

# THE INSTITUTE OF CHARTERED SHIPBROKERS

APRIL 2007 EXAMINATIONS

MONDAY 23 APRIL – AFTERNOON

## FINANCIAL AND MANAGEMENT ACCOUNTING

Time allowed – Three hours

**ALL THREE questions must be attempted in Section A and Two out of Five questions in Section B – ALL questions carry equal marks**

Calculators may be used.

### SECTION A – All questions to be answered

1. You are overseeing the management of a small accounts department at Omega Shipping Ltd. Your Finance Director is undertaking some strategic planning and has asked you to prepare a six month cash flow forecast covering the period to 30 September 2007. Your finance assistants have collated the following information for you:

a) Actual and projected agency fees:

January	\$40,000	April	\$29,000	July	\$30,000	October	\$42,000
February	\$25,000	May	\$33,000	August	\$24,000	November	\$31,000
March	\$30,000	June	\$37,000	September	\$40,000	December	\$35,000

An analysis of the accounts receivable has identified that 40% pay when the invoice is raised, 50% pay one month later and 10% pay two months later.

b) Purchases are paid on credit, one month after the purchase. Purchases are expected to be:

January	\$18,000	April	\$12,000	July	\$17,000	October	\$22,000
February	\$21,000	May	\$25,000	August	\$12,000	November	\$25,000
March	\$19,000	June	\$27,000	September	\$19,000	December	\$30,000

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- c) Rent is paid quarterly in advance on 1 January, 1 April, 1 July and 1 October at the rate of \$24,800 per annum.
  - d) Net salaries are paid monthly at the rate of \$6,000 per month; tax on the salaries is paid quarterly in arrears to the tax authority at \$2,500 per quarter, the first quarter being due on 1 April.
  - e) Depreciation on fixed assets is \$600 per month.
  - f) Business rates are paid monthly at the rate of \$400 per month; however a rates increase to \$500 is expected in August.
  - g) Insurance of \$4,800 is due on 18 June 2007.
  - h) Interest on bank overdrafts is paid in the following month at the rate of 10% per month. Interest on surplus funds over \$10,000 is paid in the following month at the rate of 0.5% per month.
2. Your company XYZ holdings have the current fixed assets as at the end of its second year of trading:

	<b>Cost \$</b>	<b>Accumulated Depreciation \$</b>
Freehold Property	975,000	78,000
Motor vehicles	80,000	56,000
Plant and machinery	4,500	1,800
Office equipment	5,100	2,231

The company's depreciation policy is:

- Property 4% straight line
- Motor vehicles over 4 years using the sum of digits method
- Plant and machinery straight line over 5 years
- Office equipment 25% on a reducing balance basis.

During the year the company acquired new plant at a cost of \$2,000. It also acquired 2 new motor vehicles at a cost of \$30,000 each, two old vehicles each costing \$20,000 and having a residual value of \$6,000, at the time of sale, were sold for \$7,000 each. Finally new computer equipment costing \$1,200 was acquired during the year.

The company charges a full year's depreciation on acquisition and nothing on sale.

You are required to prepare a memorandum to be sent to your Managing Director showing the depreciation charge that will occur during the year and the effect on the book value of the assets.

**PTO**

You have also been asked to outline why the company needs to charge depreciation and what factors the Company should consider when deciding which method of depreciation should be applied.

3. You are provided with the following summarised financial information for three companies Midus, Aquada and Pluto. Each of the companies operates in the same market place. From the information given, you are required to prepare a report to your Board of Directors analysing the financial performance of each of the companies and considering in particular profitability, liquidity and gearing.

	Midus	Aquada	Pluto
	\$	\$	\$
Total sales	4,613,258	408,215	1,619,995
Operating profit	933,651	47,741	25,866
Interest charges	380,718	2,966	24,957
Profit before tax	652,923	35,000	908
Profit after tax	489,692	24,942	-2,269
Ordinary dividends	265,991	25,430	0
Balance Sheet			
Fixed Assets	11,552,199	222,722	332,167
Stock	29,733	7,604	3,630
Trade debtors	194,438	11,844	214,638
Cash at bank and in hand	1,040,775	44,113	47,193
Total current assets	1,264,946	63561	782,911
Trade Creditors	(501,158)	(16,739)	(476,923)
Borrowings over < 1 year	(433,264)	(20,678)	(17,244)
Total current liabilities	(934,422)	(30,091)	(494,167)
Total assets less current liabilities	11,882,723	256,192	974,098
Capital and reserves	6,153,981	198,729	711,981
Long term debt	5,728,742	57,463	262,117
Capital employed	11,882,723	256,192	974,098

**Section B – TWO out of FIVE questions to be answered**

4. Your company successfully negotiated for WWW Charterers plc to take on time-charter m.v. Henry, the ships owners were PH Shipping Inc. The vessel was of 32,000 tons DWCC on a standard charter party at a daily hire charge of \$15,000 commencing at 06.00hrs on 5 February 2007 for a period of 60 days (plus/minus 15 days) payable every 15 days in advance. As the leading broker, your company OMG are entitled to a commission of 2.5% on all hire monies due.

**PTO**

Bunkers on board the vessel were recorded as follows:

	<b>tons</b>
1.2.07 at 00.00 hrs	450
5.2.07 at 06.00 hrs	230
20.2.07 at 00.00 hrs	160
1.3.07 at 00.00 hrs	422
15.3.07 at 00.00 hrs	300
1.4.07 at 00.00 hrs	60
12.4.07 at 00.00 hrs	200

360 tons of IFO was delivered at 08.00 hrs on 5 February 2007

300 tons of IFO were delivered at 18.00 hrs on 3 April 2007

Daily consumption of IFO is 24 tons when full steaming 4 tons in port.

Market prices of IFO bunker fuel were:

1.2.07 to 17.2.07	\$200 per ton
18.2.07 to 18.3.07	\$190 per ton
19.3.07 to 3.4.07	\$180 per ton
4.4.07 to 15.4.07	\$190 per ton
16.4.07 to 20.5.07	\$200 per ton

***Part A***

Present your company's formal On-Hire statements to both WWW Charterers plc and PH Shipping Inc as at 5 February 2007, clearly showing the amounts due to each party.

***Part B***

Present your company's formal Off-Hire statements to both WWW Charterers plc and PH Shipping Inc, as at the agreed termination of hire at 18.00 on 12 April 2007 on dropping the outward pilot at Eastport after 5½ days in port discharging. Again, clearly show the amounts due to each party and assume that all hire payments were made on the due dates.

5. You have been approached by your sales director who has informed you that they are currently negotiating a number of profitable contracts. Some of the contracts are based in the United Kingdom, some in France and Germany, some in USA and some in Japan. The nature of the contracts will involve the sale of materials as well as services, some of the materials are purchased from the above countries. The contracts will be administered from the UK base of the company. You are required to send a memorandum to both your sales director and finance director outlining the risks involved in the above transaction and what can be done to protect the company.

**PTO**

6. You are a senior executive in a successful shipping company. The company has been successful in obtaining a clear vision and has made some good strategic decisions that have resulted in very profitable years. The board of directors have been impressed with you and have asked your advice with regard to investing some of the company's reserves. You are required to prepare a discussion paper for the board outlining what the board should consider when investing in other companies and what can be done to safeguard the company against the risks of investment.
  
7. You work in the finance department of a ship owning company. The company currently owns five vessels with a combined cost of \$4.4 million and a written down value of \$2.4 million. The company has other assets in the form of property with a market value of \$2 million and a book value of \$1.06 million; work in progress and debtors of \$565,000 and a bank balance of \$985,000. The company has current liabilities in the form of trade creditors of \$360,000; other creditors and accruals of \$50,000 and a long term loan (with 3 years left to run) of \$1.5million. Share capital and reserves amount to \$3.01 million. You have been asked by your Finance Director to comment on the following three issues and how best to finance them:
  - a) The directors want to purchase a sixth vessel that will cost \$1.6million in six months time.
  - b) Some urgent repairs have been undertaken costing \$48,000; however the Finance Director is concerned that there will be insufficient funds for a period of at least 3 months.
  - c) The directors have identified better premises closer to the port with a purchase price of \$2.2million and related moving costs of \$30,000.
  
8. You have been working with the Finance Director of a successful Shipbroker and a trainee has asked you two questions. You are required to answer the two questions
  - a) When the company is approached with a number of investment opportunities, how does it decide which investment to undertake and what does it need to take into consideration.
  - b) What does the term 'time value of money' mean.