



Corporate Finance and Decision Making

SAMPLE

Examination Paper

Answer ALL questions.

Clearly cross out surplus answers.

Time: 3 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.

Answer ALL questions

Question 1

SFL PLC is an international manufacturing company that specialises in making engineering components for other manufacturers. The company has been involved in considerable change over the last few decades to evolve and meet the needs of modern manufacturing. SFL PLC now uses sophisticated equipment, operated by a smaller highly trained workforce than used to exist in the past. This allows the company to produce smaller batches of complex products that better meet the demands of customers for greater diversification. For instance, a car manufacturing customer now requires slightly different components for six models of cars where it would have used a single component in one or two models in the past. The equipment used by SFL PLC can be adjusted to make a variety of components and it provides detailed technical feedback which is useful for continued product development.

Question 1

25 Marks

SFL PLC is now considering whether the traditional costing method that it uses is appropriate or if the company should adopt activity-based costing (ABC).

- Compare *and* contrast traditional costing methods with activity-based costing.
- Evaluate the proposal to change to activity-based costing (ABC) at this time, considering the benefits and problems that might arise in the short and longer term.
- Use practical examples to support your arguments and recommend whether this or a different change should be made.

Question 2**25 Marks**

Zebra Ltd manufactures a single engineering product and has calculated the following variances for January 2019.

Material price variance – 9,200 (A)

Material usage variance – 6,400 (F)

Labour rate variance – 16,500 (A)

Labour efficiency variance – 5,600 (A)

- Discuss the potential reasons for the four variances given above and briefly outline how these specific variances provide measures that might be used in performance management to assist in controlling and managing operations and strategy.
- Critically evaluate how performance measurement is used as part of controlling and managing business operations and strategy.
- Illustrate your answer with appropriate theoretical models and provide a conclusion about the usefulness of performance measurement.

Question 3

25 Marks

A newly formed limited company is considering how it should report information about its results *internally* to management and employees and *externally* to investors, lenders and other interested parties. Part of the company's strategy in communicating externally its financial results in a clear and comprehensive way is to ensure that it will be attractive to providers of finance. Whilst appreciating the need to adhere to legal requirements and accounting standards, the company is also considering more innovative approaches such as a balanced scorecard.

- Make a fully justified recommendation *for* **or** *against* the use of the balanced scorecard in a newly formed limited company.
- Consider how the information in the published annual accounts could most effectively attract, and meet the needs of, external investors and lenders with clear reference to the types of finance these parties could provide.

Question 4**25 Marks**

Nasim, Eke and Ade are in a partnership. They share profits in the proportions 2:1:1. Their accountant has provided the following information for the year ended 31 January 2019

Profit for the year to 31 January 2019 £128,000

Capital at 31 January 2019

Nasim	£80,000	Cr
Eke	£40,000	Cr
Ade	£40,000	Cr

Current account balance at 1 February 2018

Nasim	£25,000	Dr
Eke	£10,000	Cr
Ade	£8,000	Cr

Drawings for the year to 31 January 2019

Nasim	£39,000
Eke	£11,000
Ade	£12,000

Interest on capital is allowed at 5% per annum.
No interest is charged on drawings.

Nasim has suggested turning the partnership into a limited company because he is concerned about future profitability. He has insisted that this change will benefit Eke and Ade because it will remove the current risks. Ade and Eke have refused to form a limited company but Nasim will not accept their refusal because he has greater investment in the partnership and has greater power.

Nasim, Eke and Ade will have a meeting to decide whether to turn their partnership into a limited company.

In advance of the meeting, you must;

- Prepare the appropriation account, capital accounts and current accounts for the year ended 31 January 2019.
- Evaluate Nasim's proposal taking any practical, legal or ethical concerns into account.
- Make a reasoned case for either remaining a partnership or becoming a limited company.

Total 25 Marks**End of Paper**