

This assignment will assess the following learning outcomes:

LO1: Understand the role of financial management in the performance of organisations and critically appraise alternative sources of finance for business firms.

LO2: Critically analyse the financial position and performance of an organisation using key ratios.

LO3: Apply advanced decision making techniques in a range of short-term and long-term situations.

This assignment is worth 50% of this 30 credit module. The written part of the assignment must not exceed the maximum of 2500 words. Figures, tables and numerical analysis are not included in the word count.

You are required to answer ALL questions

Question 1

Barka Textile sells high quality outdoor clothing through a small number of retail outlets. The company has recently published its financial statements for the year ended 31<sup>st</sup> December 2015. The annual report contains a review of the year by the Financial Controller (FC). The following is an extract from this review:

"2015 was a challenging year for most of the companies but by prudent financial management and by targeting specific niches markets we have produced an excellent set of results in this difficult financial climate. Our key strategies have been to:

- Increase sales year on year by new product introductions,
- Cut operating costs at every opportunity,
- Target high margin markets,
- Take advantage of low property prices and interest rates to grow our asset base,
- Manage our working capital prudently,
- Grow earnings per share by 10% per annum"

The financial statements of Barka Textile for the year ended 31<sup>st</sup> December are shown below:

**Barka Textile**  
**Statement of Comprehensive Income for the year ended 31<sup>st</sup> December**

Description	2015	2014
	OMR '000'	OMR '000'
Turnover	23,125	22,060
Cost of sales	(15,517)	(15,755)
<b>Gross profit</b>	<b>7,608</b>	<b>6,285</b>
Administrative expenses	(400)	(385)
Distribution cost	(620)	(550)
Operating profit	6,588	5,350
Interest expenses	(220)	(20)
Profit before tax	6,368	5,330
Taxation	(1,617)	(1,262)
Net Profit after tax	4,751	4,068
Dividend paid	(1,250)	(1,000)
Retained profit for the year	3,501	3,068

Module Title: Strategic Finance and Decision Making  
Module Code: BLB 00050-3  
Module Leader: Mr. ABDUL SAMAD KHAN  
Weighting: 50%

Submission Time and Date: 4<sup>th</sup> June – 6<sup>th</sup> June 2017

You should hand in **one** copy of your assignment by the time and date mentioned above to the appropriate 'hand-in location' at the Gulf College. Fill in the front cover (staple together with your assignment). *MAKE SURE* that you fill in all the relevant details on this form. An acknowledgement will be given to you upon receiving your assignment. This is your receipt, **keep it**. You can submit work by post, but you must send it recorded delivery, it must be postmarked two days before the deadline date and a copy must be kept by you in case it is lost in the post. Faxed assignments will **not** be accepted.

Assignments **must** be submitted by the due date. The only circumstance in which assignments can be submitted late is if an extenuating circumstances form is submitted at the same time. In these circumstances work may be submitted with in **five working** days of the original deadline for submission. If the extenuating circumstances are upheld, the assignment will be graded; otherwise a 0 will be awarded.

#### Maximum Word Length: 2500 words

State the number of words used at the end of your assignment. You may include diagrams, figures etc. without word penalty. A sliding scale of penalties for excess length will be imposed according to the amount by which the limit has been exceeded.

1-10%	excess	no penalty
11-20%	excess	10% reduction in the mark
21-30%	excess	20% reduction in the mark
31%+	excess	the work will be capped at a pass 40%

NB. None of the above penalties will be used to change a student mark which is above the pass mark, to one that is below the pass mark. Therefore the *maximum penalty* for exceeding the word limit will be a reduction to a pass grade.

## Barka Textile

Statement of Financial Position as at 31<sup>st</sup> December

	2015	2014
	OMR '000'	OMR '000'
<b>Non-Current Assets</b>		
Land & Building	16,740	15,140
Plant & Equipment	6,010	2,235
	<b>22,750</b>	<b>17,375</b>
<b>Current Assets</b>		
Inventories	3,875	4,250
Trade and Other Receivables	1,000	840
Bank & Cash	4,250	470
<b>Total Current Assets</b>	<b>9,125</b>	<b>5,560</b>
<b>Total Assets</b>	<b>31,875</b>	<b>22,935</b>
<b>Equity and Liabilities</b>		
<b>Equity</b>		
Shares Capital (OMR 0.500 per share)	12,500	12,500
Shares premium	375	375
Retain earning	9,500	6,000
<b>Total Equity</b>	<b>22,375</b>	<b>18,875</b>
<b>Non-Current Liabilities</b>		
8% Debentures	2,750	250
<b>Current Liabilities</b>		
Trade & Other Payables	3,875	1,750
Taxation payable	1,650	1,060
Legal provision	1,250	1,000
<b>Total Current Liabilities</b>	<b>6,750</b>	<b>3,810</b>
<b>Total Liabilities</b>	<b>9,500</b>	<b>4,060</b>
<b>Total Equity &amp; Liabilities</b>	<b>31,875</b>	<b>22,935</b>

Required:

A. Compute accounting ratios for the year ended 31<sup>st</sup> December 2014 & 2015 which provide insights into Barka Textile's financial position and performance as follows: (20 marks)

- i. Profitability
- ii. Working capital control (activity and liquidity ratios) and
- iii. Financial risks
- iv. Earnings per share & dividend per share, dividend pay-out ratio

Note: Answers should be expressed to one place of decimals with complete working

B. Critically evaluate the statements made by the Financial Controller given in the extract above. Use answer in (A) and other relevant information. (15 marks)

(Total 35 Marks)

Question 02

Turki Construction Ltd considers tendering a contract which would take three months to complete. It is felt that tenders over OMR80,000 are extremely unlikely to be successful. The company is in a specialised, highly-competitive market and new contracts are difficult to win and keep. If the contract is taken, Turki Construction Ltd still expects to complete its other current contracts. The management accountant submitted the cost estimates below:

	OMR
Direct materials	
Type A (already in stock)	8,000
Type B (firm order placed)	6,000
Type C (not yet ordered, shown at current purchase price)	5,000
Direct labour	30,000
Other costs:	
Variable overheads	3,000
Depreciation of equipment (straight-line basis)	3,750
Supervisors' salaries (Two supervisors @ OMR 4,000 each per month)	24,000
(Two supervisors @ OMR 4,000 each per month)	
General fixed overheads	12,000
<b>TOTAL COSTS</b>	<b>91,750</b>

Additional information with respect to the above costs are given below:

1. Type A material, originally cost OMR8,000, is already in stock. The material is not in common use and would realise about OMR6,000 if sold. If Material A is not used in this contract, all materials could be used later in the year as substitute to a material that currently costs 30% less than A's original price.
2. Type B material is in regular use by the company. The order for Type B material was placed twelve days ago and cannot be cancelled anymore. Due to a world-wide shortage which is expected to continue for the foreseeable future, Material B's price has increased by 50% since the order was placed. Material B could be sold at this new higher price (after deducting 15% selling costs) to a competitor who urgently needs this material. Alternatively, it can be used on other contracts later in the year.
3. A team of semi-skilled staff would be recruited locally specifically for the duration of this contract. The wages of these semi-skilled staff will amount to a total of OMR17,000. Skilled staff would also need to be reallocated to this contract from within the company. They have already worked for the company and are currently being paid although there is very little work for them to do. The estimated wages for these workers for the period of the contract are OMR10,000. On top of this re-allocation of skilled staff, it is estimated that a further OMR3,000 of overtime will also need to be incurred by specialist employees who are currently fully employed on other jobs within the company.
4. The management accountant has calculated variable overheads for the contract using the company's standard policy of 10% of direct labour cost. However, the project manager has estimated that, due to the unique nature of this work, the actual variable overhead arising as a result of the contract is likely to be about OMR4,750.
5. The equipment to be used on the contract cost OMR180,000 when it was purchased in May 2011. It was planned to keep it for ten years after which its scrap value was expected to be OMR30,000. The depreciation charge in the cost estimate is based on this data. At present, the equipment is worth OMR45,000. If used on the contract its current value is likely to decline to approximately OMR40,000. Turki Construction Ltd has no further use for the equipment and if the contract is not accepted they would sell it now.
6. The new contract is so specialised that one of the two supervisors need to be recruited from a competitor. She is expected to be paid a premium salary of OMR5,000 per month. The second supervisor, who is currently paid OMR4,000 per month, can be temporarily transferred from another department. However, he will only transfer to the project if he is incentivised through a one-off bonus payment of OMR800. His current role will be filled by a temporary upgrade of an existing worker with an estimated additional cost of OMR400 per month.

7. The management accountant allowed fixed overheads for the contract using the company's pre-determined policy of 40% of direct labour cost. The general fixed overhead absorption rate is calculated based on budgeted rent, rates, insurance, general expenses and similar fixed costs. However, it is anticipated that this additional contract would cause general expenses to increase by OMR750 per month for the duration of the contract.

**Required:**

- a) Using a relevant/opportunity cost approach, prepare a revised cost estimate for the contract in the light of the above information. (14 marks)
- b) For each item of cost referred to in the question, clearly explain your reasoning behind its inclusion in (or omission from) your estimate in a) above. (14 marks)
- c) On the basis of your estimate in (a) above, state whether the company should tender this contract. (2 mark)
- d) What other considerations should be taken into account in deciding whether to tender this contract? (5 marks)

(Total 35 marks)

**Question: 03**

Sony has invented a new type of mobile control console. They are keen to exploit the potential of this invention and are considering three alternative proposals to commence on 1<sup>st</sup> January 2017.

**Proposal 1:** Sell the exclusive rights of the invention on 1<sup>st</sup> January 2017 to a major company for an immediate cash payment of OMR110,000.

**Proposal 2:** Sell the rights to a major company for a down payment of OMR10,000 on 1<sup>st</sup> January 2017 and annual payments of OMR35,000 for next five years payable on 31<sup>st</sup> December each year (first payment on 31<sup>st</sup> December 2017).

**Proposal 3:** Set up a manufacturing and selling operation. The following estimates have been made for the next five years:

- Initial capital expenditure of OMR30,000 with a residual value the end of 2021 of OMR5,000.
- Net working capital to start operations of OMR10,000 expected to be recovered at the end of 2021.

- Expect unit sales

Year to 31 <sup>st</sup> December	Units
2017	2,000
2018	4,000
2019	10,000
2020	6,000
2021	4,000

- Sales price per unit OMR100
- Variable cost per unit OMR80
- Fixed cost per annum of OMR45,000 (including OMR5,000 per annum depreciation)

The company determined 20% as the required rate of return.

**Required:**

- Set out calculation showing the net present value of each proposal. **(16 Marks)**
  - Recommend the optimum proposal giving reasons to justify your selection. **(4 Marks)**
  - Explain the factors which influence the determination of a required rate of return. **(5 Marks)**
  - Critically analyse the different approaches to the calculation of cost of equity. **(5 Marks)**
- (Total 30 marks)**

**(Grand Total: 100 Marks)**

**GULF COLLEGE – MUSCAT – SULTANATE OF OMAN****UNDERGRADUATE BUSINESS PROGRAMME****ACADEMIC YEAR: 2016 -2017****Second Semester****Assignment**

<b>Module Title:</b> Strategic Finance and Decision Making	
<b>Module Code:</b> BLB 00050-3	
<b>Method of Assessment:</b> Assignment	
<b>Weighting:</b> 50%	<b>Module Credits:</b> 30
<b>Level:</b> 6	<b>Semester/Teaching block:</b> 1
<b>Morning / Evening session:</b> Both	<b>Examiner:</b> Mr. Abdul Samad Khan
<b>Additional Information (if any):</b> Maximum word length: 2500 words	