
Course	: Master of Business Administration
Module Code and Title	: PGBM01 Financial Management and Control
Assessment	: Individual Assignment
Word Length	: 3,500 words +/- 10%
Weighting within Module	: 100%

Assignment Submission

Students are required to submit their coursework through JIRA. Only assessments submitted through JIRA will be marked. Any other submission including submission to your study centre in hard copy will be treated as a non-submission.

If your centre supports Turnitin©, a copy of your Turnitin© originality report must be submitted in conjunction with your assignment.

- Outcomes Assessed: All module learning outcomes, knowledge and skills, are assessed in this assignment.
- Submission format: Soft copy of One (1) file (with .pdf extension) per student submission via Turnitin.
Cover page must be attached showing full details of your name, student number, programme, module, date of submission, word count etc.

This assessment is in three parts, please answer all elements.

Please note that this is an individual assignment and the policy of the University on "Policy on Cheating, Collusion and Plagiarism" applies.

Please write your Tutor's name clearly on the front of the assignment.

Please state your name (and student number) as per the record as a header in your submission. Your submission must be in a **single** file with .pdf extension.

Notes:

1. To obtain a high mark, you should:
 - a) Make your report concise, precise and well-presented and structured;
 - b) Draw logical conclusions from accounting information;
 - c) Synthesise information in a coherent and useful way;
 - d) Show evidence of key text and background reading;
 - e) Incorporate your knowledge into an integrated piece of work;
 - f) Demonstrate critical understanding of financial management.
2. A Harvard standard referencing is required for the report

3,500 words overall. (plus or minus 10%).

Word count excludes cover page, header, footer, tables, charts, appendixes, references, diagrams, pictures etc.

QUESTION 1 (40%)

Download annual report of STARBUCKS for the year 2016. You can access it from the MDIST Black Board. You have been appointed as a consultant to prepare a report for consideration by the Board of Directors on details of and changes over two years to the ratio relevant to shareholders namely Return on Owners Equity (ROOE).

Required:

- i) Using Du Pont Analysis, compute the ratios for two consecutive years covered by the annual report. Calculate Return on Owners Equity (ROOE) further analysed into Return on Sales, Total Asset Turnover ratio, Gearing Ratio. **Both** Return on Sales, Total Asset Turnover ratio can be further drilled down using 3 and 7 ratios respectively.

(14 marks)

- ii) Your report analyzing changes in figures over 2 years. Scope of analysis covers changes in Return on Owners Equity (ROOE) further explained by changes in profitability, asset turnover and leverage ratios.

(26 marks)

Total for Question 1: 40 marks

QUESTION 2 (40%)

The research and development group of Dremen Ltd are finalising work on their latest new product. The expenditure so far on this product is £250,000 and it is anticipated that a further £50,000 still needs to be spent on the formal testing for regulatory purposes. As a result of formal testing it is not anticipated that any problems will be encountered in the testing. The company has to decide now whether to invest in production facilities for the product.

An assessment of the potential market suggests that the company should be able to sell 30,000 units in the first year at a price of £60 per unit. Sales volume in the second year are expected to be 20 per cent higher than in the first year and higher sales volume are expected to remain at this level from year two to year five. The introduction of the product will require a one off marketing expenditure of £70,000. Annual marketing & distribution cost is expected to be \$50,000 throughout the life of the product. Technological change in the area is rapid and it is anticipated that the product will be withdrawn after five years. The direct cost per unit has been estimated at £45. The production will also lead to additional £130,000 of fixed costs each year.

The additional production equipment required will cost £750,000 and it will qualify for straight-line depreciation over five years. As the product life is relatively short the equipment is expected to have a resale value of £150,000 after five years use. Use will also be made of some assets already owned by the company. These assets have been fully depreciated for tax purposes but could be sold for £90,000. If used in the production the new product their value is expected to fall to £50,000 by the end of five years.

The productions will be located in one of the company's existing buildings. The company owns the building and will incur no cash outflow for its use in this project. However, the company is currently renting out this space for £12,000 per annum, but the rental agreement allows the arrangement to be terminated immediately.

The company will need to inject £270,000 for working capital initially. The project will require additional working capital of £54,000 at start of year2. All working capital will be recovered fully at end of year 5.

Ignore taxation.

- a) Compute relevant cash flows to the project. For each cash flow treated as irrelevant, explain why.

(14 marks)

b) If the required rate of return is 14 per cent determine the investment's NPV and discounted payback period.

(4 marks)

b) Evaluate the treatment given to following items in investment appraisal

- i. Interest expense.
- ii. Allocated fixed cost.
- iii. Sunk costs
- iv. Committed future cost

(12 marks)

c) Using an alternative selling price, analyse sensitivity of the NPV to the assumed price of the product to compute the price at which NPV will be zero. Justify three figures to which NPV is quite sensitive.

(10 marks)

Total for Question 2: 40 marks

QUESTION 3 (20%)

Critically evaluate the statement:

“Since the cost of borrowing is always lower than that of the cost of equity capital, a firm should raise finance through debt financing, and this is consistent with the objective of shareholder wealth maximization.”

Total for Question 3: 20 marks

END OF ASSIGNMENT

Quality Handbook

Generic Assessment Criteria – Postgraduate

These should be interpreted according to the level at which you are working

	Grade	Categories						
		Relevance	Knowledge	Analysis	Argument and Structure	Critical Evaluation	Presentation	Reference to Literature
Pas s	86 – 100%	The work examined is exemplary and provides clear evidence of a complete grasp of the knowledge, understanding and skills appropriate to the Level of the qualification. There is also unequivocal evidence showing that all the learning outcomes and responsibilities appropriate to that Level are fully satisfied. At this level it is expected that the work will be exemplary in all the categories cited above. It will demonstrate a particularly compelling evaluation, originality, and elegance of argument, interpretation or discourse.						
	76-85%	The work examined is excellent and demonstrates comprehensive knowledge, understanding and skills appropriate to the Level of the qualification. There is also excellent evidence showing that all the learning outcomes and responsibilities appropriate to that level are fully satisfied. At this level it is expected that the work will be excellent in the majority of the categories cited above or by demonstrating particularly compelling evaluation and elegance of argument, interpretation or discourse and some evidence of originality.						
	70 – 75%	The work examined is of a high standard and there is evidence of comprehensive knowledge, understanding and skills appropriate to the Level of the qualification. There is clearly articulated evidence demonstrating that all the learning outcomes and responsibilities appropriate to that level are satisfied. At this level it is expected that the standard of the work will be high in the majority of the categories cited above or by demonstrating particularly compelling evaluation and elegance of argument, interpretation or discourse.						
	60 – 69%	Directly relevant to the requirements of the assessment	A substantial knowledge of relevant material, showing a clear grasp of themes, questions and issues therein	Comprehensive analysis - clear and orderly presentation	Well supported, focussed argument which is clear and logically structured.	Contains distinctive or independent thinking; and begins to formulate an independent position in relation to theory and/or practice.	Well written, with standard spelling and grammar, in a readable style with acceptable format	Critical appraisal of up-to-date and/or appropriate literature. Recognition of different perspectives. Very good use of a wide range of sophisticated source material.
	50 – 59%	Some attempt to address the requirements of the assessment: may drift away from this in less focused passages	Adequate knowledge of a fair range of relevant material, with intermittent evidence of an	Significant analytical treatment which has a clear purpose	Generally coherent and logically structured, using an appropriate mode of argument and/or theoretical mode(s)	May contain some distinctive or independent thinking; may begin to formulate an independent position	Competently written, with only minor lapses from standard grammar, with acceptable format	Uses a good variety of literature which includes recent texts and/or appropriate literature, including a substantive amount beyond library

			appreciation of its significance			in relation to theory and/or practice.		texts. Competent use of source material.	
	40 – 49%	Some correlation with the requirements of the assessment but there are instances of irrelevance	Basic understanding of the subject but addressing a limited range of material	Some analytical treatment, but may be prone to description, or to narrative, which lacks clear analytical purpose	Some attempt to construct a coherent argument, but may suffer loss of focus and consistency, with issues at stake stated only vaguely, or theoretical mode(s) couched in simplistic terms	Sound work which expresses a coherent position only in broad terms and in uncritical conformity to one or more standard views of the topic	A simple basic style but with significant deficiencies in expression or format that may pose obstacles for the reader	Evidence of use of appropriate literature which goes beyond that referred to by the tutor. Frequently only uses a single source to support a point.	
Fail	35 – 39%	Relevance to the requirements of the assessment may be very intermittent, and may be reduced to its vaguest and least challenging terms	A limited understanding of a narrow range of material	Largely descriptive or narrative, with little evidence of analysis	A basic argument is evident, but mainly supported by assertion and there may be a lack of clarity and coherence	Some evidence of a view starting to be formed but mainly derivative.	Numerous deficiencies in expression and presentation; the writer may achieve clarity (if at all) only by using a simplistic or repetitious style	Barely adequate use of literature. Over reliance on material provided by the tutor.	
	The evidence provided shows that the majority of the learning outcomes and responsibilities appropriate to that Level are satisfied – for compensation consideration.								
	30 – 34%	The work examined provides insufficient evidence of the knowledge, understanding and skills appropriate to the Level of the qualification. The evidence provided shows that some of the learning outcomes and responsibilities appropriate to that Level are satisfied. The work will be weak in some of the indicators.							
	15-29%	The work examined is unacceptable and provides little evidence of the knowledge, understanding and skills appropriate to the Level of the qualification. The evidence shows that few of the learning outcomes and responsibilities appropriate to that Level are satisfied. The work will be weak in several of the indicators.							
	0-14%	The work examined is unacceptable and provides almost no evidence of the knowledge, understanding and skills appropriate to the Level of the qualification. The evidence fails to show that any of the learning outcomes and responsibilities appropriate to that Level are satisfied. The work will be weak in the majority or all of the indicators.							