SAC 405: PRINCIPLES OF FINANCIAL MANAGEMENT

QUESTION ONE (30 MARKS)

a. i. Differentiate between capital budgeting and financial analysis (2 marks)
   ii. State 3 key importance of capital budgeting (3 marks)
b. The following data has been extracted from the business information report for ABC company Ltd. Analyze the changes for each ratio between 2018 and 2019,showing the potential impact upon ABC in general and making reference to its management of its working capital in particular. (5 marks)

Business information Report (extract) on ABC Limited		
Ratio calculated	**2018**	**2019**
Current Ratio	2.5 : 1	2.2 : 1
Acid Test Ratio	0.7 : 1	1.1 : 1
Receivables Collection Period	49.5 days	33.3 days
Payables Settlement Period	24.8 days	28.7 days
Asset Conversion Period	80.7 days	63.5 days

c. Assume that the personal allowance is £10,000, and that the marginal tax rates are 20% for the first £30,000, and 40% for taxable income above this. Calculate how much tax a single person earning £50,000 will pay assuming there are no adjustments to total income. State the proportion of total income that is paid in tax. (5 marks)
d. Define futures and explain its FOUR types (5 marks)
e. From the following information, calculate inventory turnover ratio : (5 marks)

Particulars	**Amounts**
Inventory in the beginning	= 18,000
Inventory at the end	= 22,000
Net purchases	= 46,000
Wages	= 14,000
Revenue from operations	= 80,000
Carriage inwards	= 4,000

f. Explain the Accruals (or Matching) concept in relation to the financial accounts and statements of a business. (5 marks)

QUESTION TWO (20 MARKS)

a. Explain why ordinary shares are popular amongst both issuers and investors. (5 marks)
b. Describe the investment characteristics of convertible loan stock (5 marks)
c. Differentiate between right issues and script issues made by quoted companies stating purpose for each issue (5 marks)

d. Suggest issues that the Trust Deed of a bond issued by a company might cover. (5 marks)

QUESTION THREE (20 MARKS)

a. Explain the following terms in relation to company finance:
   i. Bills of exchange (2 marks)
   ii. Bank overdraft (2 marks)
   iii. Commercial paper (2 marks)
b. Describe the major practical differences between a cash budget and other budgets within a business's budgetary control system. (4 marks)
c. State THREE categories of loan stocks (6 marks)
d. Discuss TWO types of factoring (4 marks)

QUESTION FOUR (20 MARKS)

a. State SIX methods of collecting income tax. (12 marks)
b. What are the three main adjustments that have to be made to accounting profit to arrive at the taxable profit? (6 marks)
c. Elucidate double taxation Relief. (2 marks)

QUESTIONS FIVE (20 MARKS)

a. Explain how a suspense account can be used as part of the book-keeping error correction process. (4 marks)
b. The following are extracted balances from Everest's business accounts along with other information relating to the business's year ending on 30 April 2021. For some reason, the figure for Capital at the beginning of the year has not been supplied, although you have been given the year end net profit figure:

	£
Capital as at 1 May 2020	unknown
Machinery at cost	100,000
Sales Revenue	59,000
Motor Vehicles at cost	50,000
Purchases	25,000
Trade Receivables	13,000
Trade Payables	12,500
Accumulated (provision for) depreciation: Machinery	10,000
HR Revenue and Customs: VAT (owing)	7,750
Net Profit as at 30 April 2021	7,105
Accumulated (provision for) depreciation: Motor vehicles	5,000
Water and Utilities	4,500
Inventory as at 1 May 2020	3,500
Wages and Salaries	3,500
Rent	3,000
Bank (in funds)	1,800
Purchases Returns	1,355
Business Rates	1,250

	£
Bad Debts written off	1,150
Sales Returns	1,250
Discount Allowed	950
Cash in Hand	760
Drawings	750
Discount received	550

The Rent figure includes £600 relating to May, June and July 2021. The Machinery still has to be depreciated at year end by 10% straight line. There was unpaid Wages and Salaries at year ending 30 April 2021 of £800. Stocktake at year ending 30 April 2021 valued Inventory at £5,000. Motor vehicles need year end depreciation (diminishing balance at 10%).

Use the information given about Everest's business as appropriate to prepare a Statement of Financial Position for its year end, including the missing figure for Capital. (12 marks)

c. Explain the problems from a working capital perspective for a business which has;
   i. too many orders and
   ii. too few orders (4 marks)