



Diploma of Accounting



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Question 1

Year	amount (\$)
Outflow	(\$143,000)
Year 1-4	12000
Year 5-8	23000
Year 9-15	41000
year 16-20	52000
NPV	(\$13,044.59)

Question 2

<u>Material Required for each Items</u>			
	No of Bikes sold weekly		
	Observation	Carbon	Steel
Week	1	0	2
Week	2	1	3
Week	3	2	6
Week	4	0	1
Week	5	2	0
Week	6	3	1
Week	7	1	4
Week	8	0	0
Week	9	2	2
Week	10	4	1
Units required		15	20
Total Weeks		50	50

Unites Required for year		75	100
Fixed Cost Per year		25	25
Carrying cost per production Run		225	225
units made in 2 weeks		3	4
Carrying Cost per unit		75	56.25

Optimum order

$$Q^* = \sqrt{\frac{2 \times \text{Annual Demand} \times \text{cost per order}}{\text{holding cost per unit per year}}}$$

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= 5 units for carbon and 7 units for Steel

Question 3

Sample of 10 Weeks			Carbon		
Observation (Weekly)			Actual Units	Deviation	Deviation Sqr
	1		0	-1.5	2.25
	2		1	-0.5	0.25
	3		2	0.5	0.25
	4		0	-1.5	2.25
	5		2	0.5	0.25
	6		3	1.5	2.25
	7		1	-0.5	0.25
	8		0	-1.5	2.25
	9		2	0.5	0.25

	10	4	2.5	6.25
Sum		16.5		
Count		10		
Standard Deviation		1.2845232		
Desired serv. Level		95%		
Z Score		1.6448536		
Safety Stock		3		
		4.2257054		
		8		

Steel		
Actual Units	Deviation	Deviation Sqr
2	0	0
3	1	1
6	4	16
1	-1	1
0	-2	4
1	-1	1
4	2	4
0	-2	4
2	0	0
1	-1	1

Sum	32
Count	10
Standard Deviation	1.78885438
Desired serv. level	95%
Z Score	1.64485362
Safety Stock	7
	5.88480723
	7

Question 4

Current inventory level is 2250500 and as per above calculation the optimum would be 46050.

Question 5

Debtors turnover ratio = Net credit sales/Average account receivables

Sales	\$650,000
Credit sales	28%
Net credit sales	182000
Average account receivables	15 days
	26712.32877
Debtors turnover ratio	6.813333333

There is efficient way of collection of receivables. Thus there are high quality customers of Causto which are paying timely. Thus it is more effective than planned.

Question 6

The recommended discount rate is 7.5%.

Question 7

Question 8

Question 9

interest rate	8%
Cost of OD & Debenture	8%
after Tax	6%
Cos of creditors	0.00%
Owner required return	
Current EBIT	\$247,500.00
interest	36,000.00
Taxable Income	\$211,500.00
Effective TAX Rate	25%

Net profit	
Expected Growth Rate	-1%

Question 10

Finance Component	Market Value	Component weighting	Cost	Product WACC
Mortgage	400000	0.285714286	0.06	1.71%
Owners Investment	1,000,000.00	0.714285714	0.1470335	10.50%
Total	1,400,000.00	1	0.122124	12.21%

Question 13

<u>Lease Schedule</u>			Rate of Interest		8%
	Date	Payment	Interest	Principal	Balance
	0	10000	0	65000	55000
	1	11020	4400	6620	48380
	2	11020	3870	7150	41230
	3	11020	3298.43	7721.57	33509
	4	11020	2680.71	8339.29	25170
	5	27183	2014	25170	0

Question 14

<u>1.Loan Repayment</u>					
	Year 1	Year 2	Year 3	Year 4	Year 5

Loan Repayment	11020	11020	11020	11020	27183.1
Depreciation	13000	13000	13000	13000	13000
Interest	4400	3870	3298	2681	2014
Total Expenses	17400	16870	16298	15681	15014
Tax Shield @ 30%	5220	5061	4890	4704	4504
Net Cash flows	5800	5959	6130	6316	22679
Present value	5492	2821	1935	1495	4295
Year 0 Payment	10000				
Cash Outflow Y1 to Y5	16039				
Total Cash outflow	26039				

<u>2. Purchasing of Tools</u>					
	Year 1	Year 2	Year 3	Year 4	Year 5
Depreciation	13000	13000	13000	13000	13000
Present Value	12311	6155	4104	3078	2462
Year 0	80000				
Cash inflow Y1 to Y2	28109				
cash outflow	51891				

Question 16

Causto Foppi: Bike Frame Manufacturing and Sales			
Balance Sheet			
6/30/2013			
<u>Current Assets</u>	\$	<u>Current Liabilities</u>	\$
Cash	0	Bank Overdraft	50,000.00
Debtors	26,712.00	Creditors	21,986.30
Inventory			
**Carbon	29,900.00		
**Steel	16,150.00	<u>Non Current</u>	
	72,762.00	*Mortgage	400,000.00
<u>Non Current</u>		Lease liability	55,000.00
Property	425,000.00	Proprietorship	
Plant & Equipment	415,000.00	Capital	385,775.70
	912,762.00		912,762.00

Question 18

Report

Introduction

The causto is a manufacturer of frames of bikes. He is planning to make its sales online. He is looking for the right project in order to increase the cash flow by investing in different project.

The net present value is calculated as negative, negative NPV of the project implies that the inflows from the project are not covering the cost of the project and giving loss to the firm. This online sales project should not be accepted by Causto as it is not profitable and viable for Causto.

As per the calculations current debtor turnover ratio is high which implies that firm is operating more on cash basis which is good for Company. The discounted rate which is suggested to Causto is 7.5%, this rate is considered after taking into account the cost involve in the manufacturing process. This rate will not either lead to loss to Causto and will attract large customers and prompt the sales. This will help in better management of working capital as increased sales will lead to increase in earnings and stable cash flow of the business and this will also lead to availability of cash whenever required.

Cash flows will be negative if Causto will adopt for equity capital, further cost of debt is cheaper but will lead to fixed interest cost required to be paid each month. Thus a combination of both can be adopted under larger portion can be of debt and smaller will be equity. In this way the project will get process.

Causto must go for lease option as this is cheap way of financing and will not interrupt the excess cash flow of the Company in one go. Thus business will not face any liquidity issue.

Capital budgeting decision tools can be use such as NPV and IRR. Since the project of online sales is not profitable for Causto, thus he is require to either reject the project or need to made some systematic changes in its existing manufacturing process in order to start online sales.

Recommendations

An optimum combination is always be there of debt and equity. Excess of debt will lead a overburden on causto to pay it timely. Non-payment will lead to create bad impact on the image in the market. There should be adoption of quality management techniques which can improve the production process of Causto and removal of irrelevant activity from production. Cost of capital is lower and can be adopted by Company adequately. Company can make page on the social sites such as face book, instagram and twitter which will give the way of initiating online sale for Causto. This sites will attract new customer from different areas and customer base of the Company will also get enhance. Causto should also enhance its research in order to know more about the taste, preferences and demand of the customer.

Conclusion

From the report it can be concluded that Causto must go for financing from the lease. The cash flow of is average and cannot afford option of debt and equity. Lease financing will enable to manage the cash management effectively. At the safety level Costo should maintain the level of stock at 46050. This safety level is required at any time in business in order to meet out the excess demand of customer. Essay Writers Since 2010 -

Question 20

Strength <ul style="list-style-type: none">● Has own manufacturing unit of bikes frames.● Extensive connections and good relations with people leading him with availability of good credit arrangements.	Weakness <ul style="list-style-type: none">● Non adoption of good marketing strategy.● Improper management of cash.● Not having proper quality and systematic management techniques of sales and production.
Opportunities <ul style="list-style-type: none">● Starting online sale business.	Threats

- Innovation in the existing production process in order to decrease the cost of frames of bike.

- Arrival of new entrants in the same industry.
- Change in policy of government.
- High credit sales can lead to more bad debts and risk to liquidity.



Appendix

<p>Strength</p> <ul style="list-style-type: none">● Has own manufacturing unit of bikes frames.● Extensive connections and good relations with people leading him with availability of good credit arrangements.	<p>Weakness</p> <ul style="list-style-type: none">● Non adoption of good marketing strategy.● Improper management of cash.● Not having proper quality and systematic management techniques of sales and production.
<p>Opportunities</p> <ul style="list-style-type: none">● Starting online sale business.● Innovation in the existing production process in order to decrease the cost of frames of bike.	<p>Threats</p> <ul style="list-style-type: none">● Arrival of new entrants in the same industry.● Change in policy of government.● High credit sales can lead to more bad debts and risk to liquidity.

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