FINANCIAL MANAGEMENT

The following are the assets and liabilities of KWQ Ltd as at 31 August 2017:

£000

Accounts payable 190

Share premium account 30

Equipment (net) 180

Premises (net) 200

Accounts receivable 280

Inventory 290

Goodwill 110

Vehicles (net) 140

Dividends owing 100

Tax owing 110

Long-term loans 150

Overdraft 90

Ordinary share capital 200

Retained profits 330

a) Prepare the position statement as at 31 August 2017. [8]

b) Calculate TWO liquidity ratios. [4]

c) Calculate the gearing ratio. [2]

d) Explain the term IPO (Initial Public Offering). [6]

**QUESTION TWO**

a) Explain the principal reasons for preparing a cash flow statement as part of the annual accounts. [6]

b) A successful plc is in the process of expanding. Outline the potential sources of long-term finance available to it. [10]

c) Explain the term factor finance. [4]

**QUESTION THREE**

OVW Ltd is planning to invest in a project with the following net cash flows:

£000

Initial investment 2,000

Net cash flows:

Year one 700

Year two 800

Year three 800

Year four 800

Year five 500

The cost of capital is 9%.

The relevant NPV (DCF) rates 9%

Year one .917

Year two .842

Year three .772

Year four .708

Year five .650

TASKS a) Calculate the payback period. [2] b) Calculate the ARR (accounting rate of return). [2] c) Calculate the NPV. [4] d) Evaluate the potential investment in the project. [4] e) From the following data: i sketch a fully labelled break-even graph [5]

ii calculate the break-even point in units [3]

£ Selling price per unit 60 Variable cost per unit 40

Total fixed costs 100,000

Budgeted production and sales 10,000 units

**QUESTION FOUR**

Explain the process of setting an agreed budget. [12]

b) Explain the importance of the use of financial ratios and performance indicators in running a successful business. [8]

**QUESTION FIVE**

The following data relates to FOB Ltd: Year ended 31 August 2015 2016 2017 £000 £000 £000 Turnover 90 110 140 Cost of sales 45 50 60 Expenses 30 35 40 Tax charge 3 4 5 ==== === === £1 ordinary shares in issue 100,000 100,000 100,000 TASKS a) For EACH of the THREE years calculate the following: i The gross profit to sales percentage [3] ii The net profit before tax to sales percentage [3] iii The expenses to sales percentage [3] iv The EPS [3] b) Analyse the profitability of FOB Ltd. [8]

**QUESTION ONE**

AQP Ltd manufactures a product which has the following cost data:

£

Selling price per unit 120

Direct material cost per unit 27

Direct wages cost per unit 29

Variable overhead cost per unit 28

Associated total fixed costs 600,000

The current maximum possible capacity is 30,000 units. The company currently has a UK demand for 26,000 units priced at £120 each, and they have never exported this product. Due to the possibility of BREXIT, the current UK Government is keen to export goods to non-EU countries. As a result of this policy the company could export 10,000 units at £100 each. The relevant cost data as regards the possible export contract is as follows:

£

Government ‘one off’ grant available to the company 35,000

Additional annual fixed costs associated with increasing the production capacity 75,000

The revised capacity would then be 45,000 units.

TASKS

a) i Calculate the current budgeted profit as regards the UK sales. [4]

ii Calculate the budgeted first year profit/loss as regards the export order. [4]

iii State the total combined profit of the ‘home’ and ‘export’ orders. [1]

b) Sketch and fully label a break-even chart/graph. [6]

c) Explain the benefits of cash budgets. [5]

**QUESTION TWO**

Write notes on FOUR of the following:

a) The principal role of a central bank

b) An IPO

c) Crowd funding

d) A rights issue

e) Accounting standards

f) An auditor’s report

g) Payback period [5 each]

**QUESTION THREE**

A large quoted international company is about to implement a major growth strategy and is still considering relevant sources of both short- and long-term sources of finance.

a) Discuss the possible options available for raising long-term finance by the company. [12]

b) Discuss the possible options in regard to short-term finance available to the company. [8]

2. a) Explain the following terms:

i Payback period [4]

ii Discounted cash flow (DCF) [6]

b) Explain the role of the use of financial and other performance indicators in the successful running of a business. [10]

**QUESTION FOUR**

Write notes on FOUR of the following:

a) Underwriting fees

b) Group accounts

c) A cash flow statement (FRS 1)

d) Financial gearing (leverage)

e) Accounting standards f) IRR [5 each]

**QUESTION FIVE**

A company is about to introduce a new product. The following budgeted data has been prepared:

£

Direct material cost per unit 70

Direct labour cost per unit 45

Variable overhead cost per unit 80

Proposed selling price per unit 245

Fixed costs allocated to the product 800,000 .

The first draft production and sales budget is 30,000 units. The maximum possible output is 38,000 units. TASKS a) Calculate the first draft budgeted profit.

[3] b) Calculate the following – based on the first draft budget: i Break-even point in units ii Margin of safety in units

[3] c) It is thought that if the selling price was increased to £260 the company could still sell 28,000. Calculate the profit.

[4] d) It is thought that if the selling price was decreased to £235 the company would be able to sell 37,000 units.

Calculate the profit.

[4] e) Explain the importance of using cash budgets. [6]

a) Explain the process of setting an agreed budget. [12]

b) Explain the importance of the use of financial ratios and performance indicators in running a successful business. [8]

7. Write notes on FOUR of the following:

a) The workings of a stock exchange

b) Accounting standards

c) The role of an auditor

d) Venture capitalists

e) Total absorption costing

f) ‘Users’ of annual reports and accounts

g) Gearing (financial leverage) [5 each]

How can the firm raise cash for required capital expenditures? Small firms tend to raise funds from private investors, and venture capitalists. As these firms grow larger, they focus more on raising funds from the organised capital markets. Explain in detail why this occurs. [25]

2. Explain the terms ‘risk and reward’, ‘return on investment’ and ‘gearing’ and then analyse the relationship between the three concepts, illustrating your answer by referring to a case study from your own country or a country with which you are familiar. [25]

3. In a world with no taxes, no transaction costs and no cost of financial distress, is the following statement true, false, or uncertain? “If a firm issues equity to repurchase some of its debt, the share price of the firm’s equity will rise because the shares are less risky.” Justify your decision with detailed analysis.

[25] 4. In an ideal economy, net working capital is always zero. Why might net working capital be positive in a real economy? Explain in detail and justify your decision. [25]