# Final Admitting Examination

Chartered Accountants Ireland

## PAPER 1 FAE CORE COMPREHENSIVE

SUMMER 2016 (Tuesday 16th August 2016: 10.00 am – 2.30 pm)

**APPENDICES**

## APPENDIX I – FACILITY AGREEMENT

### CREDIT APPROVED HEADS OF TERMS – 1 January 2014 (the "Term Sheet")

| | |
|---|---|
| **Borrower:** | Gusto Ryan Limited (the "Borrower"). |
| **Lender:** | Finance Banks, plc. (the "Bank"). |
| **Property:** | All properties owned and controlled by Gusto Ryan Limited (the "Properties"). |
| **Facilities:** | The Current Facilities are as follows:<br><br>Term Loan Facility €/£ 3,000,000<br>Overdraft Facility nil<br>Other Facilities nil<br><br>**TOTAL FACILITIES €/£ 3,000,000** |
| **Purpose:** | Re-finance and consolidation of associated debt transferred to the incorporated entity, the Borrower. |
| **Interest:** | Drawings under the Facilities shall bear interest at EURIBOR / LIBOR or its other currency equivalent, plus "margin" as defined.<br><br>Interest shall be met as it falls due from the date of signing the Facility Agreement. |
| **Margin:** | The margin over the cost of funds to the Bank shall be 2%. This margin shall be on a full cash pay basis from date of execution of the new Facilities Agreement. |
| **Maturity:** | 31st March 2021 (the "Repayment Date"). |
| **Repayment:** | The following annual repayments shall apply to the Facility:<br><br>2015: Nil<br>2016: Nil<br>2017: Nil<br>2018: Nil<br>2019: Nil<br>2020: Nil<br>2021: Bullet payment / refinance arrangement.<br><br>The finance is provided on an interest only basis for the duration of the term.<br><br>Bullet repayment of the balance outstanding on the Repayment Date. |
| **Security:** | The Facilities shall continue to be secured in a manner satisfactory to the Bank (subject to review and legal advice from the Bank's legal advisors) to include but not limited to:<br><br>• Mortgage Debenture incorporating a Fixed and Floating Charge over the Properties.<br>• Security over any loan notes. |

| | |
|---|---|
| **Covenants:** | **<u>Financial covenants:</u>**<br><br>**(applicable to the 2015 financial year and each financial year thereafter)**<br><br>• Minimum EBITDA* €/£ 900,000<br><br>• Net Debt / EBITDA < 4:1<br>(Where net debt is loan amounts less any positive cash balances at the end of each period).<br><br>• EBITDA : Interest cover > 4:1<br><br>• All Distributions to be arranged and agreed with the bank 30 days prior to execution.<br><br>• Exceptional costs after the calculation of EBITDA in any period must be non-recurring in nature and explained to the bank in advance of delivery of the Covenant Compliance Certificate.<br><br>**<u>Information covenants:</u>**<br><br>• Audited accounts to be provided within 270 days of year end.<br><br>• Audited Covenant Compliance Certificate to be provided within 270 days of year end.<br><br>• Quarterly management accounts to be provided within 45 days of Quarter end.<br><br>• Quarterly Covenant Compliance Certificates signed by two directors to be provided with the management accounts within 45 days of the period end.<br><br>***Note:** EBITDA = Earnings before interest, tax, depreciation and amortisation. |

**APPENDIX II – GUSTO RYAN LTD YEAR-END MANAGEMENT ACCOUNTS**

| Reporting entity: Management income and expenditure | GUSTO RYAN - all outlets consolidated | 12 months to December 2015 | | | 2016 |
|---|---|---|---|---|---|
| | | **Actual €/£** | **Budget €/£** | **Variance €/£** | **Forecast €/£** |
| Food sales | | 4,800,000 | 4,000,000 | 800,000 | 4,500,000 |
| Beverage sales | | 1,400,000 | 1,500,000 | (100,000) | 1,600,000 |
| Room hire | | 14,000 | 15,000 | (1,000) | 150,000 |
| Other | | - | - | - | - |
| **TOTAL REVENUE** | | 6,214,000 | 5,515,000 | 699,000 | 6,250,000 |
| Food costs of sales | | (1,728,000) | (1,200,000) | (528,000) | (1,575,000) |
| Beverage cost of sales | | (574,000) | (525,000) | (49,000) | (640,000) |
| **TOTAL COSTS OF SALES** | | (2,302,000) | (1,725,000) | (577,000) | (2,215,000) |
| Wages and salaries | | (1,506,000) | (1,539,000) | 33,000 | (1,455,000) |
| Directors salaries | | (175,000) | (160,000) | (15,000) | (280,000) |
| Motor, travel & subsistence | | (42,000) | (35,000) | (7,000) | (45,000) |
| Advertising & sales | | (361,000) | (220,000) | (141,000) | (440,000) |
| Utility costs | | (266,000) | (298,000) | 32,000 | (280,000) |
| Rates | | (420,000) | (420,000) | - | (420,000) |
| Insurance | | (36,000) | (32,000) | (4,000) | (46,000) |
| Repairs & maintenance | | (16,000) | (18,000) | 2,000 | (20,000) |
| Legal and professional - E.coli specific | | (350,000) | - | (350,000) | (350,000) |
| Sundry expenses | | (8,000) | (5,000) | (3,000) | (5,000) |
| **TOTAL EXPENSES** | | (5,482,000) | (4,452,000) | (1,030,000) | (5,556,000) |
| **Earnings before interest and taxation** | | 732,000 | 1,063,000 | (331,000) | 694,000 |
| Interest payable | | (180,000) | (180,000) | - | (180,000) |
| **Profit after finance costs** | | 552,000 | 883,000 | (331,000) | 514,000 |
| Taxation | | (117,000) | (180,000) | 63,000 | (60,700) |
| Exceptional charges | | - | - | - | - |
| **Net Profit** | | 435,000 | 703,000 | (268,000) | 453,300 |

## APPENDIX II (CONTINUED) – GUSTO RYAN LTD YEAR-END MANAGEMENT ACCOUNTS

**Gusto Ryan Limited**
**Management Statement of Financial Position**
**31st December 2015**

| | | | |
|---|---|---|---|
| | | **€/£** | **€/£** |
| **Fixed Assets** | | | |
| Tangible assets | | | 6,592,000 |
| | | | |
| **Current Assets** | | | |
| Stocks | | 375,000 | |
| Debtors | | 32,000 | |
| Cash at hand | | 41,000 | |
| Cash at bank | | 710,000 | |
| | | 1,158,000 | |
| | | | |
| **Creditors: amounts falling due in one year** | | | |
| Trade creditors | | (125,000) | |
| Tax creditors | | (19,000) | |
| Accruals | note 1 | (358,000) | |
| | | (502,000) | |
| | | | |
| **Net current assets** | | | 656,000 |
| | | | |
| **Total assets less current liabilities** | | | 7,248,000 |
| | | | |
| **Creditors: amounts falling due after more than one year** | note 2 | | (4,613,000) |
| | | | |
| **Net Assets** | | | 2,635,000 |
| | | | |
| **Capital and reserves** | | | |
| Called up share capital | | | 1,000,000 |
| Profit and loss account | | | 1,635,000 |
| | | | |
| **Shareholders' Funds** | | | 2,635,000 |

<u>Note 1 - accruals</u>

| | |
|---|---|
| Staff holiday pay - based on hours owed | 36,000 |
| Suppliers - invoices not received at year end | 46,000 |
| Rates - 2015 2nd instalment not paid | 210,000 |
| Other accruals | 66,000 |
| | 358,000 |

<u>Note 2 - Long term liabilities</u>

| | |
|---|---|
| Loans from Related Parties | 1,613,000 |
| Bank Loan | 3,000,000 |
| | 4,613,000 |

**APPENDIX III – EMAIL FROM EMILY**

**TO:** Paul Ryan (paul.ryan@gustoryan.com)

**FROM:** Emily Ryan (emily.ryan@gustoryan.com)

**SUBJECT:** Interest rate hedging - SWAPS

**DATE:** 10 May 2016

Hi,

You might remember my friend Jane who works for the Investment Brokers, Financial Alliance...I introduced her recently to one of my lectures, and as it turns out, Jane will be giving talks to the final year students with the hope of drumming up some business from the 'future business leaders' on the verge of graduating.

Anyway, I briefly mentioned that we were looking to hedge some of the company debt, and Jane has come back to me to say she can link us up with a company called LIPIDOL, a Pharmaceutical firm that has an appetite for risk and would enter into a swap arrangement with us. Jane feels we are a good match as:

- LIPIDOL has €/£ 3,000,000 of debt on which it pays a fixed rate of 5%.
- We have the same level of debt on which we are currently paying 6% - being EURIBOR/LIBOR plus 2%
- Both principle amounts are due for repayment in 5 years.

If we enter into the Swap, we will be fixing at a lower rate from the start, but will have to pay LIPIDOL the appropriate signup fee. Jane told me that LIPIDOL work off a cost of capital of 8%, so I can work out the minimum fee that we would need to pay on sign up.

When I get a chance, I'll also calculate the profit or loss for both ourselves and LIPIDOL if, say EURIBOR/ LIBOR moved down to 3% or up to 5%, after we do the swap.

The good news is that Finance Alliance is going to waive their fee because of the introduction I made for Jane – not bad!

Talk soon (I hope)

Regards,

Emily

**END OF APPENDICES**

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