

INSTITUTE OF CHARTERED SHIPBROKERS

APRIL 2009 EXAMINATIONS

TUESDAY 28 APRIL – AFTERNOON

FINANCIAL & MANAGEMENT ACCOUNTING

Time allowed – Three hours

Answer any **FIVE** questions – All questions carry equal marks

SECTION A - Answer question 1 (which is compulsory) and TWO other questions in this section. All questions carry 22 marks

1. From the following Balance Sheet and Summary Profit and Loss Account, you are required to prepare a Cash Flow Statement (showing Source and Application of Funds) and calculate the accounting ratios set out below:

	2007	2007	2006	2006
	£000s	£000s	£000s	£000s
Fixed Assets:				
Ships at net book value		3,250		3,500
Land & buildings		<u>250</u>		<u>200</u>
Current assets:				
Stock	110		45	
Debtors	300		110	
Bank and Cash	<u>90</u>		<u>225</u>	
	<u>500</u>		<u>380</u>	
Less Current Liabilities:				
Creditors	190		120	
Bank Overdraft	<u>270</u>		<u>100</u>	
	<u>460</u>		<u>220</u>	
Net Current Assets (Liabilities)		<u>40</u>		<u>160</u>
Total Net Assets		<u>3,540</u>		<u>3,860</u>
Financed By:				
Ordinary Share Capital		650		600
Reserves		<u>800</u>		<u>780</u>
		1,450		1,380
Loan Capital		<u>2,090</u>		<u>2,480</u>
Capital Employed		<u>3,540</u>		<u>3,860</u>

Small Ships plc
Profit & Loss Summary for the year ended 31 December

	2007 £000s	2007 £000s	2006 £000s	2006 £000s
Freights and other income		2,100		2,200
Less: Vessels expenses inc. depreciation 2007£250 (2006-£300)		<u>1,860</u>		
<u>1,800</u>		240		400
Less Expenses:				
Administration Expenses	60		50	
Loan interest	<u>160</u>		<u>180</u>	
Retained profits		<u>220</u> <u>20</u>		<u>230</u> <u>170</u>

NB The Stock on 31 December 2005 was £50,000

- (a) Prepare Cash Flow Statements for 2007 and 2006 (if possible and if not why not) from the details given above.
 - (b) Produce the following ratios for 2007 and 2006 and comment, as if a financial consultant, on any changes and their significance to the board of Small Ships.
 - (i) Two profitability ratios
 - (ii) The Return of Capital Employed ratios
 - (iii) The Debtors Turnover Ratios
 - (iv) The Acid Test Ratios
2. You are a management trainee of Ultra Products Ltd, and the Development Manager has suggested that the company should own a fleet of vehicles to move its own goods, rather than hire vehicles regularly under contract. You are currently spending £2.1m per annum hiring haulage vehicles.

Evaluate the following two projects and write a report to your Manager with your recommendations and comments, including any outside factors that may influence your recommendation.

PROJECT A

Invest in a fleet of 20 specialised closed-box road vehicles at a total cost of £3.0million, which will be written off over an eight year period and have a resale value £200,000.

Expected additional costs for wages, fuel, repairs, etc. are expected to be:

Year 1	£ 900,000
Year 2	£1,100,000
Years 3-6	£1,200,000
Years 7-8	£1,350,000

Interest on any loan has not been calculated.

PROJECT B

Invest in a fleet of 10 general road vehicles at a cost of £1.2million and continue to hire other haulage vehicles at a cost of £1,000,000 per annum. The 10 general vehicles will have a resale value after 8 years of £100,000.

Expected costs for the 10 vehicles are:

Year 1 £ 400,000

Year 2 £ 450,000

Years 3-6 £ 500,000

Years 7-8 £ 600,000

Interest on any loan has not been calculated.

The following discount factor table is supplied

Interest rates

Years	9%	10%	11%	12%	13%	14%	15%	Years
1	0.9174	0.9091	0.9009	0.8929	0.8850	0.8772	0.8696	1
2	0.8417	0.8254	0.8116	0.7972	0.7831	0.7695	0.7561	2
3	0.7722	0.7513	0.7312	0.7118	0.6931	0.6750	0.6575	3
4	0.7084	0.6830	0.6587	0.6355	0.6133	0.5921	0.5718	4
5	0.6499	0.6209	0.5935	0.5674	0.5428	0.5194	0.4972	5
6	0.5963	0.5645	0.5346	0.5066	0.4803	0.4556	0.4325	6
7	0.5470	0.5132	0.4817	0.4523	0.4251	0.3996	0.3759	7
8	0.5019	0.4665	0.4339	0.4039	0.3762	0.3506	0.3269	8
9	0.4804	0.4241	0.3909	0.3606	0.3329	0.3075	0.2843	9
10	0.4224	0.3855	0.3522	0.3220	0.2946	0.2697	0.2472	10

3. You have successfully negotiated for Longshore Charterers plc to take on time-charter m.v.EXTRAORDINARY (Owners - Southern Shipping Inc.) a vessel of 32,000 tons DWCC on a standard charterparty at a daily hire of \$15,000 commencing at 0600 hrs on 10th February 2009 for a period of about 60 days, payable every 15 days in advance. As the leading broker your company Superagents Ltd are entitled to a commission of 2.5% on all hire moneys due.

Bunkers on board the vessel were recorded as follows:

1st February 2009 at 0000 hrs	- 450 tons
10th February 2009 at 0600 hrs	- 140 tons
15th February 2009 at 0000 hrs	- 450 tons
3rd March 2009 at 0000 hrs	- 330 tons
17th March 2009 at 0000 hrs	- 300 tons
31st March 2009 at 0000 hrs	- 60 tons
12th April 2009 at 0000 hrs	- 200 tons

360 tons of IFO were delivered at 0800 hrs on 10th February 2009.

100 tons of IFO were delivered at 1800 hrs on 5th April 2009.

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

Market prices of IFO bunker fuel were:

1st February 2009 to 17th February 2009	- \$ 145 per ton
18th February 2009 to 18th March 2009	- \$ 138 per ton
19th March 2009 to 3rd April 2009	- \$ 140 per ton
4th April 2009 to 15th April 2009	- \$ 135 per ton

a) Present the Formal On-Hire statements to both Longshore Charterers plc and Southern Shipping Inc., as at 10th February 2009, on picking up the inward pilot at Newtown clearly showing the amounts due to each party.

b) Present the Formal Off-Hire statements to both Longshore Charterers plc and Southern Shipping Inc., as at the mutually agreed termination of hire at 18.00 hrs on 6th April 2009 on dropping the outward pilot at Westport South after 7½ days in port discharging. Clearly show the amounts due to each party and assume that all hire payments were made on the due dates.

4. A Port is investigating two schemes to ease congestion and increase discharge times.

Scheme 1. To build a completely new berth in an undeveloped area of the port. The development including the installation of fully automatic, computer driven handling equipment will involve a capital outlay of £10million. The operating costs for the new equipment, labour costs and other running costs for the scheme are set out below. It is expected that the new facilities will generate an increase in the users of the port resulting in extra revenue. The equipment is to be replaced after five years when it is expected to have a value of £700,000. The complete facility will be closed down after the five years.

	New equipment/ Operating costs	Labour Costs	Other Running Costs	Revenue
Year1	£1,100,000	£250,000	£300,000	£4,200,000
Year2	£1,150,000	£270,000	£310,000	£4,200,000
Year3	£1,180,000	£290,000	£320,000	£5,000,000
Year4	£1,210,000	£300,000	£325,000	£5,200,000
Year5	£1,230,000	£310,000	££330,000	£5,400,000

Scheme 2

To reclaim and refurbish an old unused berth. The capital cost of this will be £4million. The running costs for this scheme have been estimated to be higher than scheme 1 and the revenue will not be as high, although it will increase. The cash flow for the scheme is as set out below. The scheme has a life expectancy of six years, with equipment being sold for £500,000 at the end of the expected life (six years) Revenue and costs have been estimated as follows

	New equipment/ Operating costs	Labour Costs	Other Running Costs	Revenue
Year1	£700,000	£450,000	£400,000	£2,600,000
Year2	£720,000	£480,000	£420,000	£2,800,000
Year3	£750,000	£520,000	£450,000	£3,000,000
Year4	£770,000	£570,000	£470,000	£3,200,000
Year5	£800,000	£630,000	£500,000	£3,500,000
Year6	£830,000	£700,000	£530,000	£3,500,000

The cost of capital for both schemes is 12%

Required:-

- The pay back period for both schemes
- The Net Present Value for both schemes.
- On the basis of the above answers, which scheme should the board accept and explain the reasoning?

The following discount factor table is supplied

Interest rates

Years	9%	10%	11%	12%	13%	14%	15%	Years
1	0.9174	0.9091	0.9009	0.8929	0.8850	0.8772	0.8696	1
2	0.8417	0.8254	0.8116	0.7972	0.7831	0.7695	0.7561	2
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9	0.4804	0.4241	0.3909	0.3606	0.3329	0.3075	0.2843	9
10	0.4224	0.3855	0.3522	0.3220	0.2946	0.2697	0.2472	10

SECTION B - Answer any TWO questions in this section. ALL questions carry 17 marks.

5. You are the financial controller of a ship agency company supplying services in four large ports.

Prepare a full budget report for each branch for one year for your Managing Director, comprising a detailed Profit and Loss Account (a monthly breakdown is not required), together with the anticipated Balance Sheet at the beginning and end of the year.

Explain how the policy of the Directors may affect the reported figures in a ship agency business.

6. A former colleague has given up work after winning US\$ 30,000,000 in a state Lottery. He is only 45 years old and after six months on holiday travelling and enjoying himself, he has decided he is missing daily work and would like to take an active interest in a company. He approaches you to advise him, having worked with you for many years and knows you have bright youthful ideas. He will accept your advice but requires a detailed report of investment possibilities with step by step explanations on how you reach your conclusions. He is prepared to invest between US\$5m and US\$10m. Draft your report to your former colleague.

7. The owner of an existing company has employed you as a new Finance and Administration Manager to sort out problems that have arisen since his former credit controller suffered a fatal heart attack three months ago. You find the cash-flow situation and level of debtors so bad that you had to ask the bank for a temporary loan or overdraft to pay the monthly wages and some pressing debts.

Write a memo to the Owner suggesting a scheme designed to prevent this situation recurring

8. Explain the advantages and disadvantages of at least six different sources of funding for the purchase of a series of four new ships each costing US\$40million.

THE INSTITUTE OF CHARTERED SHIPBROKERS

FINANCIAL & MANAGEMENT ACCOUNTING (FMA)

2009

EXAMINER'S REPORT

OVERALL COMMENTS

The overall standard of the answers was poor with little knowledge shown of the subject. The paper was set with the shipping manager in mind as well as someone who knew about accounting. Therefore the overall result reflects that there is little accounting knowledge by those that sat this paper.

The paper was split into two sections, with four questions in each. Section A had question 1 as compulsory and two others to be answered. Section B requested two to be answered out of the four.

Section A 3 questions to be attempted, each worth 22%

QUESTION 1 - COMPULSORY.

Question 1, comprised of two parts, a cash flow and financial ratios. Therefore if knowledge of cash flows was weak the ratios would have boosted the marks. This is a similar question that has been used in past papers so there was no real reason why this type of question was not expected. Presentation of the statement is crucial and should be presented in a neat manner with calculations clearly shown. Marks were lost with just a figure being put down and no marks could be given if no calculation was shown to see if it was a simple arithmetical error. The basic ratios were requested which every management candidate should be aware to understand company accounts.

QUESTION 2 – EVALUATION OF PROJECTS, NPV

This should have been a straight forward Investment Appraisal question with payback, PI and NPV the minimum expected. A calculation with a report compiled to state the outcome of the calculations was requested. Some of the candidates who attempted this question appeared to have no idea of what was expected in the question. This was very surprising as this is an everyday example of a practical situation. A discount table was given so for candidates not to have realised what the question was about shows a serious lack of knowledge. A report to the managers was required and therefore marks were lost if this was not in a suitable report format.

QUESTION 3 - ON-HIRE, OFF-HIRE STATEMENT

Those that did well showed an understanding of the terminology and requirements of these statements. Again this was a practical question expected in the shipping industry. This type of question has been asked in previous years so the candidates should have been aware of the requirements. There was a lack of understanding of what items are for the owner's account and what should be for the charterer's account. This is a fundamental error.

QUESTION 4 - INVESTMENT APPRAISAL

This was another investment appraisal question which was simpler than question 2 and made it specifically clear what was requested in the answer. Again a discount table was given to give a large hint to the candidate. Several really good answers suggests that the attempt to assist the candidates was taken by some. No report but just a statement and this proved easier for the candidates.

Section B. 2 questions to be attempted each worth 17%

QUESTION 5 - BUDGET REPORT.

This question asked the candidate to use his/her imagination to prepare a detailed budget comprising a Profit and Loss account with a Balance Sheet for beginning and end of an accounting year. The company was a ship agency company serving four ports. This question was to see if the candidate had agency knowledge of what was own expenses compared with items that go on an owners disbursement account.

QUESTION 6 - INVESTMENT PROPOSAL.

A detailed report was to be written with step by step explanation of why points were recommended. Appreciation of different companies, what is required, how to operate, controlling interest or not. This was an open-ended question with marks given for presentation, requirements recommendation.

QUESTION 7- CREDIT CONTROL

A popular question . It was a memo style answer and obviously marks were lost if a memo style was not used. Credit control, its causes and solutions, consultation with creditors and bankers and alternative funding were areas all required to be in the answer.

QUESTION 8 - SOURCE OF FUNDS

This question was a current awareness question to see if the candidate was aware of the current sources of funds for shipping in the present climate and it was a popular question. It was felt that an awareness of the current climate should be known. The price of a vessel was given and advantages and disadvantages requested.

CONCLUSION

It was apparent that little examination of previous papers or revision had been undertaken as this is a subject that has little diversity and the syllabus covers a few pertinent points. Those candidates that passed this paper shows that knowledge and understanding of the subject is required and it is not a paper just to take on the off chance of passing! My recommendation is that candidates should revise and look at previous papers as the last three years are available on the ICS web site.