

Chartered Banker

Leading financial professionalism

FINANCIAL MANAGEMENT

Assignment 2

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Charitable Body: The Chartered Institute of Bankers in Scotland (CIOBS) – Reg No.: SC013927



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

Please answer ALL the questions in this assignment.

THE CHARTERED INSTITUTE OF BANKERS IN SCOTLAND

The Institute's balance sheet and income and expenditure account for the last two trading periods are appended to this assignment. As a professional body, the Institute's aims and objectives differ substantially from those of a profit maximising enterprise.

Required:

- (a) From a performance management perspective, discuss the financial analyses that the Institute's management accountants should carry out in order to evaluate the performance of the Institute in a given trading period and over time.

(10 marks)

- (b) Suggest ways in which the Institute can assess the value for money provided for its members.

(10 marks)

- (c) Identify any FIVE ratios that can be used in a meaningful way to support an analysis of the financial accounts. Give reasons for your answer.

(10 marks)

- (d) Identify any FIVE ratios used by financial analysts of commercial enterprises that have little or no value when considering the performance of the financial accounts of the Institute. Give reasons for your answer.

(10 marks)

(TOTAL MARKS – 40)

Question 2

Poros Limited has an annual turnover of £600,000 per annum. In the last year its debtor days have increased from 45 days to 80 days and the company has been severely affected by bad and doubtful debts for the first time in its 10 years of trading.

In order to reduce the debtors' days on hand the Chief Executive proposes a 5% discount for settlement of payments due within 30 days of issue of the invoice. She estimates that the scheme will cost £1,000 to introduce. The current interest rate paid on the company's bank overdraft is 12%.

(a) Evaluate the benefits and costs of introducing the proposed scheme assuming:

- (i)** That all customers take up the discount
- (ii)** That 10% of customers take up the discount.

(10 marks)

(b) Comment on the potential positive and negative consequences of introducing a discount for customers.

(5 marks)

(c) Other than introducing a discount for timely settlement of invoices, propose alternative courses of action that Poros Limited might introduce to address this problem.

(5 marks)

(TOTAL MARKS – 20)

Question 3

Vitapomme Limited is a family owned private limited company that produces high quality apple juice. The company grows its own apples and processes them all the way through the production process to eventual bottling and distribution. All these activities take place on the company's farm. The company sells its produce to small delicatessens and large supermarket chains. The sales to supermarkets generate a much lower margin than other sales, as their buyers can dictate the prices they are prepared to pay. The result of this is that Vitapomme Limited has become more dependent on a small number of buyers with ever-decreasing margins in recent years.

The company has had to resort to borrowing from its bank by way of overdraft. The business banking manager has warned that the company is unlikely to be able to increase the credit available in the foreseeable future.

The family has considered numerous options to address the problems faced by the company. It owns a considerable amount of land, though this is situated in a green belt area and so it cannot be sold for housing or other building development. However, one of the family members has suggested using some of the land for a new golf course. Other possibilities are the development of a horse riding centre and the establishment of boarding kennels. Local planners have stated that a planning application would be considered sympathetically. The developments would not affect the apple production capacity of the farm. Another option is to divest the company altogether. One of the large cider manufacturers has expressed an interest in acquiring the business in its entirety and is prepared to continue to sell under the Vitapomme brand. This is regarded as important by the oldest family member for sentimental reasons.

Required:

(a) Examine the problems that Vitapomme Limited would encounter when managing its working capital cycle, and the special problems that would arise when seeking to compete with other producers.

(10 marks)

(b) Suggest ways in which the family may evaluate the project to convert some of the land owned by the company to the alternative uses.

(10 marks)

(c) Using the following data, evaluate the alternative uses of the land by calculating expected values. Comment on the practical difficulties of applying this analysis

(10 marks)

Use	Income (£)	Probability (%)
Golf Course	25,000	40
	30,000	35
	42,000	20
	48,000	5
Riding Centre	20,000	20
	26,000	45
	32,000	10
	36,000	10
	40,000	8
	45,000	7
Boarding Kennels	15,000	10
	20,000	15
	25,000	35
	34,000	20
	40,000	10
	42,000	10

Suggest alternative ways in which the value of Vitapomme Limited may be evaluated if the family decides to consider a sale of the business to the large cider manufacturer.

(10 marks)

(TOTAL MARKS – 40)

TOTAL ASSIGNMENT MARKS – 100

APPENDIX

THE CHARTERED INSTITUTE OF BANKERS IN SCOTLAND

Balance Sheet at 28th February 2006

	2006	2005
	£	£
FIXED ASSETS		
Tangible Fixed Assets	732,223	667,863
Investments	113,754	92,338
	845,977	760,201
CURRENT ASSETS		
Stocks	37,542	45,082
Debtors	392,161	377,918
Cash and Bank Balances	703,546	766,654
	1,133,249	1,189,654
CURRENT LIABILITIES		
CREDITORS: amounts falling due within one year	(147,749)	(152,645)
NET CURRENT ASSETS	985,500	1,037,009
TOTAL ASSETS	1,831,477	1,797,210
FINANCED BY FUNDS		
Restricted funds		
Prize Funds	121,231	99,815
Unrestricted funds		
Capital Reserve	75,747	75,747
Accumulated Fund	1,634,499	1,621,648
TOTAL FUNDS EMPLOYED	1,831,477	1,797,210

Revenue Account at 28th February 2006

	2006	2005
	£	£
INCOME		
Subscriptions and contributions	726,724	689,814
Education	978,264	1,060,012
Sale of publications and Institute gifts	74,613	81,884
Interest receivable	33,983	29,225
Other income	177,163	204,519
	1,990,747	2,065,454
EXPENDITURE		
Administration	1,259,252	1,140,350
Property	50,309	44,799
Magazine	95,232	98,030
Publications and Institute gifts	16,336	12,305
Education	383,933	430,353
District Centres and other events	15,077	56,944
Marketing activities	33,635	60,323
Increase provision for bad debts	-	20,000
	1,853,774	1,863,104
OPERATING SURPLUS FOR YEAR	136,973	202,350
Depreciation	127,607	150,786
(Gain) on disposal of fixed assets	(3,485)	(9,572)
SURPLUS FOR YEAR	12,851	61,136
Balance on Accumulated Fund brought forward as previously reported	1,621,648	1,560,512
ACCUMULATED FUND AS AT 28 FEB 2006	1,634,499	1,621,648
Statement of total recognised gains and losses		
Surplus for year	12,851	61,136
Unrealised gain/(loss) on investments	20,942	10,418
Total gains for year	33,793	71,554