



Financial Management

SAMPLE TIME CONSTRAINED ASSESSMENT

Answer any FOUR (4) questions.

Clearly cross out surplus answers.

Failure to do this will result in only the first FOUR (4) answers being marked.

Time: 4 hours

The maximum mark for this paper is 100.

Any reference material brought into the examination room must be handed to the invigilator before the start of the examination.

A discount factors table is provided at the beginning of the question paper.

Candidates are allowed to bring in a scientific calculator for this module.

Graph paper will be provided by the centre.

Discount factors table

Year	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%
1	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877
2	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769
3	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675
4	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592
5	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519
6	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456
7	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400
8	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351
9	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308
10	0.676	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270
11	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261	0.237
12	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231	0.208
13	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204	0.182
14	0.577	0.505	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181	0.160
15	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160	0.140
16	0.534	0.458	0.394	0.339	0.292	0.252	0.218	0.188	0.163	0.141	0.123
17	0.513	0.436	0.371	0.317	0.270	0.231	0.198	0.170	0.146	0.125	0.108
18	0.494	0.416	0.350	0.296	0.250	0.212	0.180	0.153	0.130	0.111	0.095
19	0.475	0.396	0.331	0.277	0.232	0.194	0.164	0.138	0.116	0.098	0.083
20	0.456	0.377	0.312	0.258	0.215	0.178	0.149	0.124	0.104	0.087	0.073
21	0.439	0.359	0.294	0.242	0.199	0.164	0.135	0.112	0.093	0.077	0.064
22	0.422	0.342	0.278	0.226	0.184	0.150	0.123	0.101	0.083	0.068	0.056
23	0.406	0.326	0.262	0.211	0.170	0.138	0.112	0.091	0.074	0.060	0.049
24	0.390	0.310	0.247	0.197	0.158	0.126	0.102	0.082	0.066	0.053	0.043
25	0.375	0.295	0.233	0.184	0.146	0.116	0.092	0.074	0.059	0.047	0.038
26	0.361	0.281	0.220	0.172	0.135	0.106	0.084	0.066	0.053	0.042	0.033
27	0.347	0.268	0.207	0.161	0.125	0.098	0.076	0.060	0.047	0.037	0.029
28	0.333	0.255	0.196	0.150	0.116	0.090	0.069	0.054	0.042	0.033	0.026
29	0.321	0.243	0.185	0.141	0.107	0.082	0.063	0.048	0.037	0.029	0.022
30	0.308	0.231	0.174	0.131	0.099	0.075	0.057	0.044	0.033	0.026	0.020
31	0.296	0.220	0.164	0.123	0.092	0.069	0.052	0.039	0.030	0.023	0.017
32	0.285	0.210	0.155	0.115	0.085	0.063	0.047	0.035	0.027	0.020	0.015
33	0.274	0.200	0.146	0.107	0.079	0.058	0.043	0.032	0.024	0.018	0.013
34	0.264	0.190	0.138	0.100	0.073	0.053	0.039	0.029	0.021	0.016	0.012
35	0.253	0.181	0.130	0.094	0.068	0.049	0.036	0.026	0.019	0.014	0.010
36	0.244	0.173	0.123	0.088	0.063	0.045	0.032	0.023	0.017	0.012	0.009
37	0.234	0.164	0.116	0.082	0.058	0.041	0.029	0.021	0.015	0.011	0.008
38	0.225	0.157	0.109	0.076	0.054	0.038	0.027	0.019	0.013	0.010	0.007
39	0.217	0.149	0.103	0.071	0.050	0.035	0.024	0.017	0.012	0.009	0.006
40	0.208	0.142	0.097	0.067	0.046	0.032	0.022	0.015	0.011	0.008	0.005
41	0.200	0.135	0.092	0.062	0.043	0.029	0.020	0.014	0.010	0.007	0.005
42	0.193	0.129	0.087	0.058	0.039	0.027	0.018	0.012	0.009	0.006	0.004
43	0.185	0.123	0.082	0.055	0.037	0.025	0.017	0.011	0.008	0.005	0.004
44	0.178	0.117	0.077	0.051	0.034	0.023	0.015	0.010	0.007	0.005	0.003
45	0.171	0.111	0.073	0.048	0.031	0.021	0.014	0.009	0.006	0.004	0.003

Question 1

Shore Tours plc is completing its financial accounts for internal use for the year ending 28 February 2021. It has produced the following trial balance to summarise the ledger account balances.

Shore Tours plc
Trial Balance as at 28 February 2021

	Dr £	Cr £
Sales revenue		965,000
Payments to hotels	141,300	
Fuel and maintenance	124,100	
Wages and salaries	323,000	
General expenses	162,600	
Vehicles - cost	230,000	
Accumulated depreciation – vehicles		46,000
Premises - cost	325,000	
Accumulated depreciation – premises		99,000
Share capital (£1 shares)		100,000
Retained losses	4,000	
6% loan repayable 2030		100,000
Cash at bank	2,000	
Accounts receivable	6,000	
Accounts payable		8,000
	<u>1,318,000</u>	<u>1,318,000</u>

The matters below, which have not already been accounted for, should be addressed before completing the company's accounts:

- Premises – depreciation is charged over the 20-year life of the premises using the straight-line method. The premises were bought on 1 March 2009 at cost with an expected residual value of £145,000. The current market value of the premises is £250,000.
- The company does not have a policy of revaluing its non-current assets.
- Vehicles – depreciation is charged using the reducing balance method at 20% per annum.
- The 6% loan was taken out on 1 July 2020 and is guaranteed by the government. Interest is due to be paid on 31 May each year.

- a)** Prepare the *Income Statement* of Shore Tours plc for the year ended 28 February 2021 and the *Statement of Financial Position* at the same date. Explain how the financial statements would differ if the premises had been revalued in the accounts rather than depreciated. **15**

Marks

- b) Compare and contrast the roles of a *board of directors* and the *audit committee*, as required by corporate governance principles, in respect of *going concern*, *long-term viability*, *risk management* and *internal control*. Evaluate any concerns which might have arisen in the case of Shore Tours plc. **10**

Total 25 Marks

Question 2

K, L and M are three public companies. K trades as a supermarket, L as an electrical engineering contractor and M is a fashion brand.

The following ratios have been calculated for the three companies for the year ended 31 December 2020 and are presented below with comparative industry average ratios for the retail industry:

Ratio	K	L	M	Industry Average (retail)
Return on capital employed	8%	12%	20%	10%
Gross profit margin	40%	60%	75%	50%
Operating profit margin	15%	12%	25%	11%
Interest cover	10 times	5 times	1 times	3 times

- a) Compare and contrast the performance of the three companies with each other and against the industry averages for the benefit of a potential investor. Explain limitations with the information provided for your analysis and the process of *ratio analysis*. **15**
- b) Explain what is meant by total quality management (TQM) and discuss how it may be used in each of the companies, K, L and M, to improve performance. **10**

Total 25 Marks

Question 3

- a) Provide a reasoned recommendation why a manufacturing company that produces a high volume of medicines in tablet form would find *standard costing* a useful technique. Contrast this with the suitability of standard costing for a manufacturer of medical aids made specifically for an individual person. **15**
- b) Discuss how the introduction of standards in a system of standard costing, variances and other forms of performance evaluation can impact on human behaviour in the workplace. Illustrate your discussion with examples relevant to a manufacturing company. **10**

Total 25 Marks

Question 4

Camraphone plc, a manufacturer of mobile technology, needs to upgrade its production facilities and is considering the options of developing its existing labour-intensive facilities or to replace them with a computerised production line which will have a significant saving in labour costs. The following forecasts have been produced for each of two options:

Labour-intensive			Computerised production		
Cash outflows			Cash outflows		
Year		£m	Year	New production line cost	£m
Y0	Re-equipment cost	10	Y0		150
Y0	Retraining costs	1	Y1	Retraining costs	10
Y1	Retraining costs	1	Y1 and Y2	Materials, labour, overheads	20 each year
Y1, Y2 and Y3	Materials, labour, overheads	50 each year	Y3 and Y4	Materials, labour, overheads	45 each year
Y4, Y5 and Y6	Materials, labour, overheads	70 each year	Y5 and Y6	Materials, labour, overheads	60 each year
Cash inflows		£m	Cash inflows		£m
Y1, Y2 and Y3	Cash inflows	56 each year	Y1 and Y2	Cash inflows	45 each year
Y4, Y5 and Y6	Cash inflows	80 each year	Y3 and Y4	Cash inflows	85 each year
			Y5 and Y6	Cash inflows	120 each year

Both options are expected to need replacing in Year 7 because of technological advances planned in respect of the products and the production facilities at that time are not expected to have a residual value. The cost of capital is 8%.

- a) Calculate the *payback periods* and *net present values* of both the labour-intensive and computerised production options and evaluate the options considering both financial **and** potential non-financial concerns. **15**

- b) The directors of Camraphone plc are considering including a *balanced scorecard* in future published financial statements to demonstrate the organisation's commitment to more aspects of the business than the purely financial one. Explain the purpose and contents of a *balanced scorecard* and evaluate the idea of including additional reporting of the business affairs in this way. **10**

Total 25 Marks

Question 5

- a) Explain how each of the financial statements and the additional information required by *IAS1 Presentation of Financial Statements* help to meet the needs of user groups who analyse financial statements. Illustrate your discussion with examples of how these address legal requirements and *generally accepted accounting principles (GAAP)* to provide a true and fair view. **15**
- b) Evaluate the usefulness of ethical rules and conventions in enhancing the value of financial information provided in accordance with IAS1 and the IFRS conceptual framework. **10**

Total 25 Marks

End of paper