

TU721/3

20726 AVTE/3100.

TECHNOLOGICAL UNIVERSITY DUBLIN
BOLTON STREET CAMPUS

BTech Eng Aviation Technology

THIRD YEAR: SEMESTER 2, MAY 2023

MANAGEMENT (ACCOUNTING)

OUTLINE SOLUTIONS

QUESTION 1: BUDGETARY CONTROL:

a) **OBJECTIVES OF BUDGETARY CONTROL:**

- 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 motivate staff by setting achievable targets.
- to identify adverse trends and make corrections (“management by exception” principle).

(5 marks)

b) **Marketing Mix** – elements are known as 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	90000	88000	84000	92000
Less opening Stock	-32000	-35200	-33600	
	58000	52800	50400	
Add Target ending stock	35200	33600	36800	
Required Production	93200	86400	87200	(12 Marks)

QUESTION 2 LIMITED COMPANIES:

- (a) **Characteristics:** 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 prepare 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)

QUESTION 2 LIMITED COMPANIES (Continued...):

- (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: 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 of 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 4: 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	2022	2021	2020
Gross Margin $(GP/Sales) *100$	57%	60%	60%
Bad Debts % $(Bad Debtors/Sales)*100$	2%	1.4%	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.
- Increase in Bad Debts % is indicative of difficult trading conditions and incurrance of bad debts. It suggests that the company needs to evaluate new customers more carefully for credit worthiness.
- 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 more competitive environment.

(4 marks)

QUESTION 5 :

PART A:

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)

PART B:

CASH FLOW STATEMENT:

PROFIT FOR YEAR	290,000
Adjust for change in working capital items:	
Increase in Stocks	-32,000
Increase in Debtors	-13,400
Increase in Creditors	+16,000
Source / - Use from operations	<u>260,600</u>
OTHER SOURCES	
Increase in Loans	40,000
OTHER USES	
Increase in Fixed Assets	<u>-360,000</u>
NET SOURCE / -USE OF FUNDS	<u>-59,400</u>
Represented by:	
Opening Bank and Cash balances	+6,000
Closing Bank and Cash balances	<u>-53,400</u>
Adverse movement on Bank and Cash	<u>-59,400</u>

(15 marks)

QUESTION 6: 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, students to set out: 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.)