

UNIVERSITY OF BOLTON
INSTITUTE OF MANAGEMENT
MSC INTERNATIONAL MANAGEMENT
SEMESTER 1 EXAMINATIONS 2021/2022
FINANCIAL MANAGEMENT AND DECISION MAKING
MODULE NO: MBA7011

Date: Monday 10th January 2022

Time: 2.00 – 5.00pm

INSTRUCTIONS TO CANDIDATES:

There are Five questions on this paper.

Answer all questions.

All questions carry equal marks.

Present Value Tables included.

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Question 1

Tokyo Ltd is considering investing in the following projects.

The company has recently commenced on an expansion strategy and is considering two projects. The company is considering raising some capital and has provided you with the following cost of capitals:

Equity: £2 million Cost: 10%
 Debt: £4 million Cost of debt 8%

In addition, you are told the corporation tax rate is 30%.

The company anticipates a start-up investment cost of £1,200,000 for Project C and £1,500,000 for Project D. Both will have a lifespan of 5 years. The net after tax cash flows of the projects are as follows:-

The expected cash inflows for the projects are as follows: -

Years	Project C (£)	Project D (£)
1	450,000	750,000
2	450,000	400,000
3	450,000	300,000
4	300,000	300,000
5	300,000	300,000

The company has a target cost of capital of 10% which it uses to evaluate all new projects.

Calculate:

- a) Weighted Average Cost of Capital (5 Marks)
 - b) Net Present Value Project C and Project D (10 Marks)
 - c) Based on your calculation recommend the best investment (2 Marks)
 - d) Critically evaluate the Payback period method of Investment (3 Marks)
- (20 marks)**

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Question 2:

Winchester Ltd produces three products X,Y, and Z. The costs and selling prices are shown below.

	Product X	Product Y	Product Z
Direct material @ £2 per kg	4	8	6
Direct Labour @ 6 per hour	6	18	12
Variable overheads	2	4	5
Selling price	16	35	30

Sales demand for the coming period is expected to be as follows:

Product X 3000 units
 Product Y 7000 units
 Product Z 5000 units

The supply of materials is limited to 50000 Kg during the period and labour hours are limited to 28000 hours.

- a) Identify the scarce resource/limiting factor (2 Marks)
- b) Calculate the optimal production plan (10 Marks)
- c) Calculate the maximum contribution. (2 Marks)
- d) Under what circumstance linear programming method is useful? Demonstrate the steps involved in linear programming (6 marks)

(20 Marks)

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Question 3:

- a) Why costing is essential for any business and how it affects the decision-making process (5 marks)
- b) Discuss the concept of budgeting and how the budgetary control can be used for decision making and control (15 marks)
- (20 Marks)**

Question 4:

- a) Evaluate the difference between the internal and external sources of finance available to UK business (4 Marks)
- b) Discuss the following long-term sources of finance:
- Ordinary shares (4 Marks)
 - Preference shares (4 Marks)
 - Debentures (4 Mark)
 - Loan capital (4 Marks)
- (20 Marks)**

Question 5:

- a) Outline 5 Pillars of Corporate Governance and discuss their implications to the practice of corporate governance in United Kingdom. (10 Marks)
- b) Discuss the role and responsibilities of the Board of Directors (5 Marks)
- c) Compare and contrast the roles of the Executive Directors and Non-Executive Directors (5 marks)
- (20 marks)**

**END OF QUESTIONS
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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