DECEMBER 2016

FINANCIAL DECISION MAKING – PRE-ISSUED CASE STUDY & GUIDELINES

Instructions to candidates (please read carefully):

a) The following case study provides some basic information that can be used in your analysis during the examination

b) A copy of this material will be available in the examination and, therefore, you should NOT take this case study into the examination room

c) You are allowed to prepare notes for this examination. Your notes should be a maximum of two pages (four sides) of A4**. These notes can be taken into the examination and should be attached to your answer script on completion of the examination**

d) **As part of your prepared notes, you are advised to calculate (and tabulate) a full range of performance indicators/financial ratios, and be prepared to take a view on the recent performance of SportyCar Ltd**

e) The three hour examination will consist of FOUR compulsory questions

f) Non-programmable calculators are permitted in this examination

Scenario:

SportyCar Ltd is a well-established, UK-based, private family-owned, hand-built sports car manufacturer. It makes a small range of quality sports cars. In many instances, wealthy private customers require significant bespoke modifications to a standard-built model.

The company was first established in the East Midlands (UK) during the mid 1940s, and initially concentrated on cars built for motor racing. During the 1970s SportyCar Ltd expanded its production facilities, completely ceased making cars for racing, and concentrated on a very small range of luxury sports cars. During the 1980s the range of models was developed, and their reputation for high-quality, hand-built, luxury sports cars grew.

In the late 1990s such was their reputation the company started making cars to wealthy owner's precise specifications. The company now concentrates on the UK, Europe, and North America.

In the SportyCar Ltd's mission statement there are references to quality, innovation, service, and safety standards.

The Board of Directors concentrate on the following performance indicators:

- Revenue increase
- EBIT margin
- Net working capital – operating liquidity

continued overleaf

The following information refers to the period 1 December 2011 to 30 November 2014:

Year to 30 Nov.	2012	2013	2014
	£000	£000	£000
Sales	4,000	5,000	6,000
Expenses	(3,000)	(3,800)	(4,750)
Current assets	1,200	1,400	1,600
Current liabilities	(700)	(800)	(900)

The consolidated income statements for the year to 30 November 2015 and 2016 are as follows:

	2015	2016
	£000	£000
Turnover	7,000	8,500
Expenses	(5,500)	(6,700)
	-------	-------
Operating profit (PBIT)	1,500	1,800
Interest paid	(250)	(230)
	-------	-------
Profit before tax	1,250	1,570
Provision for tax	(250)	(310)
	-------	-------
Profit after tax	1,000	1,260
Proposed dividend	(200)	(250)
	-------	-------
Retained profit	800	1,010
	====	====

The consolidated position statement as at 30 November 2015 and 2016 are as follows:

	2015	2016
Non-current assets	3,600	4,510
Cumulative depreciation	(900)	(1,200)
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	2,700	3,310
	-------	-------
Current assets:		
Inventory	1,200	1,940
Accounts receivable	700	500
Bank	-	60
	-------	-------
	1,900	2,500
	-------	-------
Total assets	4,600	5,810
	=====	=====
Equity and reserves:		
Share capital	500	500
Retained profit	2,200	3,210
	---------	----------
	2,700	3,710
Non-current liabilities:		
Loans	900	600
Current liabilities:		
Accounts payable	450	940
Bank overdraft	100	-
Tax owing	250	310
Dividends	200	250
	-------	-------
	1,000	1,500
	-------	-------
Total liabilities	4,600	5,810
	=====	=====

Note: Most of the inventory is made up of car parts, partly finished cars and unsold finished cars.

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