

THE OPEN UNIVERSITY OF SRI LANKA
 MASTER OF BUSINESS ADMINISTRATION IN HUMAN RESOURCE
 MANAGEMENT
 FINAL EXAMINATION-2016
 MCP 2132 - MANAGERIAL FINANCE
 DURATION - 03 HOURS



Date : 17.07.2016

Time : 9.30 am – 12.30 pm

Instructions: Answer ALL five (05) questions. Numbering of the answers in your answer script should follow the numbers assigned to the questions in the paper. Illegible hand writing is liable to loose marks.

Use of non-programmable calculators are allowed.

Question No. 01

“Whether business concerns are big or small, they need finance to fulfill their business activities. In the modern world, all activities are concerned with economic activities and very particular in making profit.”

- (a) Explain briefly the term “Finance”.
 (03 Marks)
- (b) Describe briefly the goal in finance in a contemporary business organization.
 (03 Marks)
- (c) State major decisions involved in finance as a business function and explain them briefly.
 (08 Marks)
- (d) Discuss the role of Financial Accounting in Managerial Finance.
 (06 Marks)
 (Total Marks 20)

Question No. 02

- (a) Describe three (03) applications of Cost-Volume-Profit analysis.
 (06 Marks)
- (b) LMK Company produces a single product. 25,000 units of that product was sold last year with the following results.

| | Rs. |
|----------------|----------------|
| Sales | 625,000 |
| Variable costs | (375,000) |
| Fixed costs | (150,000) |
| Profit | <u>100,000</u> |

In an attempt to improve the quality of the product, LMK's managers are considering replacing a component part that costs Rs. 2.50 with a new and better part costing Rs. 4.50 per unit during the coming year. A new machine would also be needed to increase plant capacity. The machine would be obtained for an annual rent of Rs. 36,000.

- (i) What was LMK Company's breakeven point in units last year?
- (ii) How many units of product would LMK Company had to sell in the last year to earn Rs.77,000 profit?
- (iii) If LMK Company holds the sales price constant and makes the suggested changes, how many units of product must be sold in the coming year to reach break even?
- (iv) If LMK Company holds the sales price constant and makes the suggested changes, how many units of product will the company have to sell to make the same profit as last year?

(14 Marks)
(Total Marks 20)

Question No. 03

- (a) Discuss how the Net Present Value (NPV) method of investment appraisal contributes towards the objective of maximizing the wealth of shareholders.

(06 Marks)

- (b) XY PLC wants to buy a machine. Two models of machines are available, one with a slightly higher capacity and greater reliability than the other. The expected costs and cash inflows of each machine are as follows. The cost of capital of the Company is 12% per annum.

| | Machine - Model A | Machine - Model B |
|---------------------------|--------------------------|--------------------------|
| Cost of Machine (Rs.) | 80,000 | 150,000 |
| Useful Life | 5 years | 5 years |
| Annual Cash Inflow (Rs.); | | |
| Year 1 | 30,000 | 42,000 |
| Year 2 | 55,000 | 51,000 |
| Year 3 | 25,000 | 56,000 |
| Year 4 | 23,000 | 43,000 |
| Year 5 | 9,000 | 21,000 |
| Disposal value (Rs.) | 0 | 0 |

You are required to;

- (i) Calculate the Net Present Value, Return on Capital Employed, Payback Period and Internal Rate of Return of the proposed investments in machinery Model A and Model B.

(10 Marks)

- (ii) Advise the model of machinery to be acquired and discuss the limitations of the evaluations you have carried out.

(04 Marks)

(Total Marks 20)

Question No. 04

APD PLC manufactures the product 'APD' which is sold for Rs 300/- and has the following sales forecast for the six months of the next financial year.

| Month | April | May | June | July | August | September |
|------------------|-------|-------|-------|-------|--------|-----------|
| Sales (in units) | 6,000 | 6,200 | 6,350 | 6,500 | 7,100 | 7,500 |

Production of one unit of 'APD' requires 2 kg of raw material. Raw material is expected to cost Rs. 25/- per kg. The company's inventory policy is to maintain as at the end of each month, 20% of the raw material requirement and 10% of the expected sales of finished goods of the following month.

Direct labour is used at the rate of 30 minutes per unit and paid at Rs 100/- per hour. Variable manufacturing overhead is Rs 75/- per labour hour. The fixed manufacturing overhead budgeted for a month is Rs 250,000 of which Rs 50,000 is depreciation. The fixed administration and distribution expenses are Rs 155,000 and Rs 240,000 respectively.

40% of the company's sales are for cash and sold at a discount of 5%. Sales proceeds for credit sales are collected in the month following that of the sale. All purchases are settled in the month of purchase. A cash balance as at 30th June is Rs 340,000.

You are required to;

(a) Prepare following budgets for the month of July;

(i) Sales Budget (in units and Rs.)

(ii) Production Budget (in units)

(iii) Raw Material Purchase Budget (in units)

(iv) Direct Labour Budget (in hours and Rs.)

(12 Marks)

(b) Prepare Cash Budget for the month of July.

(04 Marks)

(c) Discuss three advantages of cash budget in managing day-to-day activities of APD PLC.

(04 Marks)

(Total Marks 20)

Question No. 05

CPP PLC is incorporated in the year 2000 and involved in the business of manufacturing and selling soft toys. The following are the extracts of the Company's financial statements from its annual report for the year ended 31st March, 2016.

Statement of Financial Position

| Assets | 31.03.2016 | 31.03.2015 |
|--------------------------------------|-------------------|-------------------|
| | (Rs'000) | (Rs'000) |
| Non-Current Assets | | |
| Property, plant and equipment | 236,799 | 237,711 |
| Investments in subsidiaries | 11,454 | 11,554 |
| Fixed deposits | 9,503 | 4,203 |
| Total non-current assets | 257,756 | 253,468 |
| Current Assets | | |
| Inventories | 289,999 | 343,554 |
| Trade and other receivables | 90,881 | 160,256 |
| Amounts due from related parties | 647,657 | 671,326 |
| Cash and cash equivalents | 23,025 | 44,315 |
| Total current assets | 1,051,562 | 1,219,452 |
| Total assets | 1,309,318 | 1,472,919 |
| Equity and Liabilities | | |
| Stated capital | 122,850 | 122,850 |
| Capital reserves | 2,100 | 2,100 |
| Retained earnings | 305,433 | 245,648 |
| Total equity | 430,383 | 370,598 |
| Non-Current Liabilities | | |
| Interest bearing borrowings | 112,120 | 115,750 |
| Retirement benefit obligations | 41,613 | 40,406 |
| Deferred tax liability | 1,577 | 6,804 |
| Total non-current liabilities | 155,309 | 162,959 |
| Current Liabilities | | |
| Trade and other payables | 226,185 | 181,948 |
| Income tax | 28,164 | 24,950 |
| Amounts due to related parties | 8,232 | 5,645 |
| Interest bearing borrowings | 384,277 | 683,492 |
| Bank overdrafts | 76,767 | 43,326 |
| Total current liabilities | 723,626 | 939,361 |
| Total equity and liabilities | 1,309,318 | 1,472,919 |

Statement of Income

| | 2015/2016 (Rs'000) | 2014/2015 (Rs'000) |
|-------------------------|-----------------------|-----------------------|
| Net turnover | 2,546,450 | 3,785,305 |
| Cost of sales | (2,205,199) | (3,321,110) |
| Gross profit | 341,251 | 464,195 |
| Other income | 46,972 | 21,981 |
| Distribution cost | (47,518) | (43,784) |
| Administrative expenses | (205,303) | (143,397) |
| Finance expenses | (40,053) | (108,271) |
| Profit before tax | 95,349 | 190,724 |
| Income tax expense | (27,047) | (73,737) |
| Profit for the year | 68,303 | 116,987 |

You are required to;

(a) Analyse and interpret the financial statements using financial ratios and discuss CPP PLC's financial performance during the year ended 31st March 2016 and its position at the end of that year.

(16 Marks)

(b) Discuss two (02) limitations in financial ratios used above (a).

(04 Marks)

(Total: 20 Marks)

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PRESENT VALUE TABLE

Present value of \$1, that is $(1+r)^{-n}$ where r = interest rate; n = number of periods until payment or receipt.

| Periods (n) | Interest rates (r) | | | | | | | | | |
|--------------------|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 1% | 2% | 3% | 4% | 5% | 6% | 7% | 8% | 9% | 10% |
| 1 | 0.990 | 0.980 | 0.971 | 0.962 | 0.952 | 0.943 | 0.935 | 0.926 | 0.917 | 0.909 |
| 2 | 0.980 | 0.961 | 0.943 | 0.925 | 0.907 | 0.890 | 0.873 | 0.857 | 0.842 | 0.826 |
| 3 | 0.971 | 0.942 | 0.915 | 0.889 | 0.864 | 0.840 | 0.816 | 0.794 | 0.772 | 0.751 |
| 4 | 0.961 | 0.924 | 0.888 | 0.855 | 0.823 | 0.792 | 0.763 | 0.735 | 0.708 | 0.683 |
| 5 | 0.951 | 0.906 | 0.863 | 0.822 | 0.784 | 0.747 | 0.713 | 0.681 | 0.650 | 0.621 |
| 6 | 0.942 | 0.888 | 0.837 | 0.790 | 0.746 | 0.705 | 0.666 | 0.630 | 0.596 | 0.564 |
| 7 | 0.933 | 0.871 | 0.813 | 0.760 | 0.711 | 0.665 | 0.623 | 0.583 | 0.547 | 0.513 |
| 8 | 0.923 | 0.853 | 0.789 | 0.731 | 0.677 | 0.627 | 0.582 | 0.540 | 0.502 | 0.467 |
| 9 | 0.914 | 0.837 | 0.766 | 0.703 | 0.645 | 0.592 | 0.544 | 0.500 | 0.460 | 0.424 |
| 10 | 0.905 | 0.820 | 0.744 | 0.676 | 0.614 | 0.558 | 0.508 | 0.463 | 0.422 | 0.386 |
| 11 | 0.896 | 0.804 | 0.722 | 0.650 | 0.585 | 0.527 | 0.475 | 0.429 | 0.388 | 0.350 |
| 12 | 0.887 | 0.788 | 0.701 | 0.625 | 0.557 | 0.497 | 0.444 | 0.397 | 0.356 | 0.319 |
| 13 | 0.879 | 0.773 | 0.681 | 0.601 | 0.530 | 0.469 | 0.415 | 0.368 | 0.326 | 0.290 |
| 14 | 0.870 | 0.758 | 0.661 | 0.577 | 0.505 | 0.442 | 0.388 | 0.340 | 0.299 | 0.263 |
| 15 | 0.861 | 0.743 | 0.642 | 0.555 | 0.481 | 0.417 | 0.362 | 0.315 | 0.275 | 0.239 |
| 16 | 0.853 | 0.728 | 0.623 | 0.534 | 0.458 | 0.394 | 0.339 | 0.292 | 0.252 | 0.218 |
| 17 | 0.844 | 0.714 | 0.605 | 0.513 | 0.436 | 0.371 | 0.317 | 0.270 | 0.231 | 0.198 |
| 18 | 0.836 | 0.700 | 0.587 | 0.494 | 0.416 | 0.350 | 0.296 | 0.250 | 0.212 | 0.180 |
| 19 | 0.828 | 0.686 | 0.570 | 0.475 | 0.396 | 0.331 | 0.277 | 0.232 | 0.194 | 0.164 |
| 20 | 0.820 | 0.673 | 0.554 | 0.456 | 0.377 | 0.312 | 0.258 | 0.215 | 0.178 | 0.149 |

| Periods (n) | Interest rates (r) | | | | | | | | | |
|--------------------|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 11% | 12% | 13% | 14% | 15% | 16% | 17% | 18% | 19% | 20% |
| 1 | 0.901 | 0.893 | 0.885 | 0.877 | 0.870 | 0.862 | 0.855 | 0.847 | 0.840 | 0.833 |
| 2 | 0.812 | 0.797 | 0.783 | 0.769 | 0.756 | 0.743 | 0.731 | 0.718 | 0.706 | 0.694 |
| 3 | 0.731 | 0.712 | 0.693 | 0.675 | 0.658 | 0.641 | 0.624 | 0.609 | 0.593 | 0.579 |
| 4 | 0.659 | 0.636 | 0.613 | 0.592 | 0.572 | 0.552 | 0.534 | 0.516 | 0.499 | 0.482 |
| 5 | 0.593 | 0.567 | 0.543 | 0.519 | 0.497 | 0.476 | 0.456 | 0.437 | 0.419 | 0.402 |
| 6 | 0.535 | 0.507 | 0.480 | 0.456 | 0.432 | 0.410 | 0.390 | 0.370 | 0.352 | 0.335 |
| 7 | 0.482 | 0.452 | 0.425 | 0.400 | 0.376 | 0.354 | 0.333 | 0.314 | 0.296 | 0.279 |
| 8 | 0.434 | 0.404 | 0.376 | 0.351 | 0.327 | 0.305 | 0.285 | 0.266 | 0.249 | 0.233 |
| 9 | 0.391 | 0.361 | 0.333 | 0.308 | 0.284 | 0.263 | 0.243 | 0.225 | 0.209 | 0.194 |
| 10 | 0.352 | 0.322 | 0.295 | 0.270 | 0.247 | 0.227 | 0.208 | 0.191 | 0.176 | 0.162 |
| 11 | 0.317 | 0.287 | 0.261 | 0.237 | 0.215 | 0.195 | 0.178 | 0.162 | 0.148 | 0.135 |
| 12 | 0.286 | 0.257 | 0.231 | 0.208 | 0.187 | 0.168 | 0.152 | 0.137 | 0.124 | 0.112 |
| 13 | 0.258 | 0.229 | 0.204 | 0.182 | 0.163 | 0.145 | 0.130 | 0.116 | 0.104 | 0.093 |
| 14 | 0.232 | 0.205 | 0.181 | 0.160 | 0.141 | 0.125 | 0.111 | 0.099 | 0.088 | 0.078 |
| 15 | 0.209 | 0.183 | 0.160 | 0.140 | 0.123 | 0.108 | 0.095 | 0.084 | 0.079 | 0.065 |
| 16 | 0.188 | 0.163 | 0.141 | 0.123 | 0.107 | 0.093 | 0.081 | 0.071 | 0.062 | 0.054 |
| 17 | 0.170 | 0.146 | 0.125 | 0.108 | 0.093 | 0.080 | 0.069 | 0.060 | 0.052 | 0.045 |
| 18 | 0.153 | 0.130 | 0.111 | 0.095 | 0.081 | 0.069 | 0.059 | 0.051 | 0.044 | 0.038 |
| 19 | 0.138 | 0.116 | 0.098 | 0.083 | 0.070 | 0.060 | 0.051 | 0.043 | 0.037 | 0.031 |
| 20 | 0.124 | 0.104 | 0.087 | 0.073 | 0.061 | 0.051 | 0.043 | 0.037 | 0.031 | 0.026 |