case: Robinson Limited

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Income statement for the year ended 31 December

	2010
	£'000
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Statement of Financial Position as at 31 December

	2010
	£'000
ASSETS	
Non-current assets	1600
Current assets	
Inventories	500
Trade receivables	450
Cash	100
	<u>1050</u>
Current liabilities	
Trade payables	280
Taxation	220
	<u>500</u>
Working capital	<u>550</u>
Total assets less current liabilities	2150
Non-current liabilities	
Borrowings - loans	600
Net Assets	<u><u>1550</u></u>
EQUITY AND LIABILITIES	
Equity	
Share capital	500
Reserves	1050
Total equity and liabilities	<u><u>1550</u></u>