The Economic and Financial Environment of Business Decision Making
Continuous Assessment Case Study
Due Date: 29th July 2021

Question One (30marks)

Evergreen Limited is a significant player in the aircraft leasing industry. The company is managed by **Mr. Higgins**; however he has limited accounting experience.

The company's growth strategy based on market developments has led them within the past year to invest significantly in the specialist segments of the industry.

Most of the company's clients are large public bodies and multinational companies.

Abbreviated financial statements for **Evergreen Limited,** together with typical ratios for companies in the same industry are as follows:

Extracts from Statement of Comprehensive Income for 31 December 2019

	2019	2018
	€'000	€'000
Sales	6,700	4,700
Cost of Sales	4,800	3,600
Gross Profit	1,900	1,100
Expenses	1,150	780
Net Profit	**750**	**320**

Note:

Assume all revenue and cost of sales are on credit.

Interest charge included in the above accounts amounts to €50,000 (2019) & €10,000 (2018)

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Statement of Financial Position as at 31st December 2019

	2019	2019	2018	2018
	€'000	€'000	€'000	€'000
Non-Current Assets				
Property & Plant	1,300		700	
Other Assets	140	1,440	40	740
Current Assets				
Inventory	320		240	
Receivables	230		180	
Cash	540	1,090	300	720
Total Assets		**2,530**		**1,460**
Equity & Liabilities				
Equity				
Ordinary Share Capital	200		200	
Retained Earnings	1,320	1,520	570	770
Non Current Liabilities @ 10%		500		100
Current Liabilities				
Payables	320		280	
Short Term Borrowings	190	510	310	590
Total Equity & Liabilities		**2,530**		**1,460**

	Industry Averages
ROCE	39.00%
Operating Profit	7.50%
Current Ratio	2.01
Acid Test Ratio	1.08
Gross Profit	25.23%
Accounts Rec Collection Days	18 Days
Accounts Pay Payment Days	32 Days
Stock Days	23.5 Days
Gearing	28.00%

Requirement:

Mr. Higgins has approached you and employed you as financial analyst of **Evergreen Limited**. You are required to write a report to him advising of the current financial performance of **the company**. Your report should include the following criteria:

a) Ratios for the year ended **31st December 2019** relating to measures of profitability, liquidity, efficiency, and gearing.

b) An analysis of the ratios calculated including a comparison with the company's equivalent for 2018* and the industry averages provided – your answer should include the appropriate commentary & recommendations.

c) Limitations of your analysis.

Word Count: *max 800 words.*

*Please note you are required to calculate the ratios for 2018 also to allow you to make the appropriate comparisons.

(30 Marks)

Question Two (40marks)

J Murphy decided to embark on a business venture selling bespoke dresswear. She launched her business in January 2021 by investing €100,000 savings in the new business bank account. The following transactions occurred during January 2021.

- 2nd January: Uses €20,000 to purchase machinery for use in producing bespoke products for her customers.
- 5th January: Purchases €7,500 trading stock as a cash transaction.
- 16th January: Sells goods which cost €900 for €1,325. The customer paid on credit.
- 19th January: Marketing costs incurred in January to promote the opening of the business are due to be paid in February – Total €6,750.
- 20th January: Purchases €35,000 trading stock as a cash transaction.
- 25th January: Pays assistant wages of €640 cash.
- 27th January: Pays rent & rates of €1,500 cash.
- 29th January: Sells goods which cost €10,000 for €18,000 on credit.
- 30th January Sells goods which cost €13,000 for €22,000 – 55% of this remained unpaid on the 31st January.
- Other: January Insurance of €2,750 remains unpaid at the end of the month.
- Other: Depreciation is to be charged on the machinery at a rate of 5% per annum.

(a) Prepare the following:

i. Income Statement for **J Murphy** for her first month of trading.

(13 Marks)

ii. Statement of Financial Position for **J Murphy** as at 31st January 2021.

(12 Marks)

<u>Other Requirements:</u>

(b) **J Murphy** opened her business before the COVID 19 pandemic hit Ireland – As her store begins to reopen consider:

i. What are key challenges facing the Fashion Retail industry and **J Murphy's** business as a result of COVID-19 **(10 Marks)**

ii. Important of Cash flow to J Murphy's business and the risk of allowing customers to pay on credit **(5 Marks)**

<u>Question Three (30marks)</u>

<u>Part A Requirement</u>

Your recruitment agency has been engaged to recruit a Finance Business Partner for one of Ireland's leading hotel brands.

The information provided by the company outlines the following:

- The Finance Business Partner will work closely with the Marketing Department to promote the hotel internationally and nationally.
- Please prepare the Job Specification for this role outlining the key characteristics the candidate must have and give an overview of the role itself.
- Outline to the candidate how the expectations of finance and the role has changed over time.

<u>Requirement:</u>

Prepare your job specification in a format which we can advertise online. **(15 Marks)**

<u>Part B Requirement</u>

You have recently started your role in one of Ireland's leading hotel brands after a successful recruitment process.

Your manager wants you to hit the ground running and has asked you to prepare the Marketing Budget for June & July as they prepare for reopening.

The hotel has no bookings for the month of June and only a small number of bookings for July – The Marketing Department wants to increase their activity to try increase the volume of bookings for July

Your manager is unsure whether the company will have enough cash available to increase the level of marketing spend while sales are down.

He has provided the following proposed budgeted information for you to determine if we can increase our marketing spend in June:

	June (€)	**July (€)**
Sales	0	4,800
Marketing Campaign	4,020	2,900
General expenses	744	608

Additional Information

- Sales are made on the basis of 75% cash and 25% credit. Credit customers will pay one month after the sale.
- All marketing campaigns are on credit. We will pay our suppliers one month after the campaigns
- General expenses are paid in the month in which they are incurred.
- Our cash balance at 30th May will be €5,026.

Requirement:

Prepare a cash budget for June and July and state if the company can afford the proposed level of marketing spend in June. **(15 Marks)**

Guidance:

- All workings/ratios to be documented in excel and copy and pasted over to your final submission – only **one** file to be submitted.
- All files to be submitted in **PDF** format.
- Please submit via Turnitin on the Moodle site by 29th July.
- Avoid **generic** answers – consider the industry, etc. each company operates in – research the industries and see if factors you can bring into answers.
- Attempt all questions.