

CBM 188: Advanced Accounting For Decision Makers

School	School of Creative and Cultural Business
Course	MSc Global Business Management
Stage	2
Academic Year	2020-2021
Cohort	7
Semester	1
Date	1 Feb 2021
Time (main cohort)	2.30 hours (including 15-minute reading time)
Time (SAA Student)	N/A
No. of Pages (including cover sheet)	4

Instructions to Candidates

Answer **ALL THREE** sections.

Points for each question is indicated below -C2 counts 40% of the module grade.

Special Stationary (None)

This is an open-book exam; you are allowed to use the textbook and/or your notes.

Section A: Investment Appraisal

Answer ALL questions:

1. (2 Points each, 1 point for the correct answer, 1 point for the reasoning)

i) While making 1000 units of a product company has following costs:

- Direct materials: \$5 per unit
- Direct labor: \$4 per unit
- Variable manufacturing overhead: \$3 per unit
- Fixed manufacturing overhead: \$6,000 per year

The management decided to use variable costing. The cost as per variable costing method will be:

- a) \$18
- b) \$9
- c) \$12
- d) \$15

ii) IRR of a project is 20%. Which of the following is true regarding project's NPV?

- a) Zero
- b) Negative at 15%
- c) Negative at 25%
- d) Indeterminate

iii) You accessed a project and figured the cash inflows for the next 8 years. Only in the end you realized that you had underestimated the discount rate. You made the correction. What would be impact of this correction:

- a) NPV will decrease and IRR will have no change.
- b) No change in both NPV and IRR
- c) NPV will increase and IRR will also increase.
- d) NPV will decrease and IRR will decrease.

iv) A company has a cost of equity (K_e) of 18% and a cost of debt (K_d) of 6%. It has 40% debt in its capital structure. It has two investment opportunities of similar risk to its existing business. A costs CHF 4m, will yield 9% and be financed by debt and B costs CHF 6m will yield 15% and be financed by equity. The company should:

- a) Accept A alone
- b) Accept B alone
- c) Accept both projects
- d) Accept neither project

v) The IRR (internal rate of return) method used to compare two investment projects

- a) Ignores the size of each of the projects
- b) Always provides only one IRR for each project
- c) Is not shown as a percentage
- d) Is based on accounting profits

2. (10 Points) The Red Line Yard has the opportunity to buy a car smasher. The machine would add net _____ cash flows of €80,000 at the end of the first year and €70,000 at the end of the second year (it will only last

two years). The initial cost of the machine is €100,000. At the end of two years, the salvage value of the car smasher is estimated to be €10,000. The required rate of return on the car smasher is 10%. The income tax rate is 40%. Red Line uses straight-line depreciation (for the machine's 2-year life) for income tax purposes. Income taxes are paid at the end of the year. Show the cashflow and calculate the net present value of the car smasher machine?

3. (20 points) XVZ Corp. is considering a combination of investing option. As part of the investor search process, the management considered the following options:
- Issue new debt at par with coupon rate of 9%
 - Issue preferred share with share price \$3.00 and dividend of \$30 per share
 - The market price of common share is \$50 per share
 - The company expects to pay a dividend of \$1 per share next year
 - Dividend growth is expected to be 5%
 - Marginal tax rate is 35%
- a) Calculate the cost of debt, cost of equity and cost of preferred share.
- b) The company raised capital using 40% debt, 10% preferred stock, and 50% common stock, calculate the cost of capital for the company?

Section B: Performance measure

Answer ALL questions:

1. (15 points) In the context of an International company, why instead of using only financial measure a combination of financial and nonfinancial measures for performance evaluation of foreign subsidiaries is preferred?
2. (25 points) How does the Balance Score Card (BSC) allows to resolve Deming's complaint concerning management by objectives and results? If so how? Deming said "A goal without a method is nonsense.". Use a company you know as an example to support your arguments.

Section C: Company's health

Using the following cases:

- **Scandic 2019 Annual report**

Answer ALL bullet points:

- (20 points) Critically appraise performance of the above global company based on financial and non-financial information declared in the published financial reports. As and where possible support your arguments with recommendations.

FINANCIAL TABLES

Present Value of \$1.00

Periods	2%	4%	6%	8%	10%	12%	14%	16%
1	0.980	0.962	0.943	0.926	0.909	0.89	0.877	0.862
2	0.961	0.925	0.890	0.857	0.826	0.79	0.769	0.743
3	0.942	0.889	0.840	0.794	0.751	0.71	0.675	0.641
4	0.924	0.855	0.792	0.735	0.683	0.63	0.592	0.552
5	0.906	0.822	0.747	0.681	0.621	0.56	0.519	0.476
6	0.888	0.790	0.705	0.630	0.564	0.50	0.456	0.410
7	0.871	0.760	0.665	0.583	0.513	0.45	0.400	0.354
8	0.853	0.731	0.627	0.540	0.467	0.40	0.351	0.305
9	0.837	0.703	0.592	0.500	0.424	0.36	0.308	0.263
10	0.820	0.676	0.558	0.463	0.386	0.32	0.270	0.227
11	0.804	0.650	0.527	0.429	0.350	0.28	0.237	0.195
12	0.788	0.625	0.497	0.397	0.319	0.25	0.208	0.168