

Ollscoil na hÉireann, Gaillimh
National University of Ireland, Galway

Summer Examinations 2005

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

<u>Instructions:</u>	<p><u>In Section A:</u> Answer Question 1 and one other question.</p> <p><u>In Section B:</u> Answer one question.</p> <p><u>In Section C:</u> Answer Question 6.</p> <p>Use separate answer books for each section.</p>
-----------------------------	--

Duration	<u>3 hrs</u>
No. of Answer Books	<u>3</u>
<u>Requirements:</u>	
Handout	<u> </u>
MCQ	<u> </u>
Statistical Tables	<u> </u>
Graph Paper	<u> </u>
Log Graph Paper	<u> </u>
Other Material	<u> </u>
No. of Pages	<u>9</u>
Department	<u>Department of Management</u>

Section A (Finance)

In this section, answer Question 1 and one other question

Question 1 (Compulsory)

Brown PLC and White PLC are two companies whose shares are quoted on the Irish Stock Exchange. Both companies prepare annual financial statements for the year ended 31st December. The most recent financial statements are as follows:

Balance Sheets as at ended 31st December 2004:		
	Brown PLC	White PLC
Fixed Assets:		
Land & Buildings (cost)	€125,000	€85,000
Plant, Equipment & Vehicles (net book value)	€103,000	€100,000
Total Fixed Assets	€228,000	€185,000
Current Assets:		
Stocks	€40,000	€41,000
Cash	€0	€5,000
Trade Debtors	€70,000	€75,000
Total Current Assets	€110,000	€121,000
Current Liabilities:		
Bank Overdraft	€2,000	€0
Trade Creditors	€50,000	€35,000
Total Current Liabilities	€52,000	€35,000
Net Current Assets	€58,000	€86,000
Total Assets Less Current Liabilities	€286,000	€271,000
Capital & Reserves:		
Share Capital (€1 shares)	€150,000	€100,000
Share Premium	€35,000	€50,000
Profit & Loss Account	€101,000	€121,000
	€286,000	€271,000

[... this question continues on the next page ...]

[... Question 1, continued ...]

Profit and Loss Accounts for the year ended 31st December 2004:		
	Brown PLC	White PLC
Sales	€376,000	€512,000
Cost of Goods Sold	€225,000	€322,000
Gross Profit	€151,000	€190,000
Miscellaneous Expenses	€95,000	€106,000
Net Profit	€56,000	€84,000

The market prices of the two companies' shares at 31st December 2004 were as follows:

- Brown PLC: €2.55 per share;
- White PLC: €8.50 per share.

A friend of yours who owns shares in both companies has said that she cannot understand why there is such a big difference between the share prices of the two companies. She is considering selling her shares in White PLC and buying more shares in Brown PLC instead. However, before making a final decision, she has asked you to write a report comparing and contrasting the performance of the two companies.

Required:

Prepare the report requested by your friend. Your report should include calculation of appropriate ratios (show workings in full) and interpretations thereof.

[Total: 25 marks]

5

Question 2

Sonic Ltd. manufactures a single product (the "SL-1"). The company is preparing its budget for the period June to October 2005 inclusive. The following information is available:

- (1) Forecast sales of "SL-1" (units):

June	July	August	September	October	November
5,000	6,000	8,000	9,000	7,000	5,000

The selling price is €14 per unit. 20% of sales are made for immediate cash and the remainder are made on one month's credit.

- (2) Production of a unit of "SL-1" requires 15 minutes of direct labour and 3 kilograms of raw material. Direct labour costs €8 per hour and is paid for in the month of production. Raw material costs €2.50 per kilogram and is paid for in the month after it is purchased.
- (3) Fixed overheads are €180,000 per annum including depreciation on machinery which was purchased for €240,000 in 2003 and is being depreciated over a useful life of four years with a nil residual value. Fixed overheads which require cash are paid in 6 equal instalments each year at two-monthly intervals beginning on January 1st.
- (4) It is the company's policy to hold the following stocks at the end of each month:

"SL-1":	80% of the units which will be sold in the following month.
Raw materials:	50% of the amount required for production in the following month.

- (5) The company expects to have the following balances at 31st May 2005:

- Trade debtors:	€48,000.
- Trade creditors:	€45,000.
- "SL-1":	4,000 units.
- Raw materials:	8,100 kilograms.
- Cash:	€10,000.

- (6) In order to avoid any risk of cash flow shortages it has been decided that cash will not be allowed to fall below €10,000 at any time. If necessary the company will borrow from its bank to maintain cash at this level. It should be assumed that borrowings will take place at the beginning of a month and repayments (where possible) at the end of a month. Borrowing and repayments will be in multiples of €1,000 and interest (at the rate of 1% per month) will be paid at the time of loan repayment.

[... this question continues on the next page ...]

[... Question 2, continued ...]

Required:

- (a) Prepare the cash budget (and all necessary supporting budgets), by month and in total, for the period June to September inclusive.
(18 marks)
- (b) Calculate the net profit earned for the total period June to September inclusive (a month-by-month breakdown is not required for this part) and explain the main reasons why the total net profit differs from the increase in the company's cash balance as indicated in the cash budget.
(7 marks)

[Total: 25 marks]

Question 3

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

Innsbruck Construction Ltd. is considering three capital budgeting proposals. The following is a summary of the three proposals:

	Proposal "A"	Proposal "B"	Proposal "C"
Initial cost of investment	€190,000	€300,000	€142,000
Expected life	5 years	5 years	3 years
Re-sale value at end of expected life	€30,000	€60,000	€22,000
Operating profit:			
-- In Year 1	€58,000	€77,000	€33,000
-- In Year 2	€28,000	€47,000	€30,000
-- In Year 3	€18,000	€48,000	minus €2,000
-- In Year 4	€8,000	€32,000	not applicable
-- In Year 5	minus €7,000	minus €48,000	not applicable

Operating profit is calculated as the net operating cash inflows (which are received at the end of the year in question) minus depreciation (which is calculated on a straight-line basis).

The company's cost of capital is 15% per annum.

Required:

(a) Calculate the following for each project:

- Net present value (NPV);
- Internal rate of return (IRR);
- Payback period;
- Accounting rate of return (based on "average investment");
- NPV profitability index.

(18 marks)

1

(b) Explain the relevance of each of the above measures in making capital budgeting decisions. Use the example of Innsbruck Construction Ltd. to illustrate your answer.

(7 marks)

[Total: 25 marks]

Section B (Industrial Relations)

Answer one question from this section

Question 4

Outline the main statutory provisions pertaining to employee dismissal in Ireland. Give examples where possible.

(25 marks)

Question 5

What is union recognition? What factors impact on union density and recognition? Make reference to union recognition and 'newer' organisations in your answer.

(25 marks)

Section C (Management)

Answer Question 6 from this section

Question 6

In this question, please answer THREE of the following

1. Analytical tools can guide the manager when planning for the organisation. Discuss giving examples of two analytical tools.
2. Write a note on Group Decision making. Your answer should include a note on the advantages / disadvantages along with ways to ensure that the process is effective.
3. Outline the causes and consequences of stress and suggest strategies available to organisations to tackle stress in the workplace.
4. Discuss Maslow's hierarchy of needs and its implications for motivating employees.
5. Discuss the four situational influences on organisation design.
6. What are the characteristics of an effective control system?

(25 marks) |