

QUESTION 2.

The following are the summarised results for Feat Motors Limited for the year ended 31st July 2013 and 2012:

PROFIT AND LOSS ACCOUNT	2013 €	2012 €
Sales	3,090,000	2,790,000
Cost of Sales	2,226,000	1,962,000
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Gross Profit	864,000	828,000
Overhead Expenses	420,000	402,000
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Net Profit	444,000	426,000
Bal. On Profit & Loss b/fwd	1,713,600	1,287,600
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Bal. on Profit & Loss c/fwd	2,157,600	1,713,600
	=====	=====

BALANCE SHEET		2013 €	2012 €	2013 €	2012 €
SHARE CAPITAL	2,400,000	2,400,000	FIXED ASSETS	4,620,000	3,600,000
BAL ON P&L A/C	2,157,600	1,713,600			
TERM LOANS	240,000	-			
CURRENT LIABILITIES:			CURRENT ASSETS:		
Creditors	446,400	240,000	Stocks	528,000	177,600
Bank Overdrafts	240,000	-	Debtors	336,000	276,000
	-----	-----	Bank	-	300,000
	5,484,000	4,353,600		-----	-----
	=====	=====		5,484,000	4,353,600
				=====	=====

- a. Compute for each year:-
- I. Current Ratio
 - II. Acid Test Ratio
 - III. Period of Credit Allowed
 - IV. Period of Credit Taken
 - V. Stock Turnover
 - VI. Gross Margin
 - VII. Net Margin

(16 MARKS)

b. Using your calculations at a., comment on the changes in solvency and profitability of the company during the year. (9 MARKS)

TOTAL 25 MARKS.

FEAT MOTORS

		2013	2012
I Current Ratio	$\frac{CA}{CL}$ (ideal 2)	$\frac{864000}{686400} = 1.26$	$\frac{753600}{240000} = 3.14$
II Acid Test	$\frac{CA - \text{Stock}}{CL}$ (ideal 1)	$\frac{336000}{686400} = 0.49$	$\frac{576000}{240000} = 2.4$
III Credit Allowed or Debtors Days	$\frac{\text{Debtors} \times 365}{\text{Sales}}$	$\frac{336000}{3090000} \times 365 = 40 \text{ days}$	$\frac{276000}{2790000} \times 365 = 36 \text{ days}$
IV Credit Taken or Creditors Days	$\frac{\text{Creditors} \times 365}{\text{COS}}$	$\frac{446400}{2226000} \times 365 = 73 \text{ days}$	$\frac{240000}{1962000} \times 365 = 45 \text{ days}$
V Stock T/O	$\frac{\text{COS}}{\text{Stock}}$	$\frac{2226000}{528000} = 4.2 \text{ times}$	$\frac{1962000}{1776000} = 11 \text{ times}$
VI Gross Margin	$\frac{GP}{\text{Sales}} \times 100$	$\frac{864000}{3090000} \times 100 = 28\%$	$\frac{828000}{2790000} \times 100 = 30\%$
VII Net Margin	$\frac{NP}{\text{Sales}} \times 100$	$\frac{446400}{3090000} \times 100 = 14\%$	$\frac{426000}{2790000} \times 100 = 15\%$
VIII Overheads per month	$\frac{OH}{12}$	$\frac{420000}{12} = 35000$	$\frac{402000}{12} = 33500$

Comments:

- Fixed assets have increased €1,020,000. Only €240K borrowed & €444K of profit. Balance of €336K out of bank overdraft movement.
- Current & Acid Test Ratios below accepted norms suggesting solvency difficulties.
- Stocks have significantly increased & Stock T/O now only 4.2 times. Review stocks for slow moving or obsolete items.
- Debtors days have increased. Review credit control procedures & the age list of balances for bad debts.
- Creditors days at 73 suggests company is having difficulties paying suppliers. Review balances & determine if any legal action is pending.
- Overheads have increased by €1500 per month. Obtain explanation.
- Gross Margin down from 30% to 28%. Review procedures over recording of sales & custody of stocks - particularly if a cash business.
- Bank balance has moved from +300K to -240K. Adverse movement of €540K. Mainly due to poor funding of fixed assets.

CASH FLOW STATEMENT

<u>Profit For Year</u>	644,000
<u>CHANGES IN WORKING CAPITAL</u>	
↑ Stocks	<350,000>
↑ Debtors	<60,000>
↑ Creditors	206,000
<u>CASH Flow from OPERATIONS</u>	240,000
<u>OTHER USES</u>	
↑ Fixed Assets	<1,020,000>
<u>OTHER SOURCES</u>	
↑ Term Loans	240,000
<u>NET SOURCE (USE) OF FUNDS</u>	<u><540,000></u>
OPENING BANK & CASH	+ 300,000
CLOSING BANK & CASH	- 240,000
<u>NET ADVERSE MOVEMENT ON BANK</u>	<u>- 540,000</u>