Ollscoil na hÉireann, Gaillimh GX 1847
National University of Ireland, Galway

Semester II Examinations, 2003/2004

Exam Codes	1DQ1; 2BN1; 4BE1; 4BG1; 4BI1; 4BI2; 4BJ1; 4BM1; 4BV1
Exams	1DQ1 Diploma in Quality Assurance
	2BN1 B.E. Degree (Electronic)
	4BE1 B.E. Degree (Civil)
	4BG1 B.E. Degree (Biomedical Engineering)
	4BI1 B.E. Degree (Industrial Eng. & Info. Systems)
	4BI2 B.E. Degree (Industrial Eng. & Info. Systems)(Design Stream)
	4BJ1 B.E. Degree (Management Engineering with Language)
	4BM1 B.E. Degree (Mechanical)
	4BV1 B.E. Degree (Environmental)
Module Codes	**MG330**
Modules	**MG330 Business Management & Finance**
Paper No.	-
Repeat Paper	- **Special Paper** -
External Examiner(s)	**Professor J. Winterton**
Internal Examiner(s)	**Professor R. Green; Professor S. Collins;**
	Mr. J. Currie; Mr. W. Geoghegan; Dr. M. Quinn

Instructions:	**In Section A: Answer Question 1 and one other question.** **In Section B: Answer one question.** **In Section C: Answer one question.** **Use Separate answer books for each section.**

Duration	**3 hrs**
No. of Answer Books	3
Requirements:	
Handout	
MCQ	
Statistical Tables	
Graph Paper	
Log Graph Paper	
Other Material	
No. of Pages	10
Department	**Department of Management**

Section A (Finance)

In this section, answer Question 1 and one other question

Question 1 (Compulsory)

N.B.: Instructions for Question 1

- You should answer all twelve parts of this multiple choice question (MCQ).
- A special MCQ answer sheet is not required.
- Write your answers to each part in your normal answer book. For example, if you believe that answer [A] is the correct answer to **MCQ 1**, then simply write:

  MCQ 1 = A

- Negative marking will not be used.

MCQ 1: **A company is preparing its Cash Payments Budget for July. Which of the following should not appear in that budget?**

(A) Payments which will be made in July for raw materials which were purchased in any previous month.

(B) Capital expenditure items which will be paid for in July.

(C) Dividends which will be paid in July.

(D) Depreciation.

MCQ 2: **Dachsund Ltd. will commence trading on 1st June 2004. Sales will be €15,000 in June, and will increase by €5,000 per month thereafter. 60% of customers will pay in the month of sale, 38% will pay in the month after sale, and the remainder will become bad debts. How much cash will the company receive from its customers in August 2004?**

(A) €21,500

(B) €22,600

(C) €22,900

(D) None of the above

... Question 1 continues on the next page ...

... Question 1 continued from the previous page ...

Data for MCQ 7, MCQ 8 & MCQ 9

Angle Ltd., which commenced business on 1st January 2003, has a share capital of 500,000 ordinary shares. The Profit & Loss Account for the year ended 31st December 2003 is:

Sales	**€936,000**
Cost of sales	(€750,000)
Gross profit	**€186,000**
Administration & distribution expenses	(€36,000)
Operating profit	**€150,000**
Interest expense	(€30,000)
Profit after interest	**€120,000**
Taxation	(€48,000)
Profit after interest and tax	**€72,000**

At 31st December 2003, current assets were €250,000 (including stock of €100,000) and current liabilities were €50,000.

MCQ 7: **What was the 'acid test' (or 'quick ratio') at 31st December 2003?**

(A) 1.667

(B) 3

(C) 5

(D) 7

MCQ 8: **Assuming that €100,000 was the average level of stock during 2003, what was the stock turnover for the year?**

(A) 1.5

(B) 2.5

(C) 7.5

(D) 9.36

MCQ 9: **What was the earnings per share (EPS) figure in 2003?**

(A) €0.144

(B) €0.24

(C) €0.30

(D) €0.372

... Question 1 continues on the next page ...

... Question 1 continued from the previous page ...

Data for MCQ 10, MCQ 11 & MCQ 12

Bloater Ltd. plans to manufacture a product which will sell for €20 per unit. All output will be sold in the month of production. The company will manufacture the product using either a ***labour-intensive production technology*** (in which case variable costs will be €8 per unit, and fixed costs will be €360,000 per month) or a ***capital-intensive production technology*** (in which case variable costs will be €5 per unit, and fixed costs will be €540,000 per month).

MCQ 10: **If the *labour-intensive* production technology is used, what is the monthly breakeven point in sales revenue?**

(A) €180,000

(B) €360,000

(C) €600,000

(D) €900,000

MCQ 11: **At what level of output per month do the two production technologies give the same level of profit?**

(A) 45,000 units per month

(B) 60,000 units per month

(C) 90,000 units per month

(D) There is no level of output at which the two technologies give the same profit.

MCQ 12: **Assume now that the company has decided to produce 72,000 units of the product next month, using the *capital-intensive production technology*, but it believes that the €20 selling price may not be achieved. At what selling price would a profit of €18,000 be earned next month?**

(A) €2.75 per unit

(B) €7.75 per unit

(C) €12.75 per unit

(D) €17.75 per unit

(Total for Question 1: 25 marks)

Question 2

Kilkenny Wholesalers Ltd. makes sales of €3,000,000 annually on credit. The cost of goods sold amounts to 86% of sales.

Officially, the company's credit terms are "1/10, net 30", *i.e.*, customers can deduct a 1% discount if they pay within 10 days or alternatively can pay the full amount of an invoice within 30 days. In practice, half of all customers pay 10 days after the sale (in order to qualify for the discount) and the remaining customers take an average of 80 days credit. The company spends 1.5% of its sales revenue on "administering" its debtors (this includes using the cost of employing debt collection agencies to collect overdue debts).

The company is considering changing its credit terms to "2/10, net 30". It is believed that this would have the following effects:

- Credit sales per annum would increase by €300,000.
- 80% of customers would avail of the discount, while the remainder would take 155 days credit.
- The cost of "administering" debtors would decrease to 1% of sales revenue.

The company's cost of capital is 10% per annum.

Required

(a) Prepare calculations to indicate the net effect on the annual profits of Kilkenny Wholesalers Ltd. if the proposed change in credit terms is implemented. [*In your calculations, assume 1 year = 360 days*].

(18 marks)

(b) Discuss what steps a company such as Kilkenny Wholesalers Ltd. should take in order to assess the credit-worthiness of (i) an existing customer (ii) a possible new customer.

(7 marks)

(Total for Question 2: 25 marks)

Question 3

Greenland Ltd. operates a small chain of grocery shops in County Galway, and is now considering the possibility of opening a new store in Tuam. The following information has been assembled in relation to the proposed Tuam store:

(1) Premises would be leased for €50,000 per annum, payable at the beginning of each year. The lease would run for 10 years, and it should be assumed that the Tuam store would cease trading at the end of this time.

(2) The cost of equipment, shelving, etc., for the new store would be €600,000, payable immediately. It is estimated that these items could be sold as scrap for €80,000 in 10 years' time.

(3) Each year, the shop would be redecorated and the equipment serviced, at a total cost of €25,000 per annum.

(4) The Tuam store's sales would amount to €2,500,000 per annum. However, the sales of Greenland Ltd.'s other stores would be reduced by €900,000 per annum as a result of the opening of the Tuam store.

(5) In all of Greenland Ltd.'s stores, variable cost amounts to 70% of sales.

(6) The fixed operating costs of the Tuam store would amount to €330,000 per annum (including depreciation of €52,000 and wages of €108,000).

(7) Greenland would have to provide working capital of €90,000 immediately for the Tuam store. This investment would be recouped in full when the Tuam store ceases trading.

The cost of capital is 10% per annum. It should be assumed that cash flows arise at the end of the year to which they relate, except where otherwise stated.

Note: Tables of *present value factors* and *annuity present value factors* are attached to this paper.

Required

(a) Calculate the Net Present Value (NPV) of the proposed Tuam Store, and make a recommendation as to whether or not this store should be opened.

(16 marks)

(b) Greenland Ltd. is considering a second investment proposal ("Proposal Q"), which would require an immediate investment of €75,000 and would generate the following series of cash inflows at the end of the next three years:

Year 1	Year 2	Year 3
€40,000	€20,000	€35,000

Calculate the Internal Rate of Return (IRR) of "Proposal Q".

(6 marks)

(c) Briefly explain the principal disadvantages of using the "payback technique" for capital budgeting decisions.

(3 marks)

(Total for Question 3: 25 marks)

Section B (Industrial Relations)

Answer one question from this section

Question 4

Outline and discuss the principal roles, structure and workings of the Labour Court.

(25 marks)

Question 5

A friend from your secondary school days has just been dismissed from a well-paying job that he liked. Knowing that you have done a course in Industrial Relations as part of your engineering studies, he has asked you to meet him to discuss his predicament. Outline the kind of questions you need to ask him and the general advice you would give him about his rights under the Unfair Dismissals Acts, 1977 and 1993.

(25 marks)

Section C (Management)

Answer one question from this section

Question 6

Please answer FOUR of the following:

(a) What are the four management functions? Write a brief note on two of these functions.

(b) Explain what is meant by the term 'core competence' using examples to support your answer.

(c) Describe Porter's three generic strategies and discuss situations/contexts when a differentiation strategy might work best.

(d) Define organising and discuss two of the building blocks of organising.

(e) Write a brief note to explain what is meant by the situational approach to leadership.

(25 marks)

Question 7

Outline two models that may be used to examine the external environment, using examples of how these models apply to a company you are familiar with.

(25 marks)