UNIVERSITY COLLEGE LONDON

University of London

EXAMINATION FOR INTERNAL STUDENTS

For the following qualifications :-

B.Sc.

ES3040: Financial Management

COURSE CODE	:	**ENVS3040**
UNIT VALUE	:	**0.50**
DATE	:	**14-MAY-02**
TIME	:	**14.30**
TIME ALLOWED	:	**3 hours**

02-C0433-3-40

TURN OVER

ENVS 3040 Financial Management

Answer any 4 questions

1. Describe a typical developer's residual land valuation method. Explain how firms produce surplus value and show how the value of land depends on surplus value.

2. In view of the Latham and Egan Reports what remain the major issues facing the construction industry and what do you consider to be their causes?

3. Using Penrose's theory of the growth of the firm and Wood's theory of profits, explain how firms growth strategies depend on co-ordinating pricing and investment decisions.

4. Explain the applicability of capital circuits to the construction sector, showing how the different economic interests of participants in the building process lead to conflicts between construction firms.

5. Explain the use of discounting techniques in development appraisal and compare the internal rate of return and the net discounted present value as appropriate investment criteria for development projects. Point out what the internal rate of return and the net discounted present value tell you about any given project from the point of view of a potential investor.

6. Explain the use of cost benefit analysis, emphasising the difference between financial viability and economic viability and pointing out the usefulness and limitations of cost benefit analysis in the decision making process.

7. Explain how portfolio theory may be of use to both a contractor and a property company, pointing out how the concept of variance can be used to assess the risk associated with an investment.

8. Answer both parts of this question.
(A) Carry out a ratio analysis of the following set of accounts showing the firm's profitability, gearing and liquidity. *(15 marks)*
(B) Discuss the state of the firm that emerges from your analysis and say what other information you would require before you could draw any meaningful conclusions about this company? *(10 marks)*

Profit and loss account

	£m
Turnover	2,701
Cost of sales	(2,550)
Gross profit	151
Indirect costs	(14)
Interest	(6)
Profit before tax	131
Tax	(45)
Profit after tax	86
Dividends	(25)
Increase in retained profits	61

Balance sheet

	£m	£m	£m
Fixed assets			
Plant and machinery	21		
Buildings	145		
			166
Current assets			
Stock	538		
Work in progress	44		
Debtors	292		
Cash at bank	100		
		974	
Current liabilities			
Creditors	657		
Short term loans	71		
		728	
Net current assets			246
Total assets less current liabilities			412
Long term loans	70		
Net assets			342
Financed by:			
Share capital	46		
Profit and loss account	296		
Shareholders funds			342

END OF PAPER