

Chartered Banker

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FINANCIAL MANAGEMENT

Assignment 1

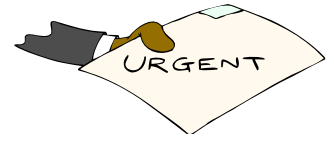
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Important Assignment Information

ASSIGNMENT LENGTH

For assignments submitted on or after **1st September 2008**, there is a **maximum** word count of **2,500 words**.

From that date, if you fail to adhere to the maximum word count, a deduction will be made to your final assignment mark. Specifically, if you exceed the 2,500 limit, you will be deducted **1%** for every **100 words** or **part of 100 words** over the limit.

For example, if you write a total of **2,614** words, a **2%** deduction will be made to your mark. For clarification, the word count includes all references and attached appendices.

PASS COMPENSATION AWARD

In recognition of the importance attached to the assignments, an award of **Pass Compensation** will be made to you if you score between 45% and 54% in the final exam and if you complete the required assignment(s) under the following conditions:

1. The assignment mark must be 60% or above – where two assignments are required, then the average mark must be 60% or above **and**
2. Assignments must be in the hands of the Tutor **at least** one month prior to the **chosen examination date for each subject**.

For example, if you enrol to sit a **full** credit subject examination on **15th December**, you must have sent **both** assignments to your tutor by **15th November**.

Similarly, if you enrol to sit a **half** credit subject examination on **2nd March**, you must have sent the **sole** assignment to the tutor by **2nd February**.

Please also note the following:

- (a) Where an assignment is marked at less than 60%, this may show up as **'Fail'** in the web-based student record – this is purely with reference to the Pass Compensation award and does not necessarily mean it is a sub-standard submission
- (b) You are **not** permitted to **re-submit** an assignment in order to gain a higher mark
- (c) In the event that you fail an exam and have not completed the required assignment(s), you can subsequently complete the required assignment(s) – these will then count towards any re-sit examination undertaken. Submission dates for these assignments must comply with the relevant timescales as stated in **2** above.

Question 1

OKSANA LIMITED

Oksana Limited is a general trading company.

Its forecast for the calendar year 2007 predicts the following figures (£'000):

- The cash balance as at 1st January 2007 will be £1,500.
- The company's sales are highest in the Autumn months leading up to Christmas. Sales for January to August inclusive will be £4,000 per month, doubling from September to December inclusive.
- Distribution costs will be £30,000 for the year, payable in equal monthly instalments.
- The monthly salary bill is £1,000.
- Gas and electricity bills are payable by budget account with equal quarterly payments of £750, commencing in March.
- Monthly rent is £1,000.
- The capital value of a gilt maturing in March will be £4,000. A certificate of deposit matures in August with a value of £4,000. A corporate bond matures in September, capital value £2,000.
- The company will make a one-off disposal of old stock in March for £2,500.
- The company's advertising agency will bill the company for £3,000 on 15th May, payable on 60 days credit basis.
- Factory and warehouse processing costs are £500 monthly.
- Depreciation of fixed assets for the year is £2,400.
- Capital expenditure of £3,000 is payable in July.
- The company buys in stock at a cost of £1,500 each quarter, with the first payment due in February.
- Investment interest is received twice a year in June and December. Each interest payment will be £1,500.

Required:

(a) Prepare a cash flow forecast for the calendar year ending 31st December 2007.

(10 marks)

(b) State the periods for which the company will require an overdraft facility.

(3 marks)

(c) State the maximum overdraft required during the year.

(3 marks)

(d) State the closing cash balance for the company as at 31st December 2007.

(4 marks)

(TOTAL MARKS – 20)

Question 2

From a business banking perspective, critically evaluate the benefits and drawbacks of judging a company's performance on the basis of profitability alone.

(TOTAL MARKS – 20)

Question 3

Cosmos Training Services Limited provides a range of management training courses and seminars for its clients. The Marketing Manager has decided that he would like to introduce a series of one day seminars priced at £99 per delegate, following feedback from clients that non-residential, short but intensive courses would be attractive if available at the right price.

The seminar presenter will charge an all-inclusive fee of £300. He has indicated that the effectiveness of the seminars would be severely limited if the number of delegates was less than 8 persons or more than 20 persons.

The seminars would be delivered at a local hotel which will charge a daily delegate rate of £55 per person, with no charge for the seminar presenter. This includes room hire, provision of audio visual aids and a light lunch.

The management accountant has indicated that the each seminar should absorb £350 of the company's overheads.

Required:

- a) Present a marginal costing analysis of the proposal, demonstrating the contribution and the profit or loss at different levels of demand. **(8 marks)**
- b) Draw a break even diagram demonstrating the interaction of income, variable costs and fixed costs. **(6 marks)**
- c) At what level of demand should the seminar programme be withdrawn? Give reasons for your answer. **(3 marks)**
- d) Assuming the response is disappointing, what non-financial factors should be taken into account when deciding whether or not to go ahead with the proposal? **(3 marks)**

(TOTAL MARKS – 20)

Question 4

Aldi Limited is a deep discounting supermarket chain, selling mainly food products at highly attractive prices.

Marks and Spencer plc also sells food products, but bases its selling proposition on high quality rather than price.

Examine the implications of these alternative business strategies for the management of working capital in these two very different enterprises.

(TOTAL MARKS – 20)

Question 5

Sally and Simon set up their business in 2003 as an unlimited partnership, selling IT / IS consultancy services to a small range of clients developed through personal contacts.

Their business was capitalised partly from personal savings and partly from Simon's £15,000 redundancy payment from his last employer.

In their first year of operation their business turnover was £29,500 with a net profit of £2,150. Their personal drawings totalled £8,500. In the following year, their business turnover increased to £59,000 and they made a trading profit of £30,000, drawing £10,000 from the business. In the next year, their business turnover is predicted to total £98,000 with a projected profit of £50,000 and drawings of £44,000.

Sally and Simon feel that their business is healthy and are highly satisfied with their initial period in self-employment.

Required:

From a financial management perspective, identify and evaluate the risk factors that Sally and Simon should consider when formulating their medium term business plan.

In presenting your answer, you should consider that their experience to date is quite typical, but in reality the majority of small businesses fail within the first five years.

(TOTAL MARKS – 20)

TOTAL ASSIGNMENT MARKS – 100