

**Sample Paper**

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**AWARD IN BUSINESS FINANCE AND BANKING  
OPERATIONS**

**Level 4**

Subject code: ASE20084 SAMPLE

Time allowed: **2 hours**

**INSTRUCTIONS FOR CANDIDATES**

- Answer **ALL 4** questions.
- All questions carry equal marks.
- Study the “**REQUIRED**” section of each question carefully and extract the data required for your answers from the information supplied.
- Write your answers in blue or black ink/ballpoint. You can only use pencil for graphs, charts, diagrams, etc.
- Begin your answer to each question on a new page.
- All answers must be correctly numbered but need not be in numerical order.
- Workings must be shown.
- You may use a calculator provided the calculator gives no printout, has no word display facilities, is silent and cordless. The provision of batteries and their condition is your responsibility.
- Marks may be lost through lack of neatness and poor presentation.
- You may use an English or bilingual dictionary, thesaurus, spell check and calendar.

## QUESTION 1

The following is an extract from the Statement of financial position (balance sheet) for Estuary, a private company, as at 31<sup>st</sup> March 2010 and 2011

	2010 £000	2011 £000
<b>Current assets</b>		
Inventory	32,000	36,500
Receivables	23,000	25,000
Bank	756	0
<b>Current liabilities</b>		
Payables	17,400	21,760
Overdraft	0	20,000
Tax payable	5,478	8,734

The total revenue is derived from credit sales, which were £96 million for 2010 and £118 million for 2011. The total cost of sales was £55.6 million for 2010 and £72.5 million for 2011.

### REQUIRED

- (a) Using the above information, calculate the working capital cycle for Estuary for 31<sup>st</sup> March 2011 (please show your calculations, and round up your figures to the nearest day) (6 marks)
- (b) Identify **two** costs associated with inventory and explain their impact upon the business. (6 marks)

Due to the lack of working capital management, Estuary has a £20 million overdraft, and accounts receivables ledger total of £25 million. The company is considering factoring their accounts receivables ledger to repay the overdraft.

The following additional information is provided:

- (1) The fee for the factoring agreement is 1% of the accounts receivables total balance
- (2) The cost of the factoring agreement is 95% of the accounts receivables total balance
- (3) They are currently paying 8% interest per annum on the overdraft

### REQUIRED

- (c)
- (i) Calculate the cost of factoring the total accounts receivables ledger (4 marks)
  - (ii) Calculate the overdraft cost assuming the overdraft remains consistent for the next 12 months (1 mark)
  - (iii) Using the above calculations, make a recommendation to your directors giving a reason to justify your choice. (3 marks)

**(Total 20 marks)**

## QUESTION 2

### REQUIRED

- (a) Explain **four** methods of short-term investment that are available to a company. (8 marks)

Company B has recently set up in business and is looking to finance the purchase of a new machine worth £500,000. The following two options are being considered by Company B.

#### Option 1

Its bank is able to offer a loan with an interest rate of 7.5% per annum. No payments will be paid during the term of the loan. At the end of five years the loan and interest amount will be paid in full.

#### Option 2

A leasing company is able to offer an operating lease for the machine, over a period of five years and requires annual instalments of £150,000 per year. At the end of the lease the machine will return to the leasing company.

### REQUIRED

- (b)
- (i) Calculate both of the financing options available. (3 marks)
  - (ii) Recommend an option, and provide detailed comparison and justification for your choice. (4 marks)
- (c) Provide an example of a central bank, and explain its role within a country's economy. (5 marks)

**(Total 20 marks)**

### QUESTION 3

#### REQUIRED

- (a) Identify **three** services a bank can offer in relation to international trade and the circumstance in which they would be used. (3 marks)
- (b) A bill of exchange is commonly used when trading internationally. Explain the purpose of a bill of exchange, and how it is governed. (2 marks)
- (c) Describe a 'foreign exchange market', providing an example of when you would trade on the foreign exchange market, in relation to business, and where the foreign exchange market exists. (3 marks)
- (d) What is the definition of a:
- (i) spot rate in relation to foreign exchange markets
  - (ii) forward rate in relation to foreign exchange markets. (2 marks)

Monks Limited is a company which purchases raw materials from overseas using its domestic currency the Euro. Its overseas supplier trades in its home currency which is the US dollar.

Monks Limited needs to purchase 2.5 million US dollars to pay their supplier, and the options available to them are:

#### Option 1

Purchase 2.5 million US dollars today at an exchange rate of €1 = \$US 1.44

#### Option 2

Negotiate a future rate with their bank in 30 days time at an exchange rate of €1 = \$US 1.47. The bank also charges a flat rate fee of €10,000 for this rate.

#### REQUIRED

- (e) Advise Monks Limited on the following:
- (i) Which option provides the best return, showing calculations to support your answer? (4 marks)
  - (ii) Which option is the spot rate and which option is the future rate? (2 marks)
- (f) Identify and explain **two** services a bank offers for an individual in regards to foreign currency. (4 marks)

**(Total 20 marks)**

#### QUESTION 4

Camp Components is a manufacturing company. It recently exceeded its overdraft limit, due to a lack of control over their company bank account. The finance manager has suggested that a cash budget is prepared to assist the company to re-gain control and management of its bank account.

From 1 December 2010 to 30 June 2011, Camp Components estimate the following sales:

December	January	February	March	April	May	June
30,000	35,000	40,000	50,000	27,000	32,000	32,000

#### Additional information

- (1) It is estimated that 50% of the sales are cash sales.
- (2) The remaining 50% of the sales are credit sales, with credit terms agreed that payment is received the following month after the sale is made.
- (3) Cost relating to production of the components is 60% of the selling price. This includes the direct materials, labour and other costs related to production of the components. These are paid in the month that the sales are made.
- (4) Budgeted overheads for the first 6 months are as follows:
  - (a) Electricity £2,000 per quarter, first quarter is to be paid in February 2011.
  - (b) Telephone charges have been estimated to be £5,000 for the year. This is paid quarterly. The first payment is due on the 1 January 2011.
  - (c) Admin salaries are £4,500 per month
- (5) In the 6 month period Camp Components will need to invest in a new machine, to replace an existing machine, for which they have been quoted £75,000. Camp Components are planning on making the purchase in the month of April with payment made in May 2011.
- (6) Camp Components has an agreed overdraft limit of £5,000 and the balance on the bank account on the 1 January is £4,800 overdrawn.

#### REQUIRED

- (a) Prepare the cash budget for Camp Components for the first 6 months of 2011. (14 marks)
- (b) Advise Camp Components of three possible actions they can take to make sufficient funds available to purchase the new machine as budgeted in May 2011. (6 marks)

**(Total 20 marks)**