

COLLEGE OF TECHNOLOGY  
BOLTON STREET,  
DUBLIN 1.

INSTITUTE OF THE MOTOR INDUSTRY,  
FINANCE MODULE 2003/04,  
ASSESSMENT NO. 1,  
2nd DECEMBER 2003.

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NB: ANSWER ALL QUESTIONS.

QUESTION ONE.

The following are the summarised results for Wardwick Motor Co. Limited for the year ended 31st October 2003 and 2002:

PROFIT AND LOSS ACCOUNT	2003 Euro	2002 Euro
Sales	700,000	550,000
Cost of Sales	441,000	330,000
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Gross Profit	259,000	220,000
Overhead Expenses	114,000	112,000
	-----	-----
Net Profit	145,000	108,000
Bal. On Profit & Loss b/fwd	134,300	26,300
	-----	-----
Bal. on Profit & Loss c/fwd	279,300	134,300
	=====	=====

BALANCE SHEET

	2003 Euro	2003 Euro		2003 Euro	2002 Euro
SHARE CAPITAL	20,000	20,000	FIXED ASSETS	280,000	100,000
BAL ON P&L A/C	279,300	134,300			

CURRENT LIABILITIES:

Creditors	52,000	54,000
Bank Overdraft	56,700	-
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	408,000	208,300
	=====	=====

CURRENT ASSETS:

Stocks	46,000	30,000
Debtors	82,000	75,300
Bank	-	3,000
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	408,000	208,300
	=====	=====

/over

# Wardwick Motors

	<u>2003</u>	<u>2002</u>
Current Ratio CA/CL (ideal 2:1)	$\frac{128000}{108700} = 1.17$	$\frac{108300}{54000} = 2!$
Acid Test $\frac{CA - \text{stock}}{CL}$ (1:1)	$\frac{82000}{108700} = 0.77$	$\frac{78300}{54000} = 1.44$
Gross Margin $\frac{GP}{\text{Sales}} \times 100$	$\frac{259000}{700000} \times 100 = 37\%$	$\frac{220000}{550000} \times 100 = 40\%$
Net Margin $\frac{NP}{\text{Sales}} \times 100$	$\frac{145000}{700000} \times 100 = 20.7\%$	$\frac{108000}{550000} \times 100 = 19.6\%$
Overheads per month.	$\frac{114000}{12} = 9500$	$\frac{112000}{12} = 9333$
Stock T/O $\frac{\text{Cost of Sales}}{\text{Stock}}$	$\frac{441000}{46000} = 9.7 \text{ times}$	$\frac{330000}{30000} = 11 \text{ times}$
Debtors Days $\frac{\text{Debtors}}{\text{Sales}} \times 365$	$\frac{82000}{700000} \times 365 = 43 \text{ days}$	$\frac{75300}{550000} \times 365 = 50 \text{ days}$
Creditors Days $\frac{\text{Creditors}}{\text{Cost of Sales}} \times 365$	$\frac{52000}{441000} \times 365 = 43 \text{ days}$	$\frac{54000}{330000} \times 365 = 60 \text{ days}$

Solution - ~~WARWICK NOTES~~  
~~SEMPLETON NOTES~~ (Continued ...)

- 1) The company increased its investment in fixed assets by € 180,000. There is no similar increase in term loans. Company should borrow long term & replenish the bank.
- 2) Fall in Gross Margin may be due to competitive factors. Discounts offered to generate more sales (550K → 700K)
- 3) Sales have grown significantly without a similar increase in overheads. Company is enjoying economies of scale.
- 4) Fall in stock turnover Ratio may indicate the existence of slow moving or obsolete stock.
- 5) Reduction in debtors days indicates that customers are paying more promptly (possibly due to discounts being offered for prompt payment).