

MANAGERIAL FINANCE

PROFESSIONAL 1 EXAMINATION - AUGUST 2015

NOTES:

Section A – Answer Question 1 and Question 2 and **either** Part A **or** Part B of Question 3.

Section B – Answer Question 4 and **either** Part A **or** Part B of Question 5.

Should you provide answers to both Parts A and B in Question 3 and/or Question 5, you must draw a clearly distinguishable line through the answer Part(s) not to be marked. Otherwise, only the first answer(s) to hand for each of these questions will be marked.

MANAGERIAL FINANCE TABLES ARE PROVIDED

TIME ALLOWED:

3 hours, plus 10 minutes to read the paper.

INSTRUCTIONS:

During the reading time you may write notes on the examination paper, but you may not commence writing in your answer book. **Please read each Question carefully.**

Marks for each question are shown. The pass mark required is 50% in total over the whole paper.

Start your answer to each question on a new page.

You are reminded to pay particular attention to your communication skills, and care must be taken regarding the format and literacy of your solutions. The marking system will take into account the content of your answers and the extent to which answers are supported with relevant legislation, case law or examples, where appropriate.

List on the cover of each answer booklet, in the space provided, the number of each question attempted.

NB: PLEASE ENSURE TO ENCLOSE YOUR ANSWER SHEET TO QUESTION 4 IN THE ENVELOPE PROVIDED.

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Time allowed 3 hours, plus 10 minutes to read the paper.

SECTION A

(Answer Questions 1 and 2 and either Part A or Part B of Question 3.)

1. D Limited is contemplating purchasing the Irish licence for three years for a recently developed water leakage detection scanner that uses infra-red technology to detect underground leaks. The licence will cost €7,000,000 to acquire at the outset plus a further €10,000 for each scanner unit purchased. Before each year commences D Limited will purchase sufficient scanners to handle the indicative volume of business. A royalty is also payable of €50 for each day that a scanner is used. The likely number of clients will be:

Clients Projections

Year	Domestic Clients	Corporate Clients
1	5,900	320
2	8,520	580
3	10,200	800

Each domestic client will be charged the following flat rate fee per visit, to include travel costs:

Charge Per Domestic Client Visit

	Year 1	Year 2	Year 3
Charge	€400	€300	€250

Each corporate client will take a full day to complete and will be charged the following fee per day:

Average Cost Per Corporate Client Day

	Year 1	Year 2	Year 3
Charge	€3,000	€3,500	€2,500

Before each year D Limited will employ sufficient engineers each working 300 days per year to carry out the assessments. Each engineer will require one scanner. The average daily workload per engineer is expected to be:

Engineer Daily Workload

Year	Domestic Clients	Corporate Clients
1	5	1
2	6	1
3	6	1

Each engineer will be paid €600 per week (50 weeks per year) plus €50 per day travel expenses. Wages will uplift by 20% in year 3 and the daily travel allowance will increase each year by €5 commencing in year 2.

The cost of processing the paperwork for each client will be €20 per domestic client and €100 per corporate client.

D Limited expects investments to deliver a pre-tax Net Present Value of one quarter of the initial investment after three years. D Limited discounts proposals at 10%

REQUIREMENT:

- (a) Calculate the three year Net Present Value of the investment proposal if discounted at 10% (Ignore Taxation).
(15 Marks)
- (b) Assess three non-financial factors to be considered before making a final decision whether or not to invest in the scanner technology and make a final recommendation whether or not to invest in the proposal.
(10 Marks)

[Total: 25 Marks]

2. E Limited produces furniture products. In June 2015, the company launched a new product, a wooden kitchen table sold to retail chains. The table is manufactured using low-quality wood and is assembled by semi-skilled production staff. This is reflected in the low average price of €20 charged to retailers. Each month, E Limited budgets to produce and sell 2,500 tables. The standard cost card for the table is as follows:

Standard Cost Card

Kitchen Table	€
Wood (4 Metres @ €3 Per Metre)	12.00
Assembly (10 Minutes At €9 Per Hour)	1.50
Variable Overhead (10 Minutes @ €6 Per Hour)	1.00
Total Standard Variable Cost Per Unit	<u>14.50</u>

For June 2015, E Limited accepted orders for 2,000 kitchen tables grossing income of €48,000. The cost of production for June 2015 was:

Actual Costs

Costs	€
Wood (10,000 Metres)	25,000
Labour (250 Hours)	2,500
Variable Overhead	<u>2,000</u>
Total Costs	<u>29,500</u>

E Limited's management team are anxious to receive a report on the financial performance of the table for June 2015.

REQUIREMENT:

- (a) Prepare an Operating Statement for June 2015 reconciling the actual and budgeted contribution for the kitchen table product. (12 Marks)
- (b) Analyse the possible reasons for the variances reported in (a) above and recommend appropriate control options. (8 Marks)

[Total: 20 Marks]

3.

Answer either Part A OR Part B.

A client company of yours, Office Limited, develops and rents commercial property throughout Ireland. Office Limited is owned by four main shareholders. The company has identified a prime site for the development of office and retail space in Wexford Town's docklands. Relevant extracts from the recent Statement of Financial Position of Office Limited are:

Office Limited - Extracts From Most Recent SOFP		€M
Non-Current Assets	Land	160
	Buildings	300
	Fixtures	4
Borrowings	15% Unsecured Debentures	(100)
	Mortgage - Secured	(95)
	Trade Payables	(50)
	Bank Overdraft	(46)

- debentures are redeemable in full in 2018
- the mortgage is secured on land assets
- overdraft interest rate payable is 14%

The indicative cost of the development is €50 million. There will be an additional €3 million required for working capital investment. The working capital investment will be repaid over the first three years of trading as the property generates positive cash-flow.

One of the shareholders is suggesting that Office Limited is taken public through an Initial Public Offering (IPO) but is concerned that if insider trading is prevalent on the Irish Stock Exchange that the offering would be a failure.

Part A

REQUIREMENT:

Excluding the IPO option advise the shareholders of Office Limited on an appropriate financing proposal for the development. This advice should consider the different sources of gearing and the appropriate term structure around same.

[Total: 15 Marks]

OR

Part B

REQUIREMENT:

Discuss the meaning of 'insider trading' and three reasons why the Irish Stock Exchange is considered to display semi-strong form efficiency. In doing so briefly describe the meaning of the term Efficient Market Hypothesis.

[Total: 15 Marks]

Section B

Answer Question 4 and either Part A OR Part B of Question 5.

4. The following multiple-choice question contains eight sections, each of which is followed by a choice of answers. Only one answer is correct in each case. Each question carries equal marks. On the answer sheet provided indicate for each question, which of the options you think is the correct answer. Marks will not be awarded where you select more than one answer for any question.

INFORMATION RELEVANT TO QUESTIONS 1, 2 AND 3 ONLY

F Limited has been approached by M plc who has expressed an interest in the a cash purchase of F Limited. You have recently prepared the accounts for F Limited. Summary extracts from the Statement of Financial Position (SOFPP) are as follows:

F LIMITED	
Summary Statement of Financial Position as at 31 December 2014	
Detail	€000s
Non-Current Assets	
Land and Buildings	4,200
Plant and Equipment	380
Total Non-Current Assets	<u>4,580</u>
Current Assets	
Inventories	420
Trade Receivables	570
Cash in Hand	20
Total Current Assets	<u>1,010</u>
TOTAL ASSETS	<u>5,590</u>
Equity	
Issued Share Capital	2,000
Retained Profits	990
Total Equity	<u>2,990</u>
Long Term Liabilities	
Debentures redeemable 1/12/2039	2,000
Current Liabilities	
Trade Payables	390
Bank Overdraft	210
TOTAL EQUITY AND LIABILITIES	<u>5,590</u>

Notes:

- Land and buildings are recorded at historical cost. However, F Limited has acquired an independent valuation and this report values them at €3,700,000.
- The coupon debenture interest is 8% per annum.
- F Limited reported average annual pre-tax profits of €120,000 for the last three years.
- F Limited pays corporation tax at 20%.

You have reviewed their offer letter and consider the following information to be relevant:

- M plc has a share price of €4.20 and a recently reported EPS of €0.60.
- M plc will not assume any liability for the overdraft or cash in hand.
- M plc only wish to take over €200,000 of plant and €100,000 of equipment.
- M plc considers €23,000 of inventories to have a net realisable value of €5,000.
- M plc plans to redeem the debentures immediately at a premium of 50% to par.
- M plc considers €29,000 of receivables to be uncollectable.
- M plc plans to close one factory at a tax deductible cost of €800,000. This will generate annual cost savings of €150,000 post tax.
- M plc pays corporation tax at 20%.

REQUIREMENT:

1. M plc's price earnings multiple is:
 - (a) 3 times
 - (b) 5 times
 - (c) 7 times
 - (d) 9 times.
2. The indicative total net assets-based valuation of F Limited is:
 - (a) €1,453,000
 - (b) €1,553,000
 - (c) €1,753,000
 - (d) €1,953,000.
3. The indicative earnings valuation per share of F Limited is:
 - (a) €2,018,000
 - (b) €2,218,000
 - (c) €2,418,000
 - (d) €2,618,000.

INFORMATION RELEVANT TO QUESTIONS 4,5,6,7 AND 8 ONLY

M plc's current capital structure is as follows:

M plc - Current Capital Structure

Detail	Nominal	€
5 Million €2 Equity Shares		10,000,000
8% Irredeemable Debentures		5,000,000

Ordinary shares are trading at €4.20 cum div. A dividend of €0.50 has recently been declared but not paid as yet. This level of dividend has been declared for the last ten years. Irredeemable debentures are trading at 140%. One half of the annual interest will be paid in two days' time. To fund the company's acquisition plans M plc proposes to borrow €5 Million from its commercial bankers at a fixed cost of 4%. It also plans to avail of low interest rates by offering €4 Million 8% of preference shares at a premium to par of 50%.

4. M plc's current cost of equity is:
 - (a) 12.5%
 - (b) 13.5%
 - (c) 14.5%
 - (d) 15.5%.
5. M plc's current WACC is closest to:
 - (a) 5%
 - (b) 9%
 - (c) 11%
 - (d) 14%.
6. The cost of the proposed preference shares is:
 - (a) 6%
 - (b) 7%
 - (c) 8%
 - (d) None of the above.

7. Should M plc raise the funding from preferences shares and bank loans, the revised WACC will be closest to:
- (a) 7%
 - (b) 9%
 - (c) 12%
 - (d) 14%.
8. Should the bank loan be obtained and the preference shares issued at par, M plc's gearing percentage will be closest to:
- (a) 39%
 - (b) 49%
 - (c) 59%
 - (d) 69 %.

Note: Gearing % = Market Value of prior charge capital/ (Market Value of equity + Market Value of prior charge capital)

[Total: 20 Marks]

5.

Answer either Part (A) OR Part (B)

Part (A)

Banew, a medium-sized town, has a population of 10,000 people. Banew's council is considering hosting a two-day talent show in May 2016. The show will be expensive to run and promote. There will be three cash prizes on offer for the show, namely:

- 1st Place - €5,000, 2nd Place = €2,000, 3rd Place = €1,000.

Other costs will include:

- Three judges of the show who each will be paid €400 per day plus a once-off travel expense allowance of €150.
- Promotional costs of €3,000 have been spent to date. A further €1,000 per month will have to be incurred for the five months leading up to the show and €4,000 in the month of the show.
- Utility costs incurred each day of the show are estimated to follow the function $€200 + 5X$ where X is the number of contestants performing.
- Stocks of wood and steel to construct the stage. 400 metres of wood already in stock will be used. This originally cost €20 per metre but will not be replaced. It was due to be sold to an employee at a price of €8 per metre. 60 metres of steel that originally cost €18 per metre is to be used. Steel has a scrap value of €10 per metre. This steel will have to be replaced. The market price of steel has increased to €15 per metre.
- 140 labour hours to build the stage. Currently, council construction employees are paid €600 each, plus 20% employers on-costs for a 40-hour week. Two such employees will be idle for the week required to build the stage. The remaining labour will be hired in at a casual rate of €10 per hour.

The council expects that:

- 1,000 people will attend the talent show on the first day and 2,000 on the final day.
- Daily tickets will sell at €12 per adult ticket and €5 per child ticket. It is expected that ticket sales will be 40% children and 60% adult.
- Each competition entrant will pay an entry fee of €50. A total of 30 entrants are expected.
- Each child will spend €10 on merchandise. The gross profit on merchandising will be 50%.
- Six major corporate sponsors could be attracted paying a total of €3,000 each, and twenty minor sponsors will pay €200 per day each.
- Event brochures will be sold at €2 each on entry to the event. It is estimated that one in every two adults will purchase a brochure. 1,000 brochures will be printed in batches of 50 units with each batch costing cost €60 to print. Any remaining brochures will be sold on exit to the event at €0.50 each.

REQUIREMENT:

- (a) Using the information above, assess, from a financial prospective, whether Banew's council should run the talent show.

(11 Marks)

- (b) Discuss three non-financial factors Banew council should also consider when making a final decision whether or not to run the talent show.

(9 Marks)

[Total: 20 Marks]

OR

Part (B)

J Limited's forecast summary Statement of Financial Position as at 31 August 2015 reads as follows:

**J Limited
Statement of Financial Position as at 31 August 2015**

	€M
Non-Current Assets	220
Net Current Assets	120
TOTAL ASSETS	<u>340</u>
Equity	
Issued Share Capital	120
Retained Profits	160
	<u>280</u>
Long Term Liabilities	60
TOTAL EQUITY AND LIABILITIES	<u>340</u>

J Limited is considering purchasing a South African subsidiary, Table Limited, with net assets of 250 Million South African Rand. The consideration will be 250 Million South African Rand and will be paid on 14 September 2015 when due diligence has been completed. The exchange rate expected on 14 September 2015 will be 10 South African Rand = 1 Euro. J Limited plans to finance the acquisition with a long term interest only Euro loan arranged by its Dublin based bankers. It is expected that for the year ended 31 August 2016 that both J Limited and Table Limited will report trading breakeven with no resulting movement in respective net assets.

REQUIREMENT:

- (a) Assuming the acquisition takes place as planned, prepare a summary forecast Statement of Financial Position for J Limited as at 31 August 2016 if at that date the exchange rate had moved to 12.5 South African Rand = 1 Euro.

(8 Marks)

- (b) Advise J Limited how to hedge the translation risk relating to the proposed purchase of Table Limited. Assuming J Limited accepted your advice and implemented the hedge as you had advised, prepare a summary forecast of the Statement of Financial Position for J Limited as at 31 August 2016 if at that date the exchange rate had moved to 12.5 South African Rand = 1 Euro.

(12 Marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

MANAGERIAL FINANCE

PROFESSIONAL 1 EXAMINATION – AUGUST 2015

SOLUTION 1

(a) D Limited - Scanner Financial Analysis

Cashflow	Note	Year 0	Year 1	Year 2	Year 3
Licence Cost		-7,000,000			
Scanner Purchase	1	-50,000	-70,000	-80,000	
Income	2		3,320,000	4,586,000	4,550,000
Royalty	3		-75,000	-100,000	-125,000
Engineer Costs	4		-150,000	-210,000	-288,000
Travel Costs	5		-75,000	-115,500	-144,000
Paperwork Cost	6		-150,000	-228,400	-284,000
Net Annual Cashflows		-7,050,000	2,800,000	3,852,100	3,709,000
Discount Factors 10%			0.909	0.826	0.751
Discounted Value		-7,050,000	2,545,200	3,181,835	2,785,459
Net Present Value		1,462,494			

N1) Scanner Days	Year 1	Year 2	Year 3
Corporate Days	320	580	800
Domestic Customers	5,900	8,520	10,200
Domestic Customers Per Day	5	6	6
Domestic Days	1,180	1,420	1,700
Total Days	1,500	2,000	2,500
Scanners Required	5	7	8
Cost At €10000 Each	50,000	70,000	80,000
Purchased	Year 0	Year 1	Year 2

N2) Income	Year 1	Year 2	Year 3
Corporate Days	320	580	800
Charge Per Day	3,000	3,500	2,500
Corporate Income	960,000	2,030,000	2,000,000
Domestic Customers	5,900	8,520	10,200
Charge Per Customer	400	300	250
Domestic Income	2,360,000	2,556,000	2,550,000
Total Annual Income	3,320,000	4,586,000	4,550,000

N3) Scanner Days (N1)	Year 1	Year 2	Year 3
Royalty At €50 Per Day	1,500	2,000	2,500
	75,000	100,000	125,000

N4) Engineer Cost	Year 1	Year 2	Year 3
Engineers Required	5	7	8
Weekly Cost	600	600	720
Annual Cost (50 Weeks)	150,000	210,000	288,000

N5) Travel Cost	Year 1	Year 2	Year 3
Engineers	5	7	8
Days Worked (6 Per Week)	1,500	2,100	2,400
Daily Cost	50	55	60
Annual Cost	75,000	115,500	144,000
N6) Paperwork Cost	Year 1	Year 2	Year 3
Corporate Clients (N1)	320	580	800
Corporate Cost At €100 Per Client	32,000	58,000	80,000
Domesic Clients (N1)	5,900	8,520	10,200
Comestic Cost At €20 Per Client	118,000	170,400	204,000
Total Paperwork Cost	150,000	228,400	284,000

(b) Qualitative factors to consider:

- Has the technology been tried and tested to ensure it can efficiently detect leaks?
- Has the viability of the vendor of the technology been assessed?
- Can testimonials be given and/or site visits carried out?
- Can suitable qualified engineers be recruited at the wage and travel expenses budgeted?
- Can market research be carried out to verify the expected volume of business?
- How firm is the commitment from the supermarket chain?
- Is the licence exclusive or no-exclusive?
- Can early exit repayments be made if not successful?
- Is there an option to extend the licence if successful?

Final recommendation:

Whilst the technology would certainly seem to meet with significant demand given the introduction of the water charges I am of the opinion that the proposal should be resisted for the following reasons:

- €2 Million is a very significant initial cash outflow representing front loaded risk
- major questions regarding customer demand, technology capability, vendor viability and exclusivity have to be answered
- the investment does not meet the investment criterion set by D Limited

SOLUTION 2

(a)	E Limited - Operating Statement – June 15	Favourable Variances	Adverse Variances	Total
	Budgeted Contribution 2500 * (20-14.50)			13,750
	Variances			
	Sales - Price (24-20)*2,000	8,000		
	Sales - Volume (2,000-2,500)(20-14.50)		-2,750	
	Wood - Price (3-2.5)10,000	5,000		
	Wood - Usage (8,000-10,000)3		-6,000	
	Labour - Rate (9-10)250		-250	
	Labour - Efficiency (333-250)9	750		
	Variable Oh - Expenditure (6-8)250		-500	
	Variable Oh - Efficiency (333-250)6	500		
	Net Variance	14,250	-9,500	4,750
	Actual Contribution (48,000-29,500)			18,500

(b) Likely causes of adverse wood usage and labour efficiency variances:

- cheaper wood purchased due to favourable wood price variance
- poor supervision of staff leading to idle time and poor materials handling
- learning curve as employees are producing the table for the first time

Possible Corrective actions:

- use the quality of wood expected in the standard
- training staff in the production of the product
- supervise staff more closely

SOLUTION 3

PART A

Short Term funding for the working capital should be sought over the medium term and repaid out of cash-flows generated. The following sources for the Working Capital investment of €3 Million could include:

- Rent/lease plant assets
- Bank overdraft
- Short term loans
- Factoring debtors
- Extended terms with creditors/forgo settlement discounts

The Long-Term development funding of €50 Million must be sourced over the long term. Financing options could include:

- Sale & leaseback of assets
- Potential venture capital involvement
- Consider IPO
- Long-Term Loan
- Debenture/Bond
- Secured Mortgage
- Project Financing

PART B

The Efficient Market Hypothesis

The efficiency of a capital market relates to the ability of the market to price securities quickly and fairly in order to reflect all the relevant publicly available information. The Efficient Market Hypothesis indicates three levels of processing efficiency namely:

- Weak form – Prices reflect all past information.
- Semi strong form – Prices reflect all past information and publicly available information.
- Strong form - Prices reflect all past information, publicly available information and inside information.

There has been considerable research carried out on the topic of measuring market efficiency with varying findings. It is considered that capital markets today tend to display semi-strong form efficiency. Strong form efficiency is unlikely to exist because:

- the exchange continues to attract investors
- insider trading is normally perpetrated by individuals rather than being systemic
- the role of the financial regulator as watchdog
- few cases pursued in the courts

SOLUTION 4

Price Earnings Multiple = $\text{Eps/Mv} = .40/2.80 = 7 \text{ Times}$

1. F Limited Net Assets Valuation

Detail	€000's	Explanation
Land And Buildings	3,700	Revaluation
Plant & Equipment	300	To Be Taken Over
Inventories	402	420- (23-5)
Trade Receivables	541	570-29
Cash In Hand	0	Not Taken Over
Trade Payables	-390	Per Sofp
Overdraft	0	Not Taken Over
Debentures	-3,000	2000*1.5
2. Net Assets Valuation	1,553	

3. F Limited Earnings Valuation

Detail	€000's	Explanation
Recurrent After Tax Earnings	96	120*80%
Debenture Interest Saved	128	2000*8%*80%
Factory Savings	150	400*.7
Recurrent Post Acq Post Tax Earnings	374	
Price Earnings Multiple	7	7 Times (.40/2.80)
Earnings Valuation	2,618	

M Plc - Current Wacc

Detail	Market Value	Cost	Wacc
4. 5 Million Equity Shares (N1)	18,500,000	13.5%	2,497,500
8% Iredeemable Debentures (N2)	6,800,000	4.70%	319,600
Total	25,300,000		2,817,100
5. Wacc = 2,817,100/25,300,000			11.1%

M Plc - Revised Wacc

Detail	Market Value	Cost	Wacc
5 €2 Million Equity Shares (N1)	18,500,000	0.135	2497,500
8% Iredeemable Debentures (N2)	6,800,000	4.70%	319,600
Preference Shares (N3)	6,000,000	6%	360,000
Bank Loan (N4)	5,000,000	3.2%	160,000
Total	36,300,000		3,337,100
7. Wacc = 3,337,100/33,630,000			9.2%

Note 1) Cost Of Equity = $.50/3.7 = 13.5\%$

Note 2) Cost Of Iredeemable Debentures = $(8*.8)/(140-4) = 4.7\%$

6. Note 3) Cost Of Preference Shares = $9\%/150 = 6\%$

Note 4) Cost Of Bank Loan = $4\% * 1 - .20 = 3.2\%$

Prior Charge Capital Ratio

Detail	Equity Mv	Prior Charge Mv
5 €2 Million Equity Shares (N1)	18,500,000	
8% Iredeemable Debentures (N2)		6,800,000
Preference Shares (N3)		6,000,000
Bank Loan (N4)		5,000,000
Total	18,500,000	17,800,000
8. Prior Charge Capital Ratio	1780/(1,780+1,850) = 49%	

SOLUTION 5

PART A

(a) Banew Council -Financial Assessment - Talent Show

Detail	€	Explanation
Corporate Sponsors	18,000	3000 * 6
Minor Sponsors	8,000	20*200*2
Programme Income	1,850	$(3,000*60\%*50\%)=900*2 + (100-900)*.50$
Programme Costs	-1,200	1,000/50*60
Entry Fees	1,500	
Ticket Sales - Adults	21,600	3,000*60%*€12
Ticket Sales - Children	6,000	3,000*40%*€5
Merchandising Profits	6,000	3,000*40%*€10 * 50%
Prize Money	-8,000	
Judges Fees	-2,400	3*2*400
Judges Travel Costs	-450	3*150
Promotional Costs	-9,000	$(5*1,000)+4,000$
Utility Costs	-550	2*400 + 5*30
Wood At Nrv	-3,200	400*8
Steel At Replacement Cost	-900	60*15
Labour Cost - Casual Only	-600	60*10
Indicative Profit On Event	36,650	

(b) Other factor to consider may include:

- can the council ensure the health and safety of participants and spectators ?
- is there any competing events in the region for the days for which the talent show is planned ?
- will the talent show detract from attendance at other events to be held by the council around the same period ?
- how will an oversubscribed list of applicants be managed ?
- has the council a contingency plan in the event of poor weather ?
- how firm is the commitment from the corporate sponsors ?

PART B

(a) Z LIMITED - CASH BUDGET - 3 MONTHS ENDING OCTOBER 2015

Cashflow	Note	August	September	October
Sales Receipts	1	781,500	966,000	1,396,500
Payments				
Wages - 85%	2	-76,500	-102,000	-178,500
Wages - 15%	2	-9,500	-13,500	-18,000
Suppliers Materials	3	-102,000	-144,000	-192,000
Taxation				46,000
Dividend			-25,000	
Plant			-500,000	-500,000
Utilities	4	-60,000	-90,000	-120,000
Net In Month Cashflow		533,500	91,500	434,000
Opening Balance		-30,000	503,500	595,000
Closing Balance		503,500	595,000	1,029,000
Note 1 - Sales Receipts	Note	August	September	October
Total Sales		900,000	1,200,000	1,800,000
Cash Receipts		427,500	570,000	855,000
One Month In Arrears		210,000	315,000	420,000
Two Months In Arrears		144,000	81,000	121,500
Total Sales Receipts		781,500	966,000	1,396,500

Note 2 - Wages Costs	Note	August	September	October
Production		45,000	60,000	90,000
Hours Required At 10 Minutes Each		7,500	10,000	15,000
Cost Per Hour		12	12	14
Labour Cost		90,000	120,000	210,000
Paid In Month - 85%		76,500	102,000	178,500
Paid In Arrears - 15%		13,500	18,000	31,500
 Note 3 - Material Costs	 Note	 August	 September	 October
Production		45,000	60,000	90,000
Metres Required At .40 Metres Each		18,000	24,000	36,000
Cost Per Metre		8	8	8
Material Cost		144,000	192,000	288,000
Purchased		June	July	August
Paid - 3 Months In Arrears		September	October	November
Note 3 - Utility Costs	Note	August	September	October
Production		45,000	60,000	90,000
Cost At €2 Per Unit		90,000	120,000	180,000
Paid		September	October	November

- (b) If exchange rates change as suggested J Limited could lose €5 Million in translation losses between year-end dates. This will be reported as follows;

J Limited
Summary Statement of Financial Position as at 31st March 2015

Detail	RAND(Ms)	FX RATE	EURO (MS)
Non-Current Assets			
Domestic			220
SA Subsidiary net assets	250	12.5	20
Total Non-Current Assets			240
Net Current Assets			120
TOTAL ASSETS			360
Equity			
Issued Share Capital			120
Translation Loss			-5
Retained Profits			160
			275
Liabilities			
Domestic			60
Loan			25
TOTAL EQUITY AND LIABILITIES			360