

Programme Code: TU721
Shared with: N/A
Module Code: AVTE 3100
CRN: 20726

TECHNOLOGICAL UNIVERSITY DUBLIN
CITY CAMPUS - BOLTON STREET

TU721 – BTechEng Aviation Technology

Year 3

SEMESTER 2
EXAMINATIONS 2024/25

Management (Accounting)

Internal Examiner: Brendan Meehan, B.Comm, FCCA, AITI

External Examiners: Dr Darron Dixon-Hardy (Academic External Examiner)
Mr Denis Doyle (Industry External Examiner)

Exam Duration: 2 HOURS

***Instructions: Answer any four of the following questions.
All questions carry equal marks.***

Special Instructions/Handouts: N/A

Wednesday

14th May 2025

9.30 - 11.30

QUESTION 1.

Part A:

You have been asked to review the most recent balance sheet of Scope Logistics Limited for the year ended 31st December 2024. In this year, the company made a profit of €46,000 and yet, during this period, bank balances fell by €80,000. The Balance Sheet figures for the last 2 years are set out below:

BALANCE SHEET:

	2024 Euro	2023 Euro		2024 Euro	2023 Euro
SHARE CAPITAL	1,000	1,000	FIXED ASSETS	190,000	120,000
BAL ON P&L A/C	220,000	174,000			
TERM LOANS	105,000	75,000			
CURRENT LIABILITIES:			CURRENT ASSETS:		
Creditors	182,000	175,000	Stocks	145,000	85,000
			Debtors	168,000	135,000
			Bank	5,000	85,000
	<u>508,000</u>			<u>508,000</u>	<u>425,000</u>

You are required to prepare a Cash Flow Statement for the year ended 31st December 2024 as a means of reconciling the profit for the year with the adverse movement on the bank account. (15 Marks)

Part B:

Explain the term "Gross Margin" and explain its importance as a key economic statistic when reviewing the financial performance of a trading company. Your answer should set out some examples of gross margin for certain business sectors. (10 Marks)

Total 25 MARKS

QUESTION 2.

- What are the principle characteristics of the Limited Company form of business organisation (6 marks).
- Distinguish between the Memorandum and Articles of Association of a Limited Liability Company? (8 marks)
- What are the main advantages of the limited company form of business entity over other forms? Are there any disadvantages? (6 marks)
- What are the three conditions which a company must satisfy in order to qualify to be a Private Limited Company and what exemptions from the requirements of the Companies Acts do Private Companies enjoy? (5 marks)

TOTAL 25 MARKS.

QUESTION 3.

- a) What are the essential features of a good system of credit control having due regard to assessing new and potential customers and monitoring performance of existing customers? (12 marks)
- b) The following figures were extracted from the accounts of Ronson Aviation Services Limited for the last 3 years:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Sales	900,000	840,000	1,440,000
Gross Profit	516,000	504,000	864,000
Bad Debts	17,000	11,000	22,000
Debtors	136,000	103,000	178,000

1. Compute for each year:

- Gross Margin (3 marks)
- Bad debts % (3 marks)
- Debtors Days (3 marks)

2. From a review of your computations at 1), what concerns would you have on the effectiveness of credit control in this company? (4 marks)

TOTAL 25 MARKS.

QUESTION 4.

- a) In relation to making an application for Loan Finance or Grant Assistance, what information should be provided by the applicant business in support of any formal proposal for funding. (10 marks)
- b) Distinguish between "Fixed Charge" and "Floating Charge" as means of securing borrowings. (10 marks)
- c) What are "Preferred Creditors"? (5 marks)

TOTAL 25 MARKS.

QUESTION 5:

- a) Matching sources of finance to the purpose of the borrowing is referred to as “Financial Hedging”. Explain. (4 marks)
- b) Explain any three long-term sources of finance. (12 marks).
- c) List and explain any 3 short-term sources of finance. (9 marks)

TOTAL 25 MARKS.

QUESTION 6:

- a) What are the principle objectives of budgetary control? (5 marks)
- b) The sales estimate is the most important underlying assumption in the preparation of a financial budget for a start up business. The quality of this estimate is a function of the Marketing Mix. What are the “4 P’s” of Marketing? (8 Marks)
- c) Hector Aeronautical Components Limited produce a standard product for supply to the aero motive maintenance sector. The company requires a production budget to be prepared and you are provided with the sales budget for the next 4 months as follows:

Month:	(Units)
June	28,000
July	32,000
August	38,000
September	45,000

The stock policy adopted by the company is to have in stock at the end of any month 40% of the following month’s sales expectation. The stock of finished units on 1st June will be 6,000 units.

Prepare a Production Budget for June, July and August 2025. (12 marks).

TOTAL 25 MARKS.

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OUTLINE SOLUTIONS

QUESTION 1:

PART A:

CASH FLOW STATEMENT:

PROFIT FOR YEAR	46000
Adjust for change in working capital items:	
Increase in Stocks	-60000
Increase in Debtors	-33000
Increase in Creditors	7000
Source / - Use from operations	<u>-40000</u>
 OTHER SOURCES	
Increase in Loans	30000
 OTHER USES	
Increase in Fixed Assets	<u>-70000</u>
 NET SOURCE / -USE OF FUNDS	<u>-80000</u>
 Represented by:	
Opening Bank and Cash balances	+85000
Closing Bank and Cash balances	<u>+5000</u>
 Adverse movement on Bank and Cash	<u>-80000</u>

(15 marks)

PART B: GROSS MARGIN: for trading companies, profit is arrived at in 2 stages. First stage is to determine the Gross or Trading Profit. When Gross Profit is expressed as a % of sales, this figure is known as "Gross Margin". This can then be compared with previous years or with known industry norms. Any deviation should be investigated and explained.

Known margins in key sectors are:

- Motor Factors 50% - 60%
- Forecourt Sales (fuels) 5%
- Freight Forwarding 15%
- Travel Agency 10% to 12%

Competitive factors can cause a decline in gross margin. But also, a decline that is not expected can be due to theft or other defalcations due to poor controls especially over custody of stocks and recording of sales in a cash business. (10 marks)

QUESTION 2 LIMITED COMPANIES:

- (a) Features: Separate legal entity – can sue and be sued in own name – shareholders liability to creditors is limited to their paid up capital – regulated by Companies Act 2014 – must prepared and file financial statements each year with Companies Registrations Office – in small companies, directors and shareholders are the same individuals – in large companies, Board of Directors are separate but must act in the interests of all shareholders. (6 marks)
- (b) Memorandum: sets out information for those not directly involved in the company. 5 clauses: Name Clause – Objects Clause – Limited Liability clause – situation of registered office – Directors written consent to act. Articles: the set of rules which bind the members together including: When meetings should be convened – how resolutions are submitted and tabled - what is a “quorum” – borrowing limits on directors – rights of minority shareholders in voting. (2 @ 4 marks)
- (c) Advantages: - separate legal entity from shareholders – shareholders enjoy “Limited Liability” - greater access to capital for viable companies with growth prospects – company can succeed the death of a shareholder as shares are transferrable property. Disadvantages: - compliance with Companies Acts – share valuation difficult to obtain for unlisted companies – full statutory financial statements must be prepared in accordance with Companies Act and with Financial Reporting Standards. (6 marks)
- (d) Private Companies: - must limit number of members to no more than 50 – prohibit the invitation to the public to subscribe for shares – shares cannot be freely transferable among the members. Exemptions: exempt from statutory audit if meets size criteria – exemption from filing full financial statements, most often just an abridged balance sheet is filed. (5 marks)

QUESTION 3 CREDIT CONTROL:

- A) Features:
- Good documentation flow over each stage of a sales transactions to avoid disputes with customers
 - Formal assessment of potential customers for credit worthiness by means of credit rating agency report, review of most recent accounts filed in Companies Office, provide trade references.
 - Maintenance of a timely and reliable Sales Ledger system.
 - Regular review of age listing of balances for correctness and identification of non compliance with credit terms.
 - Revise regularly credit terms and limits based on customer performance.
 - Review of accounts for consistency in Debtors Days and Bad Debts % ratios as means of benchmarking performance of credit control department. (12 marks)

B) Computations and analysis:

Ratio	2024	2023	2022
Gross Margin (GP/Sales) *100	57%	60%	60%
Bad Debts % (Bad Debtors/Sales)*100	1.8%	1.3%	1.5%
Debtors Days (Debtors/Sales) * 365	55 days	45 days	45 days

(9 marks)

Comments:

- Gross Margin has fallen. Likely that company has reduced sales prices to remain competitive.
- Slight increase in Bad Debts % and is indicative of current trading conditions. However, it not significant and would only be concerning if exceeded 2%-2½%.
- Debtor's days has increased. Likely that customers are taking longer to settle their account and that the company may be offering better credit terms to attract new customers and / or retain existing customers in a competitive environment.

(4 marks)

QUESTION 4: FINANCE AND SECURITY:

a) Information to support a loan application – to include:

- Most recent accounts
- History of the firm
- Description of the products or services offered
- Background of the principles – CV, work experience, education etc
- Market segment targeted and advantages over other competitors
- Existing competitors
- Financial Projections for next 12 months and assumptions adopted.
- Likely future developments in the sector. (10 marks)

b) Fixed Charge: a charge on a specific asset or group or assets – the company is not free to deal or alter the asset pledged – the charge must be registered in Companies Office by the bank – in the event of default, the bank may appoint a receiver to seize the asset and recover the debt – fixed charge creditors rank first in order of repayment in a liquidation. (5 marks)

Floating Charge: a general charge on all assets of the company both present and future – used where company has no substantial assets aside from trading assets – the company is free to deal in the assets pledged – the charge must similarly be registered in the Companies Office by the bank – in a liquidation, creditors secured by a floating charges rank after fixed charge creditors and also after another category Preferred Creditors. (5 marks)

c) Preferred Creditors: are creditors that are set out in the Companies Act that include – Unpaid Wages and holiday pay – unpaid taxes (Vat, Paye etc) – redundancy payments – unpaid rates. Preferred creditors rank ahead of other creditors for repayment in a liquidation except for those creditors secured by a fixed charge who rank ahead of them. (5 marks)

QUESTION 5: SOURCES OF FINANCE:

- a) Financial Hedging: the purpose of the borrowing will determine the nature and source of the finance obtained. For example, a long term purpose such as to acquire a warehouse would require a long term source such as a term loan or debenture mortgage. (4 marks)
- b) Long term sources: Share Capital – Retained Earnings – Term Loans – Debenture Mortgage – Hire Purchase finance – Lease finance. (12 marks)
- c) Short term sources: Trade Credit – bank overdrafts – factoring – commercial finance / invoice discounting. (9 marks)

(For all sources of finance referred to, require: Description / Interest Cost / Security given to lender, (if any) / Capital Allowances where source used to finance qualifying assets / Title to the assets under the arrangement.)

QUESTION 6: BUDGETARY CONTROL:

- a) Objectives: to plan and control income and expenditure – to direct capital expenditure in most profitable direction – to provide a yardstick against which actual results are compared – to determine the impact on the budget when unforeseen events occur – to identify adverse trends and make corrections (“management by exception” principle). (5 Marks)
- b) The “4 P’s” of Marketing: Product Demand – Pricing Policy – Promotion Methods – Place of Consumption *(brief description of each giving examples)*. (8 marks)
- c) PRODUCTION BUDGET

Month	June (units)	July (units)	August (units)	Sept. (units)
Sales Budget	28000	32000	38000	45000
Less opening Stock	-6000	-12800	-15200	
	22000	19200	22800	
add Target ending stock	12800	15200	18000	
Required Production	34800	34400	40800	(12 Marks)