

DUBLIN INSTITUTE OF TECHNOLOGY - BOLTON STREET  
AUTUMN 2003 EXAMINATIONS  
DRAFT QUESTIONS ONLY

PAPER CODE : 91/2/25

EXAMINER: BRENDAN MEEHAN B COMM FCCA AITI

SECTION:

QUESTION NO

4

The following are the summarised results for DIT Motor Company Limited for the year ended 31st July 2002 and 2003:

PROFIT AND LOSS ACCOUNT	2003 €	2002 €
Sales	3,090,000	2,790,000
Cost of Sales	2,226,000	1,962,000
Gross Profit	864,000	828,000
Overhead Expenses	420,000	402,000
Net Profit	444,000	426,000
Bal. On Profit & Loss b/fwd	1,713,600	1,287,600
Bal. on Profit & Loss c/fwd	2,157,600	1,713,600

BALANCE SHEET					
	2003 €	2002 €		2003 €	2002 €
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 Overdraft	240,000	-	Debtors	336,000	276,000
			Bank	-	300,000
	5,484,000	4,353,600		5,484,000	4,353,600

/over

# DIT Motor Company.

2003

2002

**Solvency:** Current Ratio  $\frac{864000}{686400} = 1.26$   
 CA/CL  
 (ideal 2:1)

Acid Test  $\frac{336000}{686400} = 0.49$   
 CA - Stock  
 CL  
 (ideal 1:1)

$\frac{753600}{240000} = 3.14$

$\frac{576000}{240000} = 2.4$

**Profitability:** Gross Margin  $\frac{864000}{3090000} \times 100 = 27.9\%$   
 GP/Sales  $\times 100$

$\frac{828000}{2790000} \times 100 = 29.6\%$

Net Margin  $\frac{444000}{3090000} \times 100 = 14.3\%$   
 NP/Sales  $\times 100$

$\frac{426000}{2790000} \times 100 = 15.2\%$

Expenses per month  $\frac{4120000}{12} = 350000$

$\frac{402000}{12} = 33500$

**Activity:** Debtors Days  $\frac{336000}{3090000} \times 365 = 40 \text{ days}$   
 Debtors  
 Sales  $\times 365$

$\frac{276000}{2790000} \times 365 = 36 \text{ days}$

Creditors Days  $\frac{446400}{2226000} \times 365 = 73 \text{ days}$   
 Creditors  
 Cos  $\times 365$

$\frac{240000}{1962000} \times 365 = 45 \text{ days}$

Stock T/O  $\frac{2226000}{528000} = 4.2 \text{ times}$   
 Cos  
 Stock

$\frac{1962000}{177600} = 11 \text{ times}$

1. Increase in fixed assets of £1m. Only 240,000 was borrowed. Need to increase borrowing to replenish the bank balance.
2. CR and ATR now both below 'norms'. Action taken at 1. above will restore solvency.
3. Gross Margin slightly down. Possibly due to competitive factors and to gross Sales.
4. No material change in monthly overhead. Company appears to be enjoying economies of scale.
5. Increase in Debtors Days. Need to review credit control & also existence of bad debts.
6. Decrease in stock turnover. Review stock for slow moving / obsolete items.

7. Creditors Days now 23 days. Check for legal action to recover debts.

CASH FLOW STATEMENT	
PROFIT FOR YEAR	444,000
Δ in WORKING CAPITAL	
↑ Stocks	- 350,400
↑ Debtors	- 60,000
↑ Creditors	+ 206,400
SOURCE FROM OPERATIONS	240,000
OTHER USES	
↑ Fixed Assets	- 1,020,000
OTHER SOURCES	
↑ Loans	240,000
CHANGE IN BANK BAL.	- 540,000