FINANCIAL MANAGEMENT FUNCTION

Questions 1 to 4 cover Financial management function, the subject of Part A of the BPP Study Text for Paper F9.

1 MCQ bank – Financial management and financial objectives 36 mins

1.1 Which of the following are the 3 key areas covered by financial management decisions?

1 Investment
2 Cash flow
3 Finance
4 Dividend

A 1, 2 and 3
B 2, 3 and 4
C 1, 3 and 4
D 1, 2 and 4 **(2 marks)**

1.2 Which of the following does NOT form part of the objectives of a corporate governance best practice framework?

A Separation of chairperson and CEO roles
B Establishment of audit, nomination and remuneration committees
C Minimisation of risk
D Employment of non-executive directors **(2 marks)**

1.3 The following information relates to A Co for the last financial year.

Revenue	$200 million
Asset turnover	10 times
Interest payable	$1.5m
Interest cover ratio	5 times

What is the return on capital employed for A Co for the year?

A 37.5%
B 3.75%
C 7.5%
D 15% **(2 marks)**

1.4 A school decides to have larger classes and examination results suffer as a result. In terms of the 'value for money' framework, which one of the following statements is true?

A Economy has increased but efficiency has decreased
B Efficiency has increased but effectiveness has decreased
C Economy has increased but effectiveness has decreased
D Economy has increased, but efficiency and effectiveness have decreased **(2 marks)**

1.5 H Co's share price is $3.50 at the end of 20X1 and this includes a capital gain of $0.75 since the beginning of the period. A dividend of $0.25 has been declared for 20X1.

What is the shareholder return?

A 21.4%
B 23.6%
C 28.6%
D 36.4% **(2 marks)**

1.6 Stakeholders can be classified as internal, connected or external. Which of the following is an external stakeholder?

A Shareholders
B Customers
C Bankers
D Government **(2 marks)**

1.7 A government body uses measures based upon the 'three Es' to the measure value for money generated by a publicly funded hospital. It considers the most important performance measure to be 'cost per successfully treated patient'.

Which of the three E's best describes the above measure?

A Economy
B Effectiveness
C Efficiency
D Externality **(2 marks)**

1.8 In not-for-profit businesses and state-run entities, a value-for-money audit can be used to measure performance. It covers three key areas: economy, efficiency and effectiveness. Which of the following could be used to describe effectiveness in this context?

A Avoiding waste of inputs
B Achieving agreed targets
C Achieving a given level of profit
D Obtaining suitable quality inputs at the lowest price **(2 marks)**

1.9 Which of the following statements are valid criticisms of return on capital employed (ROCE) as a performance measure?

1 It is misleading if used to compare departments with different levels of risk
2 It is misleading if used to compare departments with assets of different ages
3 Its use may discourage investment in new or replacement assets
4 The figures needed are not easily available

A 2 and 3 only
B 2 and 4 only
C 1 and 3 only
D 1, 2 and 3 **(2 marks)**

1.10 Which of the following statements are true?

1 Cash flow forecasting is primarily the responsibility of Financial Reporting
2 Whether to undertake a particular new project is a Financial Management decision

A Both statements are true
B Both statements are false
C Statement 1 is true and statement 2 is false
D Statement 2 is true and statement 1 is false **(2 marks)**

(Total = 20 marks)

INVESTMENT APPRAISAL

Questions 33 to 57 cover Investment appraisal, the subject of Part D of the BPP Study Text for Paper F9.

33 MCQ bank – Investment decisions 36 mins

The following information relates to questions 33.1 and 33.2.

NW Co is considering investing $46,000 in a new delivery lorry that will last for four years, after which time it will be sold for $7,000. Depreciation is charged on a straight-line basis. Forecast operating profits/(losses) to be generated by the machine are as follows.

Year	$
1	16,500
2	23,500
3	13,500
4	(1,500)

33.1 What is the return on capital employed (ROCE) for the lorry (using the average investment method)?

A 70%
B 28%
C 49%
D 36% **(2 marks)**

33.2 Assuming operational cash flows arise evenly over the year, what is the payback period for this investment (to the nearest month)?

A 1 year 7 months
B 2 years 7 months
C 1 year 5 months
D 3 years 2 months **(2 marks)**

33.3 Which of the following are benefits of the return on capital employed method of investment appraisal?

1 It considers the whole project

2 It is cash flow based

3 It is a percentage which, being meaningful to non-finance professionals, helps communicate the benefits of investment decisions.

A 1, 2 and 3
B 1 and 3 only
C 1, and 2 only
D 2 and 3 only **(2 marks)**

33.4 SW Co has a barrel of chemicals in its warehouse that it purchased for a project a while ago at a cost of $1,000. It would cost $400 for a professional disposal company to collect the barrel and dispose of it safely. However, the chemicals could be used in a potential project which is currently being assessed.

What is the relevant cost of using the chemicals in a new project proposal?

A $1,000 cost
B $400 benefit
C $400 cost
D Zero **(2 marks)**

33.5 A new project being considered by BLW Co would require 1,000 hours of skilled labour. The current workforce is already fully employed but more workers can be hired in at a cost of $20 per hour. The current workers are paid $15 per hour on a project that earns a contribution of $10 per hour.

What is the relevant cost of labour to be included in the project appraisal?

A $10,000
B $15,000
C $20,000
D $25,000 **(2 marks)**

33.6 LW Co has a half empty factory on which it pays $5,000 pa. If it takes on a new project, it will have to move to a new bigger factory costing $17,000 pa and it could rent the old factory out for $3,000 pa until the end of the current lease.

What is the rental cost to be included in the project appraisal?

A $14,000
B $17,000
C $9,000
D $19,000 **(2 marks)**

33.7 Which of the following is a drawback of the payback period method of investment appraisal?

A It is cash flow based
B It considers the time value of money
C It doesn't measure the potential impact on shareholder wealth
D It is profit based **(2 marks)**

33.8 Which stage is missing or in the wrong order from the investment decision making process below?

1 Origination of ideas
2 Financial analysis
3 Acceptance, implementation, monitoring and review

A Project screening should follow after stage 1
B Project screening should follow after stage 2
C Raising finance should be before stage 1
D Implementation should follow stage 1 **(2 marks)**

33.9 EE Co is considering investing in a new 40-year project which will require an initial investment of $50,000 (with zero scrap value) and has a payback period of 20 years.

What is the return on capital employed (using the average investment method)?

A 2.5%
B 10%
C 7.5%
D 5% **(2 marks)**

33.10 An accountant is paid $30,000 per annum and spends two weeks one month working on appraising project Alpha.

Why should the accountant NOT charge half his salary to the project?

A Because his salary is sunk
B Because his salary is not incremental
C Because his salary is not a cash flow
D Because his salary is an opportunity cost **(2 marks)**

(Total = 20 marks)

Present Value Table

Present value of 1 i.e. $(1 + r)^{-n}$

Where r = discount rate
n = number of periods until payment

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	0·980	0·961	0·943	0·925	0·907	0·890	0·873	0·857	0·842	0·826	2
3	0·971	0·942	0·915	0·889	0·864	0·840	0·816	0·794	0·772	0·751	3
4	0·961	0·924	0·888	0·855	0·823	0·792	0·763	0·735	0·708	0·683	4
5	0·951	0·906	0·863	0·822	0·784	0·747	0·713	0·681	0·650	0·621	5
6	0·942	0·888	0·837	0·790	0·746	0·705	0·666	0·630	0·596	0·564	6
7	0·933	0·871	0·813	0·760	0·711	0·665	0·623	0·583	0·547	0·513	7
8	0·923	0·853	0·789	0·731	0·677	0·627	0·582	0·540	0·502	0·467	8
9	0·914	0·837	0·766	0·703	0·645	0·592	0·544	0·500	0·460	0·424	9
10	0·905	0·820	0·744	0·676	0·614	0·558	0·508	0·463	0·422	0·386	10
11	0·896	0·804	0·722	0·650	0·585	0·527	0·475	0·429	0·388	0·350	11
12	0·887	0·788	0·701	0·625	0·557	0·497	0·444	0·397	0·356	0·319	12
13	0·879	0·773	0·681	0·601	0·530	0·469	0·415	0·368	0·326	0·290	13
14	0·870	0·758	0·661	0·577	0·505	0·442	0·388	0·340	0·299	0·263	14
15	0·861	0·743	0·642	0·555	0·481	0·417	0·362	0·315	0·275	0·239	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	0·812	0·797	0·783	0·769	0·756	0·743	0·731	0·718	0·706	0·694	2
3	0·731	0·712	0·693	0·675	0·658	0·641	0·624	0·609	0·593	0·579	3
4	0·659	0·636	0·613	0·592	0·572	0·552	0·534	0·516	0·499	0·482	4
5	0·593	0·567	0·543	0·519	0·497	0·476	0·456	0·437	0·419	0·402	5
6	0·535	0·507	0·480	0·456	0·432	0·410	0·390	0·370	0·352	0·335	6
7	0·482	0·452	0·425	0·400	0·376	0·354	0·333	0·314	0·296	0·279	7
8	0·434	0·404	0·376	0·351	0·327	0·305	0·285	0·266	0·249	0·233	8
9	0·391	0·361	0·333	0·308	0·284	0·263	0·243	0·225	0·209	0·194	9
10	0·352	0·322	0·295	0·270	0·247	0·227	0·208	0·191	0·176	0·162	10
11	0·317	0·287	0·261	0·237	0·215	0·195	0·178	0·162	0·148	0·135	11
12	0·286	0·257	0·231	0·208	0·187	0·168	0·152	0·137	0·124	0·112	12
13	0·258	0·229	0·204	0·182	0·163	0·145	0·130	0·116	0·104	0·093	13
14	0·232	0·205	0·181	0·160	0·141	0·125	0·111	0·099	0·088	0·078	14
15	0·209	0·183	0·160	0·140	0·123	0·108	0·095	0·084	0·074	0·065	15

Annuity Table

Present value of an annuity of 1 i.e. $\frac{1-(1+r)^{-n}}{r}$

Where r = discount rate
n = number of periods

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	1·970	1·942	1·913	1·886	1·859	1·833	1·808	1·783	1·759	1·736	2
3	2·941	2·884	2·829	2·775	2·723	2·673	2·624	2·577	2·531	2·487	3
4	3·902	3·808	3·717	3·630	3·546	3·465	3·387	3·312	3·240	3·170	4
5	4·853	4·713	4·580	4·452	4·329	4·212	4·100	3·993	3·890	3·791	5
6	5·795	5·601	5·417	5·242	5·076	4·917	4·767	4·623	4·486	4·355	6
7	6·728	6·472	6·230	6·002	5·786	5·582	5·389	5·206	5·033	4·868	7
8	7·652	7·325	7·020	6·733	6·463	6·210	5·971	5·747	5·535	5·335	8
9	8·566	8·162	7·786	7·435	7·108	6·802	6·515	6·247	5·995	5·759	9
10	9·471	8·983	8·530	8·111	7·722	7·360	7·024	6·710	6·418	6·145	10
11	10·37	9·787	9·253	8·760	8·306	7·887	7·499	7·139	6·805	6·495	11
12	11·26	10·58	9·954	9·385	8·863	8·384	7·943	7·536	7·161	6·814	12
13	12·13	11·35	10·63	9·986	9·394	8·853	8·358	7·904	7·487	7·103	13
14	13·00	12·11	11·30	10·56	9·899	9·295	8·745	8·244	7·786	7·367	14
15	13·87	12·85	11·94	11·12	10·38	9·712	9·108	8·559	8·061	7·606	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	1·713	1·690	1·668	1·647	1·626	1·605	1·585	1·566	1·547	1·528	2
3	2·444	2·402	2·361	2·322	2·283	2·246	2·210	2·174	2·140	2·106	3
4	3·102	3·037	2·974	2·914	2·855	2·798	2·743	2·690	2·639	2·589	4
5	3·696	3·605	3·517	3·433	3·352	3·274	3·199	3·127	3·058	2·991	5
6	4·231	4·111	3·998	3·889	3·784	3·685	3·589	3·498	3·410	3·326	6
7	4·712	4·564	4·423	4·288	4·160	4·039	3·922	3·812	3·706	3·605	7
8	5·146	4·968	4·799	4·639	4·487	4·344	4·207	4·078	3·954	3·837	8
9	5·537	5·328	5·132	4·946	4·772	4·607	4·451	4·303	4·163	4·031	9
10	5·889	5·650	5·426	5·216	5·019	4·833	4·659	4·494	4·339	4·192	10
11	6·207	5·938	5·687	5·453	5·234	5·029	4·836	4·656	4·486	4·327	11
12	6·492	6·194	5·918	5·660	5·421	5·197	4·988	4·793	4·611	4·439	12
13	6·750	6·424	6·122	5·842	5·583	5·342	5·118	4·910	4·715	4·533	13
14	6·982	6·628	6·302	6·002	5·724	5·468	5·229	5·008	4·802	4·611	14
15	7·191	6·811	6·462	6·142	5·847	5·575	5·324	5·092	4·876	4·675	15