

4. The following results were extracted from the accounts of Shergar Motors Ltd for 1995 and 1996:-

<u>Profit & Loss Account</u>	<u>1996</u>	<u>1995</u>
Sales	400,000	370,000
Cost of Sales	<u>228,000</u>	<u>222,000</u>
Gross Profit	152,000	148,000
Overheads	<u>131,000</u>	<u>130,000</u>
Net Profit	<u>21,000</u>	<u>18,000</u>

BALANCE SHEET

	<u>1996</u>	<u>1995</u>		<u>1996</u>	<u>1995</u>
Share Capital	100,000	100,000	Fixed Assets	180,000	120,000
Bal. on P & L a/c	107,800	86,800	Stocks	31,000	28,000
Creditors	29,000	26,200	Debtors	38,000	40,000
Bank Overdraft	12,200	—	Bank	—	25,000
	<u>249,000</u>	<u>213,000</u>		<u>249,000</u>	<u>213,000</u>

(a) Compute for each year the following ratios:

(i) Current Ratio

(ii) Acid Test Ratio

(iii) Period of Credit allowed

(iv) Period of Credit taken

(v) Gross Margin

(vi) Net Margin

(2 marks each)

(b) Give *THREE* comments on the state of the company's solvency and profitability. (6 marks)
(Total 18 marks)

6. The following summarised Balance Sheet is given for Ecstasy Motors Ltd:

<u>BALANCE SHEET - Y/E 31 DECEMBER:</u>					
	<u>1991</u>	<u>1990</u>		<u>1991</u>	<u>1990</u>
Share Capital	30,000	30,000	Fixed Assets	57,750	45,000
Bal. on P & L A/c	29,970	21,420			
Current Liabilities			Current Assets		
Creditors	5,580	3,000	Stocks	6,600	2,220
Bank	3,000	—	Debtors	4,200	3,450
			Bank	—	3,750
	<u>68,550</u>	<u>54,420</u>		<u>68,550</u>	<u>54,420</u>

(a) Compute for each year

(i) The Working Capital

(ii) The Current Ratio

(iii) The Acid Test Ratio.

(9 marks)

(b) The Balance on the Profit & Loss Account has increased indicating that the company is profitable. However, the Bank balance shows an overdraft situation. Comment. (5 marks)

(c) In relation to Financial Statements, identify the principle user groups and their needs which such statements satisfy. (4 marks)

Total 18 marks

8. (a) Outline the procedures you would adopt in deciding whether or not to grant credit facilities.

(b) Briefly explain fixed charges and floating charges as means of securing debt. (8 marks)
Total 18 marks

SHERGAR

	1996	1995
Current Ratio (ideal 2)	$\frac{69000}{41200} = 1.67$	$\frac{93000}{26200} = 3.54$
Acid Test (ideal 1)	$\frac{38000}{41200} = 0.92$	$\frac{65000}{26200} = 2.48$
Credit Allowed	$\frac{38000}{400000} \times 365 = 35$	$\frac{40000}{370000} \times 365 = 39$
Credit taken	$\frac{29000}{248000} \times 365 = 43$	$\frac{26200}{222000} \times 365 = 43$
Stock turnover	$\frac{248000}{31000} = 8$	$\frac{222000}{28000} = 7.9$
Gross Margin	$\frac{152000}{400000} \times 100 = 38\%$	$\frac{148000}{370000} \times 100 = 40\%$
Net Margin	$\frac{21000}{400000} \times 100 = 5.2\%$	$\frac{18000}{370000} \times 100 = 4.9\%$
$\%H^s$ per month	$\frac{131000}{12} = 10,900$	$\frac{130000}{12} = 10,800$

- Company now less solvent as indicated by Current & Acid test ratios. However, both ratios only slightly below ideals.
- Fixed assets increased by €60,000. No increase in borrowings so all financed out of cash flow.
- Fall in Gross Margin indicates sector may have become more competitive.
- Sales have grown without any significant increase in overheads. Company enjoying economies of scale.
- Fall in Debtors days indicates improved credit control & customers paying more promptly.

CASH FLOW STATEMENT

• Profit for year	21000
Increase in stocks	-3000
Decrease in debtors	2000
Increase in creditors	2800
• From operations	22,800
OTHER SOURCES	NIL
OTHER USES	
Increase in fixed assets	-60,000
• DECREASE IN BANK & CASH	-37,200

ECSTASY MOTORS

	1991	1990
(a) Working Capital (CA - CL)	$10800 - 8800 = 2220$	$9420 - 3000 = 6420$
Current Ratio CA/CL (ideal 2)	$\frac{10800}{8800} = 1.26$	$\frac{9420}{3000} = 3.14$
Acid Test CA - Stock CL (ideal 1)	$\frac{4200}{8800} = 0.49$	$\frac{7200}{3000} = 2.4$

- (b) Increase in Retained Profit
 $29970 - 21620 = 8350$ Not Profit for year.
- Increase in fixed assets
 $57750 - 45000 = 12750$
- Amount funded out of cash flow
 $12750 - 8350 = 4400$
- Company should have borrowed about 5000 long term to fund fixed assets.

- (c) See notes.

Additional

Cash Flow Statement

Profit for year	8550
Increase in stocks	-4350
Increase in debtors	-750
Increase in creditors	2580
From operations	6000
OTHER SOURCES	NIL
OTHER USES	
Increase in fixed assets	-12750
NET DECREASE IN BANK & CASH	-6750