UNIVERSITY OF LONDON
IMPERIAL COLLEGE OF SCIENCE, TECHNOLOGY AND MEDICINE

EXAMINATIONS 1998

BEng Honours Degree in Computing Part III
for Internal Students of the Imperial College of Science, Technology and Medicine

This paper is also taken for the relevant examinations for the Associateship of the City and Guilds of London Institute

PAPER 3.55

ORGANISATION AND FINANCE
Thursday, May 7th 1998, 10.00 - 12.00

Answer THREE questions

For admin. only: paper contains 4 questions

Section A *(Use a separate answer book for this Section)*

1 a Describe briefly what is involved in the **strategy process**. Why is the environmental analysis crucial to the process?

b Define and compare the three strategies of **differentiation, cost leadership** and **focus**. What, in your opinion, were the strategies followed by Amstrad and Levi Strauss in the mid to late 1980's?

2 a What do you understand by the term **organisational culture**? Discuss some of the characteristics of the organisation that might be considered indicators of its culture. Where possible use examples to support your answer.

b Compare and contrast the organisational cultures of **two** of the following companies: Rover (pre BMW), Amstrad, Levi Strauss or Oticon.

The two parts carry, respectively, 60% and 40% of the marks.

Section B *(Use a separate answer book for this Section)*

3 Kensington Trading Ltd purchased a machine at the start of 1996 for £50,000. It was estimated then that the life of the machine would be 12 years with no residual value at the end of this period. At the start of 1998 an improved model became available at a cost of £70,000. The new machine has an anticipated life of 10 years with no residual value at the end of this period. The manufacturers have offered Kensington Trading a trade-in allowance of £30,000 if they return their old model and purchase the improved model in its place.

It is estimated that the new machine can produce 500,000 units of the company's main product per annum compared with the 400,000 units per annum produced by the old machine. The product has been selling at £1.10 per unit; however, if the new model is purchased it is estimated that in order to ensure that all of the increased production is sold the price of the product will have to be reduced to £1.00 per unit and additional advertising expenditure of £25,000 will need to be incurred in each of the first three years of production (1998/1999/2000).

As a result of the increased production, a new part-time sales representative with a salary of £2250 per annum will have to be appointed. However, it is anticipated that the increased sales of the product will cause a fall of 40,000 units per annum in the sales of a competing product made by Kensington Trading. The competing product sells at 75p per unit. Lower production levels of this product will result in a saving of £20,000 per annum in production costs to the company.

It is anticipated that, if the new machine is purchased, direct costs of production of the main product will fall from 70p to 60p per unit but that factory overhead expenses will increase by £10,000 per annum

The company estimates its cost of capital to be 10% per annum.

You are required to advise the company as to whether or not the new machine should be purchased. The report should be accompanied by all the necessary calculations and, if the recommendation is to purchase the new machine, the report should include the rate of return that the company is earning on the additional expense implied by this decision.

It may be assumed that all payments and receipts (except those relating to the purchase of the new machine) are made at the end of the period to which they relate.

Ignore taxation.

Turn Over

4 Shanks & McEwan Group PLC accounts included the following note

"26 Related party transactions
The Group has identified the following transactions which fall to be disclosed under the terms of FRS 8

Pension fund
The company leases offices at 22/23 Woodside Place, Glasgow from the Shanks & McEwan Group PLC Retirements Benefit Scheme

Joint venture and associated company
The Group, through the subsidiary company Land Fill Gas Ltd, participates in a joint venture with Norweb Generation Ltd and holds a 50% shareholding in the associated company Norweb Land Fill Gas Ltd".

a Explain the purpose of disclosing transactions under FRS8, with examples of who would be related parties of Shanks & McEwan.

b Explain what dividends are and how they might relate to Shanks & McEwan's disclosure of related party transactions and gearing.

c Discuss the differences between defined benefit pension schemes (such as Shanks & McEwan's) and defined contribution pension schemes. Which scheme do you regard as the better and why?

d Describe the two ways leased assets are accounted for and indicate which is more likely to be used for the offices leased by Shanks & McEwan from its pension scheme.

e Explain the differences between subsidiary companies (such as Land Fill Gas Limited), associated companies (such as Norweb Land Fill Gas Ltd) and joint ventures (such as Norweb Generation Limited).

End of Paper