

Mann Ltd

Finance



Question 2: a Return on capital employed= For 2009: For 2) Operating Profit Margin= For 2009: For 3) Gross Profit Margin= For 2009: For 2010: 4) Current Ratio For 2009: For 2010: 5) Acid Test Ratio For 2009: For 2010: 6) Settlement period for trade receivables For 2009: For 2010: 7) Settlement period for trade payables For 2009: For 2010: (Assumption: Cost of sales= purchases) 8) Inventory turnover period For 2009: For 2010: Performance of the company has shown a steep decline in the year 2010. This is supported by the above given ratios. Return on capital employed has dropped to 19.8% in 2010 as compared to 31% in 2009. This downward shift is attributed to a sharp descent in net profits. The rise in assets has failed to show an increase in income of the company. Sales of the company has shown an increase but factors associated with sales like operating profit margin and gross profit margin has shown an inverse trend. Operating profit margin has declined from 19.8% in 2009 to 13.9% in 2010. Adding to the misery is declining gross profit margins, a substantial decline from 42% in 2009 to 37.5% in 2010. Sales figure has shown an increase but the company has failed to maintain gross and operating profit margin due to increasing costs. Company's liquidity position has shown a slight decline from 2009. Current asset ratio has dropped from 4.8 times in 2009 to 4.6 times in 2010. The company's liquidity in terms of current asset ratio is appropriate and should do well in years to come. However, acid tests shows a sharp decline. It has dropped to 3.6 in 2010 in comparison to 4.2 in the previous year. This is due to a disproportionate increase in current asset and liabilities. Furthermore, inventory holds a major share in the current asset in 2010. Trade settlement period is of particular interest to a manager in Mann Ltd. The time period has deteriorated in the current year. High volumes of sales

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have been on credit in the recent year, which is evident figures that have grown from 306 in 2009 to 468 in 2010. The time period of settlement has increase from 32 days in 2009 to 47 days in 2010. Settlement period for trade payables would be of particular interest to any supplier of goods of Mann Ltd. As a supplier, it is not an alarming situation for him considering that on average payable period is just over a month. However, there has been a shift in attitude of the company. Their payables have shown a fair amount of increase from 2009. Currently the settlement period for payables is 37 days which was 32 days in 2009. Lastly, inventory turnover period has shown downward movement in terms of result. It has dropped from 4.6 times in 2009 to 3.2 times in 2010. Mann Ltd has increased its on hand inventory which has resulted in this downward shift. In a nut shell, overall liquidity has declined for Mann Ltd but as a supplier it is not an alarming situation which is evident by healthy figures of payable settlement period and current ratios. These ratios have declined from 2009 but nevertheless adequate enough to attract a supplier.

Question 5 a) PerthShire Ltd. Cash budget for 6 months ending September

| | Apr | May | Jun | July | Aug | Sep |
|-------------------------------------|--------|-------|-------|-------|-------|-------|
| Total | ??? | ??? | ??? | ??? | ??? | ??? |
| Beginning Cash Balance | 25000 | 42311 | 41198 | 44262 | | |
| (30589) | (4552) | 25000 | | | | |
| Cash collections: | | | | | | |
| Cash Sales | 1250 | 1250 | 1250 | 1250 | | |
| 1250 | 1250 | 7500 | | | | |
| Credit sales | 20000 | 15000 | 10000 | 12500 | 15000 | 20000 |
| Dividend received form investments | - | - | - | 37500 | - | - |
| Ordinary Share capital Received | 12500 | 12500 | 12500 | 37500 | | |
| Total cash collections | 58750 | 58561 | 64948 | 58012 | 23161 | 29198 |
| Cash payments: | | | | | | |
| Materials | 7500 | | | | | |
| 5000 | 10000 | 12500 | 15000 | 12500 | 62500 | |
| Wages | 2189 | 2438 | 2686 | 2376 | 2063 | |
| 2189 | 13941 | | | | | |
| Other Overheads | 4500 | 4925 | 5250 | 5475 | 5150 | 30300 |
| Installments of Plant and Machinery | - | - | - | 2500 | 2500 | 5000 |
| Research and | | | | | | |

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Development - 2500 - - - - 2500 Sales Commission 1000 1250 1500 2000
 1750 1500 9000 Hire Purchase payments 1250 1250 1250 1250 1250 1250
 7500 Dividends on Preferred Shares - - - - 40000 - - 40000 Tax - - - - 25000 - -
 25000 Total cash Payments 16439 17363 20686 88601 27713 24939
 195741 Ending Cash Balance 42311 41198 44262 (30589) (4552) 4259 4259

Working for wages: Wages 2252 2500 2748 2252 2000 2252 14004 Wages
 paid for the previous month 500 563 625 687 563 500 3438 Wages payable
 in the next month 563 625 687 563 500 563 3501 Cash paid for the current
 month 2189 2438 2686 2376 2063 2189 13941 Overall cash collection and
 payment needs consistency in them. There is high variance in terms each
 months ending balance which can have multiple effects in company's
 liquidity position. It makes it difficult to plan for future if you do not have
 standard figures for identical operations. For example, wages payment
 should be made standardized for each month so that the burden gets divided
 equally for each month hence, not causing under or overruns in planning for
 future. Moreover, negative ending balance of cash in any month could cause
 a difficult situation in regard to liquidity position of a company. The negative
 gap needs to be filled by either liquid marketable security or dependence on
 trade payables. Other than that payments are mostly linked to sales which
 would act proportionately to increase or decrease in sales. Their trade
 receivable period is just over a month hence discrepancy in credit sales
 figure is obvious. This could be standardized as well if they could tighten up
 their credit period to within a month. Question 1a: Working For depreciation:
 For Project 1: =? 124000 each year. For Project 2: =? 72000 each year. Since
 Depreciation is a non-cash expense, it is added back to the operating profit
 to find out the cash inflow as a result of the project. Project 1: year cashflow
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(?'000) Present Value (?'000) 0 -400 -400 1 240 218 2 120 99 3 160 120

Total present value of future cashflows \$437. 57 NPV= -400+437. 57 NPV= ?

37570 Undiscounted Payback: 400-218-99-83= 0 Payback= 2+(83? 120)

Undiscounted Payback= 2. 7 years Project 2: year cashflow (?'000) Present

Value (?'000) 0 -240 -240 1 144 131 2 64 53 3 112 84 Total present value of

future cashflows \$267. 95 NPV= -240+267. 95 NPV= ? 27950 Undiscounted

Payback: 240-131-53-56= 0 Payback= 2+(56? 84) Undiscounted Payback=

2. 67 years Pike Ltd should select project 1 since it has a higher net present

value of ? 37570 compared to the net present value of ? 27950 of project 2.

Both the projects have a similar payback period of 2. 7 years and hence both

the projects are similar in this regard. Question 4: Product X Y Z ? ? ? Selling

Price 36 50 60 Material cost 20 24 26 Variable Production cost 6 14 8

Contribution margin per unit 10 12 26 Sales Demand (units) 10200 5000

6800 time required per unit on cutting machine (hours) 1 2 2 cutting

machine hours required 10200 10000 13600 33800 time required per unit on

assembly machine (hours) 1 2 1 assembly machine hours required 10200

10000 6800 27000 contribution margin per cutting machine hour 10 6 13

The business has assembly machine capacity of 32000 hours whereas only

27000 hours are needed to fulfill the demand for all the three products. On

the other hand, business has a capacity of 20000 cutting machine hours

whereas 33800 hours are needed to fulfill the demand. Hence the business

cannot produce all the 3 products according to their demand. Although Y has

a higher contribution margin than X, X has a better the contribution margin

per cutting machine hour. Hence, the business should produce products X

and Z to optimize their profits. 6800 units of Z should be produced which will

require 13600 cutting machine hours. With the remaining 6400 cutting

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machine hours, business can produce 6400 units of X. Hence the business should produce 6800 units of Z and 6400 units of X. b) X Y Z ? ? ? Material cost 20 24 26 Variable Production Cost 6 14 8 Variable cost per unit 26 38 34

If the price of the product is greater than the variable cost of the product, business should not outsource the production. Hence the maximum price for X is ? 26, ? 38 for Y and ? 34 for Z. Fixed costs do not change whether the business produce the products internally or outsource the production and hence the fixed costs are not considered when making the decision.