

THEORY QUESTIONS**PAST PAPERS****60 Marks**

1. Dr. Noctor is considering updating the IT system and requires a loan of €150,000. Outline the factors a lender should consider before granting this loan (6)

2018

100 Marks

2. Fitpro Fitness Centre Ltd have decided to purchase and install new gym equipment. They have received a quote of €225,000. Can Fitpro Fitness Centre Ltd afford this investment? Explain your answer. (10)
3. The owners of the Serenity Gym and Health Centre Ltd have proposed a 15% increase in clients' fees to help clear the bank overdraft. What arguments would you make against this proposal? (6)
4. The company now wishes to purchase equipment for the new extension. Advise the company on how to fund the expected cost of €150,000. (6)
5. The management of the nursing home is considering an increase of 10% in the clients' fees. What advice would you give? Explain your answer. (6)

2017

2014

2012

2010

60 Marks

2018

Dr. Noctor is considering updating the IT system and requires a loan of €150,000. Outline the factors a lender should consider before granting this loan (6)

Factors to be considered before granting loan of €150,000:

1. Gearing – The firm has no long term loans at the moment which would encourage a lender to grant a loan.
2. Ability to pay interest – The net profit is €44,745 with no interest charges at present. The acid test ratio is 1.92:1 meaning the firm is liquid and could easily meet future interest charges.
3. What is the purpose of the loan? The purpose of the loan is to update the IT system making the company more efficient going into the future.
4. What security can she offer? Security is adequate with fixed assets of €174,800 and investments of €100,000 to cover a loan of €150,000.

100 Marks

2017

Fitpro Fitness Centre Ltd have decided to purchase and install new gym equipment. They have received a quote of €225,000. Can Fitpro Fitness Centre Ltd afford this investment? Explain your answer. (10)

1. Fitpro Ltd can afford the new gym equipment.
2. It can finance the cost of €225,000 by selling the investments and receive €90,000 cash and issuing extra ordinary shares and collect €135,000 in cash (or €150,000 from shares and €75,000 from investments).
3. It has just repaid a loan including interest of €63,000 and spent a net €152,000 on fixed assets both of which are of a non- recurring nature.
4. The company made a profit this year of €117,040 and has cash in the bank of €2,240.
5. The company has no need to borrow to fund the project which will eliminate interest payments and result in higher future profits.

2014

The owners of the Serenity Gym and Health Centre Ltd have proposed a 15% increase in clients' fees to help clear the bank overdraft. What arguments would you make against this proposal? (6)

1. The Centre is profitable and is generating enough cash to clear the overdraft without taking any remedial action that could have negative effects on profitability. T
2. he proposed increase of 15% in clients' fees would raise only €49,620 based on this year's figures. This is only one third of the overdraft of €135,000 and so would not be adequate.
3. This increase in fees could however cause a drop in membership with loss of income. Based on this year's figures the overdraft will have been cleared by the end of next year without taking any remedial action now.
4. The Centre this year has repaid a loan of €50,000 plus interest €6,000 and had capital expenditure of €295,000 (Equipment €15,000, Extension €230,000, Vehicles €50,000). This is all non-recurring expenditure.
5. The Centre had a surplus of €157,040 this year and is clearly being run profitably and will continue to be profitable. Its return on capital employed is 17.1%.

2012

The company now wishes to purchase equipment for the new extension. Advise the company on how to fund the expected cost of €150,000. (6)

Funding options for new equipment

1. My advice to the company would be:

Sell investments	40,000
Sell remaining shares	50,000
Borrow	<u>60,000</u>
	150,000

2. The company would be well able to pay back the loan quickly as the accounts show that it had a surplus €151,760 in 2011 and the company is generating enough cash.
3. Although it owes the bank €108,600 it has paid out amounts up to €310,000 on non-recurring and non-trading items.

2010

The management of the nursing home is considering an increase of 10% in the clients' fees. What advice would you give? Explain your answer. (6)

1. A 10% increase in clients' fees would increase income by €33,950.
2. There is no need to increase fees for viability or profitability purposes.
3. The company is profitable as its return on capital employed is 18.4% particularly in the current climate.
4. The company is generating ample cash. It has repaid a loan of €40,000, purchased equipment €15,000, contributed €35,000 towards a new mini bus and has financed about 58% of a €200,000 extension from cash receipts.
5. In the current climate costs are dropping, there is increased competition and consequently charges should not be increasing.