PRIFYSGOL ABERYSTWYTH UNIVERSITY

SEMESTER TWO EXAMINATIONS, 2025-2026

ABERYSTWYTH BUSINESS SCHOOL

ABM1120: Financial Analysis and Decision-Making

Time allowed: **THREE HOURS**

Answer Four QUESTIONS in total:

Answer **ONE** question in **Section A and**

Answer **ALL** questions in **Section B**

Show all workings clearly and state any assumptions which you make in the answer booklet **only.**

The Present Value Factor (PVF) Table is included at the back of the exam paper.

This exam contributes **60%** of the overall module mark.

Total marks available: **100**

CALCULATORS ARE PERMITTED (Casio FX-991, FX83 or FX85 models only)

This is an UNSEEN BOOK Examination.

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STUDENTS MAY SUBMIT ANSWERS TO THIS PAPER IN EITHER WELSH OR ENGLISH

Once seated, students may complete the front cover of the answer book and the attendance slip ONLY.

DO NOT TURN THE EXAMINATION QUESTION PAPER ONTO THE NEXT PAGE UNTIL INSTRUCTED TO DO SO.

SECTION A – Answer either question A1 or question A2

Question A1 (40 marks)

Below are summarised financial statements for Omar Plc for the years ended 31 December 2024 and 31 December 2025:

Income Statement as at	**2025 (£'000)**	**2024 (£'000)**
Sales revenue	23,500	20,000
Cost of sales	4,400	4,000
Gross profit	19,100	16,000
Distribution costs	5,100	4,900
Administration costs	300	400
Operating profit	13,700	10,700
Other (costs) / income	30	0
Profit on ordinary activities before interest and taxation	13,730	10,700
Net interest payable	5	10
Profit on activities before taxation	13,725	10,690
Tax	430	370
Profit for the financial year	13,295	10,320

Balance sheet as at	**2025 (£'000)**	**2024 ('000)**
Fixed assets	7,000	5,800
Current assets		
Stocks	4,200	3,000
Debtors	2,500	2,000
Cash at bank and in hand	800	1,500
	7,500	6,500
Creditors falling due within one year	3,000	2,500
Net current assets	4,500	4,000
Total assets less current liabilities	11,500	9,800
Creditors falling due after more than one year	3,000	1,800
Net assets	**8,500**	**8,000**
Equity shareholders' funds	**8,500**	**8,000**

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Question A1 (continued)

Further information	2025		2024
Authorised shares £m	2000		1800
Dividend £m	900		700

Required:

a) From the information provided above, calculate the financial ratios which you consider most appropriate for assessing the financial position of Manchester Foods Plc for the years ended 31 December 2024 and 31 December 2025. To gain full marks, you must attempt a minimum of twelve ratios, as well as provide their definitions. All calculations should be clearly shown. **(12 marks)**

b) Prepare a draft report for the Board of Directors analysing the performance of Manchester Foods Plc for the 2024 and 2025 financial years. **(12 marks)**

c) State and analyse the benefits and limitations of using financial ratio analysis.

(8 marks)

d) Discuss four differences between Management and Financial Accounting.

(8 marks)

(Total 40 marks)

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Question A2 (40 Marks)

The following is the trial balance for a small retail company, Lana Limited, for the year ending 31 December 2025.

	Debit	Credit
	£'000	**£'000**
Accruals		10
Administration expenses	600	
Bad debt provision		12
Bank Overdraft		130
Trade Payables (Creditors)		800
Long-term loan		600
Trade Receivables (debtors)	190	
Land	2,500	
Plant and equipment accumulated depreciation to 31/12/2024		60
Plant and equipment at cost	200	
Purchases	320	
Prepayments	20	
Retained profit as at 31/12/2024		68
Revaluation reserve		60
Sales		1,900
Distribution expenses	70	
Share capital		260
Total	**3,900**	**3,900**

Stock at 31/12/2025 was £1,000,000.00, and it has come to light that the following transactions have not been taken into account:

1. The company issued 60,000 new shares for cash at £4.00 per share on 31/12/2025, receiving the full issue proceeds on that day. Included in the £3.00 per share capital and a £1.00 share premium.

2. The annual rates invoice of £12,000 was paid on 1/7/2025. This invoice was coded to administration expenses.

3. Depreciation is provided on plant and equipment to write off the cost on a straight-line basis over a period of 10 years. This depreciation is charged to the cost of sales. You may assume that all the equipment has zero residual value.

4. The tax charge for the year is estimated to be £7,000.

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Question A2 (continued)

5. On 31/12/2025 the company took out an additional long-term loan for £400,000 which would be repayable on 31/12/2032.

6. At the end of the year, the company paid back its bank overdraft.

Required:

a) Using points 1 to 6, show the adjustments required to the trial balance for the year ended 31/12/2025. **(7 marks)**

b) From your workings in part (a) above, prepare Lana's income statement and balance sheet before and after adjustments. **(23 marks)**

c) Discuss the advantages and disadvantages of adopting a single set of global accounting standards. **(10 marks)**

(Total 40 marks)

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SECTION B – Answer all questions

Question B3 (20 marks)

Mo Ltd constructs a standard unit which sells for £50,000. The company's costs can readily be identified between fixed and variable from the following budgeted data. The fixed costs have been spread evenly over the six-month period to arrive at the projected monthly profit as shown below:

Month	Sales Units	Profit/(loss) £'000
January	150	1,500
February	200	4,000
March	175	3,500
April	300	8,000
May	100	(1,500)
June	140	900

Required:

a) Use the High-Low method to calculate variable and fixed costs. **(8 marks)**

b) Calculate the break-even point in units and sales. **(6 marks)**

c) Determine the monthly volume of sales that would be required to achieve a profit of £10 million. **(6 marks)**

(Total 20 marks)

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Question B4 (20 marks)

a) AllPay and Company Plc sources of capital are in ordinary shares, preference shares and loan capital. AllPay pays corporation tax at 20%. Additional information on AllPay's sources of capital is presented in the Table below:

Serial no.	Capital type	Characteristics
1.	Loan capital	• £10 million at nominal value • Interest rate at 8.5% • Market value £85 per £100 nominal value • Interest has just been paid • Perpetual debt
2.	Preference shares	• 6 million 10% preference shares issued • Nominal value £1 per share • Market price £1.60 per share • Preference dividend is about to be paid • Perpetual issue
3.	Ordinary shares	• 12 million shares issued • Market price £1.30 • Next year's expected dividend is 20p • A dividend has recently been paid • Dividend growth rate is 4% per annum

Required:

(i) Calculate the cost of capital for each capital type employed by AllPay and Company Plc. **(3 marks)**

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(ii) Calculate the current Weighted Average Cost of Capital (WACC) for AllPay and Company Plc. **(3 marks)**

b) Write short notes to describe various methods used to determine the cost of equity share capital. Use examples to illuminate your answer further. **(3 marks)**

c) TaMed Da Plc has twenty-five million ordinary shares, and the current market value is £1.60 per share. The company decides to raise new capital by making a 1 for 4 rights issue (1 new share for 4 existing shares held) at £1.30 per share. After the rights issue, the (ex-rights) share price is £1.54. Determine the value of the rights per share. Assuming an investor currently holds 2000 units of the company's ordinary shares, show the results of taking the rights offer, selling the rights offer and doing nothing. **(6 marks)**

d) Ben and Sherry Company Plc has ordinary shares in issue that have a current market value of £3.00 per share. The dividend expected for next year is 50p per share and future dividends are expected to grow at a constant rate of 2% per year. Determine the cost of the ordinary shares to the business. **(5 marks)**

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Question B5 (20 marks)

a) Write short notes on 'time value of money'. Explain how the various components of interest rate are used as a measure of the time value of money. **(4 marks)**

b) Critically discuss the Traditional view assumptions and approach to the capital structure. Use appropriate diagrams to illuminate your answer further. **(6 marks)**

c) The following are the financial statements for Loka Plc for the years ended 31 December 2024 and 31 December 2025:

Loka Plc.
Income Statements for Year Ended 31 December 2025

	2025 (£m)	2024 (£m)
Revenue	385	380
Cost of sales	(195)	(210)
Gross profit	190	170
Distribution	(75)	(50)
Administrative expenses	(65)	(45)
Operating profit	50	75
Interest payable	(7)	(17)
Profit for the year	43	58

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Loka Plc.
Statements of Financial Position as at 31 December 2025

Assets	2025 (£m)	2024 (£m)
Non-current assets		
Buildings	160	140
Plant and machinery	84	80
	244	220
Current assets		
Inventories	52	50
Trade receivables	62	64
Cash	6	32
	120	146
Total assets	364	366
Equity and Liabilities		
Equity		
Share capital	120	120
Retained earnings	97	91
	217	211
Non-current liabilities		
Loan notes (10%)	60	60
Current liabilities		
Trade payables	87	95
	87	95
Total equity and liabilities	364	366

The depreciation was £8 million, and there were no non-current asset disposals in either year. The interest payments were paid in cash each year. Dividends totalling £37 million were paid each year.

Required:

(i) Prepare a statement of cash flow for Loka Plc for the year ended 31 December 2025.

(10 marks)

(Total 20 marks)

End of Paper

Table 1: Present value of 1 unit received n periods in the future assuming a constant discount rate of r per period

n \ r	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	21%	22%	23%	24%	25%	30%	35%	40%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833	0.826	0.820	0.813	0.806	0.800	0.769	0.741	0.714
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694	0.683	0.672	0.661	0.650	0.640	0.592	0.549	0.510
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579	0.564	0.551	0.537	0.524	0.512	0.455	0.406	0.364
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482	0.467	0.451	0.437	0.423	0.410	0.350	0.301	0.260
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402	0.386	0.370	0.355	0.341	0.328	0.269	0.223	0.186
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335	0.319	0.303	0.289	0.275	0.262	0.207	0.165	0.133
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279	0.263	0.249	0.235	0.222	0.210	0.159	0.122	0.095
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233	0.218	0.204	0.191	0.179	0.168	0.123	0.091	0.068
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194	0.180	0.167	0.155	0.144	0.134	0.094	0.067	0.048
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162	0.149	0.137	0.126	0.116	0.107	0.073	0.050	0.035
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135	0.123	0.112	0.103	0.094	0.086	0.056	0.037	0.025
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112	0.102	0.092	0.083	0.076	0.069	0.043	0.027	0.018
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093	0.084	0.075	0.068	0.061	0.055	0.033	0.020	0.013
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078	0.069	0.062	0.055	0.049	0.044	0.025	0.015	0.009
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.074	0.065	0.057	0.051	0.045	0.040	0.035	0.020	0.011	0.006
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054	0.047	0.042	0.036	0.032	0.028	0.015	0.008	0.005
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045	0.039	0.034	0.030	0.026	0.023	0.012	0.006	0.003
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038	0.032	0.028	0.024	0.021	0.018	0.009	0.005	0.002
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031	0.027	0.023	0.020	0.017	0.014	0.007	0.003	0.002
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026	0.022	0.019	0.016	0.014	0.012	0.005	0.002	0.001
21	0.811	0.660	0.538	0.439	0.359	0.294	0.242	0.199	0.164	0.135	0.112	0.093	0.077	0.064	0.053	0.044	0.037	0.031	0.026	0.022	0.018	0.015	0.013	0.011	0.009	0.004	0.002	0.001
22	0.803	0.647	0.522	0.422	0.342	0.278	0.226	0.184	0.150	0.123	0.101	0.083	0.068	0.056	0.046	0.038	0.032	0.026	0.022	0.018	0.015	0.013	0.011	0.009	0.007	0.003	0.001	0.001
23	0.795	0.634	0.507	0.406	0.326	0.262	0.211	0.170	0.138	0.112	0.091	0.074	0.060	0.049	0.040	0.033	0.027	0.022	0.018	0.015	0.012	0.010	0.009	0.007	0.006	0.002	0.001	0.000
24	0.788	0.622	0.492	0.390	0.310	0.247	0.197	0.158	0.126	0.102	0.082	0.066	0.053	0.043	0.035	0.028	0.023	0.019	0.015	0.013	0.010	0.008	0.007	0.006	0.005	0.002	0.001	0.000
25	0.780	0.610	0.478	0.375	0.295	0.233	0.184	0.146	0.116	0.092	0.074	0.059	0.047	0.038	0.030	0.024	0.020	0.016	0.013	0.010	0.009	0.007	0.006	0.005	0.004	0.001	0.001	0.000
26	0.772	0.598	0.464	0.361	0.281	0.220	0.172	0.135	0.106	0.084	0.066	0.053	0.042	0.033	0.026	0.021	0.017	0.014	0.011	0.009	0.007	0.006	0.005	0.004	0.003	0.001	0.000	0.000
27	0.764	0.586	0.450	0.347	0.268	0.207	0.161	0.125	0.098	0.076	0.060	0.047	0.037	0.029	0.023	0.018	0.014	0.011	0.009	0.007	0.006	0.005	0.004	0.003	0.002	0.001	0.000	0.000
28	0.757	0.574	0.437	0.333	0.255	0.196	0.150	0.116	0.090	0.069	0.054	0.042	0.033	0.026	0.020	0.016	0.012	0.010	0.008	0.006	0.005	0.004	0.003	0.002	0.002	0.001	0.000	0.000
29	0.749	0.563	0.424	0.321	0.243	0.185	0.141	0.107	0.082	0.063	0.048	0.037	0.029	0.022	0.017	0.014	0.011	0.008	0.006	0.005	0.004	0.003	0.002	0.002	0.002	0.000	0.000	0.000
30	0.742	0.552	0.412	0.308	0.231	0.174	0.131	0.099	0.075	0.057	0.044	0.033	0.026	0.020	0.015	0.012	0.009	0.007	0.005	0.004	0.003	0.003	0.002	0.002	0.001	0.000	0.000	0.000