

INSTITUTE OF THE MOTOR INDUSTRY.
ASSOCIATE MEMBERSHIP EXAMINATION
FINANCE MODULE - 2005/2006.
BRENDAN MEEHAN, B.COMM FCCA AITI CPA.

Answer any two questions.

Question 1.

The following are the summarised results for Wenger Motors Limited for the year ended 31st March 2005 and 2006:

PROFIT AND LOSS ACCOUNT	2006 Euro	2005 Euro
Sales	772,500	697,500
Cost of Sales	556,500	490,500
Gross Profit	216,000	207,000
Overhead Expenses	105,000	100,500
Net Profit	111,000	106,500
Bal. On Profit & Loss b/fwd	428,400	321,900
Bal. on Profit & Loss c/fwd	539,400	428,400

BALANCE SHEET

	2006 Euro	2005 Euro		2006 Euro	2005 Euro
SHARE CAPITAL	500,000	500,000	FIXED ASSETS	1,155,000	900,000
BAL ON P&L A/C	539,400	428,400			
TERM LOANS	160,000	100,000			
CURRENT LIABILITIES:			CURRENT ASSETS:		
Creditors	111,600	60,000	Stocks	132,000	44,400
Bank Overdraft	60,000	-	Debtors	84,000	69,000
			Bank	-	75,000
	1,371,000	1,088,400		1,371,000	1,087,400

a. Compute for each year:-

- i. Working Capital
- ii. Current Ratio
- iii. Acid Test Ratio
- iv. Period of Credit Allowed
- v. Period of Credit Taken
- vi. Gross Margin
- vii. Net Margin
- viii. Stock Turnover

(35 MARKS)

b. Using your computations at a. above, comment on the change in the solvency and profitability of the company.

(15 MARKS)

TOTAL 50 MARKS.

WENGER

2006

~~2005~~

2005

Working Capital (CA-CL)

$$216000 - 171600 = 44400$$

$$188400 - 60000 = 128400$$

Current Ratio $\frac{CA}{CL}$

$$\frac{216000}{171600} = 1.26$$

$$\frac{188400}{60000} = 3.14$$

Acid Test $\frac{CA - \text{Stocks}}{CL}$

$$\frac{84000}{171600} = 0.49$$

$$\frac{146000}{60000} = 2.4$$

Credit Allowed $\frac{\text{Debtors}}{\text{Sales}} \times 365$

$$\frac{84000}{772500} \times 365 = 40 \text{ days}$$

$$\frac{69000}{697500} \times 365 = 36 \text{ days}$$

Credit Taken $\frac{\text{Creditors}}{\text{COS}} \times 365$

$$\frac{111600}{556500} \times 365 = 73 \text{ days}$$

$$\frac{60000}{490500} \times 365 = 45 \text{ days}$$

Gross Margin $\frac{GP}{\text{Sales}} \times 100$

$$\frac{216000}{772500} \times 100 = 28\%$$

$$\frac{207000}{697500} \times 100 = 30\%$$

Net Margin $\frac{NP}{\text{Sales}} \times 100$

$$\frac{111000}{772500} \times 100 = 14.3\%$$

$$\frac{106500}{697500} \times 100 = 15.3\%$$

Overheads per month

£350 per month

£375 per month

Stock Turnover $\frac{\text{COS}}{\text{Stocks}}$

$$\frac{556500}{132000} = 4 \text{ times}$$

$$\frac{490500}{44400} = 11 \text{ times}$$

- 1) Poor financing of fixed assets - insufficient borrowing to finance them.
- 2) Poor solvency indicated by falls in Current Ratio & Acid Test Ratio, both below accepted norms viz. 2:1, 1:1.
- 3) Increase in Credit Allowed may indicate poor credit control procedures & existence of bad debts.
- 4) Fall in stock turnover ratio may indicate existence of significant slow moving or obsolete stocks.
- 5) Credit taken of 73 days may indicate difficulties paying suppliers on time.
- 6) Fall in Gross Margin may indicate difficulties ~~paying~~ ^{completing} sale, demand or poor stock control where stock may be issued without being paid for.
- 7) No material increase in overheads relative to the growth in sales. Company appears to be enjoying economies of scale.