

TECHNOLOGICAL UNIVERSITY DUBLIN
BOLTON STREET CAMPUS

**BACHELOR OF SCIENCE (HONOURS) IN TRANSPORT
OPERATIONS AND TECHNOLOGY**

SECOND YEAR: SEMESTER 1 – 2022/23

FINANCIAL MANAGEMENT 1

Internal Examiner(s):

Dr. Conor Norton, PhD, BA (Hons), MRUP, MSC (Urban Design), MRPTI, MIPI
Roisin Murray Dip Eng, B Eng ME Pg DIP MCILT
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External Examiner(s):

Jarlath Sweeney – Group Editor Fleet Publications
Prof. Washington Yotto Ochieng - BSc, MSc, PhD, FREng, CEng, FICE, FRIN, FInstCES, FCIHT

Time Allowed: 2 hours

Answer Question 1 and then any 3 other questions.
All questions carry equal marks.

{date and time }

QUESTION 1.

Murray Autos Limited prepares its annual financial statements to 31st March. The trial balance below was extracted from the accounting records of the company on 31st March 2022:

	Debit	Credit
Ordinary Shares of €1.00 each		1,000
Balance on Profit & Loss Account (01.04.2021)		50,100
Stock on hand (01.04.2021)	32,900	
Bank Loan		19,500
Debtors	58,200	
Bank Balance	5,600	
Fixtures & Fittings at Cost	46,800	
Cumulative Depreciation Fixtures and Fittings		17,600
Plant & Equipment at Cost	36,400	
Cumulative Depreciation Plant and Equipment		18,800
Sales		480,200
Purchases	240,400	
Creditors		45,400
Light & Heat	16,800	
Advertising	2,800	
Accountancy	3,500	
Insurances	10,200	
Motor Expenses	7,500	
Rent & Rates	40,300	
Telephone	18,300	
Trade Expenses	14,400	
Wages & Salaries	96,400	
Bank Interest and Charges	2,100	
	<u>632,600</u>	<u>632,600</u>

Notes to the Trial Balance:

- (1) Stock at 31st March 2022 was valued at €26,000.
- (2) Insurances prepaid €2,800.
- (3) Wages due and payable €1,600.
- (4) Provide for depreciation on fixed assets as follows:
 - on Fixtures and Fittings - 25% of Cost
 - on Plant & Equipment - 20% of Cost

REQUIRED:

Prepare a Trading Profit and Loss Account for the year ended 31st March 2022 and a Balance Sheet as at that date.

TOTAL 25 MARKS

QUESTION 2

The following are the summarised results of The Allbright Motor Company Limited for the last 2 financial years:

<u>PROFIT AND LOSS ACCOUNT:</u>		
	2021	2020
	€	€
Sales	1,850,000	1,674,000
Cost of Sales	<u>1,332,000</u>	<u>1,138,000</u>
Gross Profit	518,000	536,000
Overhead Expenses	<u>252,000</u>	<u>280,000</u>
Net Profit	266,000	256,000
Balance on Profit & Loss b/fwd	<u>1,028,000</u>	<u>772,000</u>
Balance on Profit & Loss c/fwd	<u>1,294,000</u>	<u>1,028,000</u>

<u>BALANCE SHEET</u>					
	2021	2020		2021	2020
	€	€		€	€
SHARE CAPITAL	1,400,000	1,400,000	FIXED ASSETS	2,800,000	2,000,000
BALANCE ON P&L A/C	1,294,000	1,028,000			
TERM LOANS	240,000	4,000			
CURRENT LIABILITIES:			CURRENT ASSETS:		
Creditors	170,000	136,000	Stocks	320,000	126,000
Bank Overdraft	216,000	-	Debtors	200,000	146,000
			Bank	-	296,000
	<u>3,320,000</u>	<u>2,568,000</u>		<u>3,320,000</u>	<u>2,568,000</u>

a. Compute for each year (showing your computations):-

- 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
- viii. Overheads per month

(16 Marks)

b. Using your computations at a. above, comment on the change in profitability and financial position of the company (9 Marks)

TOTAL 25 MARKS

QUESTION 3.

- a. Explain any 3 long term sources of finance that businesses in Ireland can avail of. You should make reference to interest cost and security. (12 marks)
- b. Distinguish between FIXED CHARGE and FLOATING CHARGE in relation to debt security. (8 marks)
- c. What do you understand by the term “Preferred Creditors”? (5 marks)

TOTAL 25 MARKS.

QUESTION 4.

- a. What do you understand by the term "LIMITED LIABILITY"? (4 marks)
- b. What are the principle features of Limited Liability Companies? (8 marks)
- c. Distinguish between the Memorandum of Association and the Articles of Association. (8 marks)
- d. What are the 3 conditions that must be met in order to qualify to be a “Private” company what exemptions can Private Companies avail of? (5 marks)

TOTAL 25 MARKS.

QUESTION 5.

PART A: CASH FLOW STATEMENT:

The most recent Balance Sheet of Pat McCabe Autos Limited is shown below. The accounts indicate that the company has made a profit in the last year of €26,000 but during the same period the company's bank balance deteriorated and was overdrawn in the amount of €17,000.

BALANCE SHEET AS AT 31 OCTOBER:

	2022	2021		2022	2021
	€	€		€	€
SHARE CAPITAL	1,000	1,000	FIXED ASSETS	140,000	40,000
BALANCE ON P&L A/C	88,000	62,000			
TERM LOAN	134,000	84,000			
CURRENT LIABILITIES:			CURRENT ASSETS:		
Creditors	25,000	15,000	Stocks	55,000	45,000
Bank Overdraft	17,000	-	Debtors	70,000	45,000
			Bank	-	32,000
	<u>265,000</u>	<u>162,000</u>		<u>265,000</u>	<u>162,000</u>

As part of your review of the company's financial position, you are required to prepare a Cash Flow Statement for the year ended 31st October 2022 as a means of reconciling the profit for the year with the adverse movement on the bank account.

(15 marks)

PART B: CREDIT CONTROL

What are the essential features of a good system of Credit Control having regard to evaluation techniques of potential customers and monitoring compliance by existing customers to agreed credit terms? (12 Marks)

TOTAL 25 MARKS

QUESTION 6.

Loop Limited and Hook Limited are companies operating in the same sector of business. The following figures have been extracted from their most recently published results:

BALANCE SHEET AS AT 31 DECEMBER 2021:		
	LOOP	HOOK
	€	€
Net Assets	<u>3,600,000</u>	<u>4,800,000</u>
Financed by:		
Share Capital (€1.00each)	1,500,000	300,000
Reserves	900,000	660,000
Long Term Borrowings	<u>1,200,000</u>	<u>3,840,000</u>
	<u>3,600,000</u>	<u>4,800,000</u>

PROFIT AND LOSS ACCOUNT FOR YEAR END 31 DECEMBER 2021:

	LOOP	HOOK
	€	€
Profit before financial charges	630,000	840,000
Financial charges – Loan Interest	<u>84,000</u>	<u>252,000</u>
Profit before taxation	546,000	588,000
Taxation	<u>81,000</u>	<u>87,000</u>
Profit after taxation	<u>465,000</u>	<u>501,000</u>

A. Compute for each company:

- The Gearing Ratio (4 marks)
- Return on Capital Employed (4 marks)
- Times Interest Covered (4 marks)
- Earnings per share. (4 marks)

B. Comment on the risk-return factor in high gearing making reference to your calculations at A. (9 marks)

TOTAL 25 MARKS.