

**CORK INSTITUTE OF TECHNOLOGY
INSTITIÚID TEICNEOLAÍOCHTA CHORCAÍ**

Semester 1 Examinations 20015/16

Module Title: Business Finance.

Module Code: ACCT7007

School: Business & Humanities

**Programme Title(s): Bachelor of Arts (Honours) in Human Resource Management
Bachelor of Science in Transport Management and Technology
Craft Technology (Wood) with Business**

**Programmes Code(s): BHRMN_8_Y4
TTMGT_7_Y3
ECTWB_7_Y3**

External Examiner(s): Mr Cathal Kearney

Internal Examiner(s): Ms. N. Murphy, Ms. Carmel Buttimer & Mr Maurice OBrien.

Instructions: Section A. Question 1 (one) is compulsory and Section B answer 2 (two) other questions.

Duration: 2 Hours.

Sitting: Winter 2015

Requirements for this examination: Calculator.

Note to Candidates: Please check the Programme Title and the Module Title to ensure that you have received the correct examination paper.
If in doubt please contact an Invigilator.

Section A.

Question 1. Compulsory.

Q. 1.

These are the financial statements of **Du Pont Sports Ltd.** for the year ended 31 December 2015.

Statement of Profit or Loss Account for the year ended 31 December

| | 2015 | 2014 |
|-------------------------------------|---------------------|---------------------|
| | €'000 | €'000 |
| Sales Revenue | 18,654 | 14,420 |
| Cost of Sales | -11,230 | -8,210 |
| Gross Profit | <u>7,424</u> | <u>6,210</u> |
| Operating Expenses | -340 | -150 |
| Profit before interest and taxation | <u>7,084</u> | <u>6,060</u> |
| Interest payable | -140 | -40 |
| Profit before taxation | <u>6,944</u> | <u>6,020</u> |
| Taxation | -520 | -450 |
| Profit after taxation | <u>6,424</u> | <u>5,570</u> |
| Dividend | -2,200 | -2,200 |
| Profit retained for the year | <u><u>4,224</u></u> | <u><u>3,370</u></u> |

Statement of Financial Position as at 31 December

| | 2015 | 2014 |
|--|----------------------|----------------------|
| | €'000 | €'000 |
| <i>Non-Current Assets</i> | <u>9,101</u> | <u>7,430</u> |
| <i>Current Assets</i> | | |
| Inventory | 3,650 | 1,520 |
| Trade Receivables | 3,870 | 1,200 |
| Bank | 1,013 | 1,600 |
| | <u>8,533</u> | <u>4,320</u> |
| <u>Total Assets</u> | <u><u>17,634</u></u> | <u><u>11,750</u></u> |
| <i>Equity and Liabilities</i> | | |
| Ordinary €1 Shares | 6,000 | 6,000 |
| Retained Earnings | 4,224 | 3,370 |
| | <u>10,224</u> | <u>9,370</u> |
| <i>Non Current Liabilities</i> | | |
| Long Term Loans | 3,000 | 600 |
| <i>Current Liabilities</i> | | |
| Trade Payables | 3,890 | 1,320 |
| Taxation | 520 | 460 |
| | <u>4,410</u> | <u>1,780</u> |
| <u>Total Equity and Liabilities</u> | <u><u>17,634</u></u> | <u><u>11,750</u></u> |

Required:

A. Using the above information, calculate the following for both years:

Gross Profit%

Net Profit%

Return of Capital Employed%

Current Ratio

Quick Ratio

Receivables Days

Payables Days

Inventory Days

Gearing Ratio

Earnings per share

Dividend per share

Working capital days

(24 Marks)

B. Using the ratio's calculated in part (a) write a report to the managing director comparing and contrasting the financial performance of the company over the two years.

(11 Marks)

C. List ways that **Du Pont Sports Ltd.** could improve their performance.

(5 Marks)

Total 40 Marks.

Section B.

Answer any two questions.

Q. 2.

The following costs relate to the production of 10,000 units of output by **Power Ltd**:
This represents 50% of the capacity of the plant.

| | € |
|-----------------------|-----------|
| Variable Costs | |
| Labour | 250,000 |
| Material | 550,000 |
| Overheads | 230,000 |
| | |
| Fixed Costs | 290,000 |
| | 1,320,000 |

The current selling price is €250 per unit.

Required

:

(a) Based on the information provided above calculate:

1. The contribution margin per unit.
2. The breakeven level of sales in units.
3. The current margin of safety in units.
4. What is the current profit earned by the firm?
5. If a profit of €130,000 were required what would be the level of sales required in units.

(20 Marks)

(b) Identify the limitations of Breakeven Analysis.

(10 Marks)

Total 30 Marks.

Q. 3. Derek Mooney wishes to set up his own welding business making gates. He has €60,000 in the bank and a redundancy payment he received from his previous employment of €250,000. He intends to start his business on 1 January, 2016. His plans are as follows:

1. He will purchase premises with an immediate payment of €130,000 and a monthly mortgage repayment of €800 each month starting in February 2016.
2. Machinery will cost €50,000. This will be purchased on commencement of the business and paid for one month later.
3. Three van's costing €180,000 in total will be purchased on 1st January for cash.
4. Monthly expenses will cost €600 per month and will be paid for in the month they are incurred.
5. Derek will produce as follows: January 3,000 units, February 5,000 units, March 7,000 units, April 6,000 units, May 9,000 units and June 10,000 units.
6. All sales will be made in the month following production at €180 per unit. These sales will be on credit and will be paid for: 60% in the month of sale and 40% in the following month.
7. Production costs per unit are expected to be: Direct material €55, and Direct labour €40 per unit produced, materials will be paid for one month after production.
8. Labour cost will be paid for in the month of production.
9. Derek will take drawings of €2,700 per month.

Required:

a. Prepare a cash budget for **Derek Mooney** for the six months January – June 2016.

25 Marks.

b. Comment on the prospects for **Derek**.

5 Marks.

Total 30 Marks.

Q. 4.

(a) Outline the principal sources of finance under the following categories:

Short-term.

Medium-term.

Long-term

(9 Marks)

(b) What factors should be considered when choosing a source of finance. Use examples in your answer.

(6 Marks)

(c) The most important first step in seeking business finance is the business plan. What are the main headings/contents of a comprehensive Business Plan?

(15 Marks)

(Total 30 Marks)