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## **CASE STUDY IV**

## **Buzzard Ltd (2)**

Buzzard Ltd is a first-tier supplier to major passenger car and commercial vehicle manufacturers. As a first-tier supplier Buzzard provides systems that fit directly into motor vehicles, which they have manufactured from materials and components acquired from second, third, fourth, etc., -tier suppliers. During the 1990s, through investment in R&D and technology, Buzzard became regarded as one of the World's leaders in design, manufacture and supply of innovative automotive systems.

In the mid-1990s Buzzard started business in one of the UK's many development areas. It was established through acquisition of the business of Firefly from the Stonehead Group. Firefly was a traditional, mass production automotive component manufacturer, located on a brownfield site in Gentbridge, once a fairly prosperous mining area. Firefly had pursued short-term profit rather than longer-term development strategies, and had a poor image with both its customers and suppliers. This represented a challenge but also an opportunity for Buzzard to establish a World class manufacturing facility.

A major part of Buzzard's strategic plan was the commitment to investing £30m to relocate from Gentbridge to a new fully-equipped 15,000 square metre purpose-built factory on a 20-acre greenfield site in Bramblecote, which was finally completed during the year 2000. At the same time, it introduced the changes required to transform its culture and implement the operating strategies required to achieve the highest level of industrial performance. By the year 2000 Buzzard Ltd had become an established supplier of high quality and was close to achieving its aim of being a World class supplier of innovative automotive systems.

In December 2000 a seven-year bank loan was agreed with interest payable half-yearly at a fixed rate of 8% per annum. The loan was secured with a floating charge over the assets of Buzzard Ltd.

The financial statements of Buzzard Ltd, its accounting policies and extracts from its notes to the accounts, for the year ended 31 December 2000 are shown below, prior to the payment of any proposed dividend. It should be noted that Note 3 to the accounts – Profit on ordinary activities before taxation – reports on some of the key items included in the profit and loss account for the year and is not a complete analysis of the profit and loss account.

### ***Required***

- (i) Prepare a vertical analysis of the profit and loss account and balance sheet of Buzzard Ltd based on turnover and net assets respectively, for 1999 and 2000.**
- (ii) Prepare an horizontal analysis of the profit and loss account, balance sheet, and the segmental analysis from Note 1 to the Accounts, using 1999 as base 100.**
- (iii) Prepare a value added statement for the profit and loss account for 1999 and 2000 and a vertical analysis of the value added statement for both years.**
- (iv) Prepare a report on the financial performance and the financial position of Buzzard Ltd that makes extensive use of the analyses that have been prepared in (i), (ii), and (iii) above.**

**Profit and loss account  
for the year ended 31 December 2000**

	Notes	2000 £000	1999 £000
<b>Turnover</b>	1	115,554	95,766
Cost of sales		(100,444)	(80,632)
<b>Gross profit</b>		<hr/> 15,110	15,134
Distribution costs		(724)	(324)
Administrative expenses		(12,348)	(10,894)
<b>Operating profit</b>		<hr/> 2,038	3,916
Net interest	2	(868)	(972)
<b>Profit on ordinary activities before taxation</b>	3	<hr/> 1,170	2,944
Taxation		-	-
<b>Profit for the financial year</b>		<hr/> 1,170	2,944

The company has no recognised gains and losses other than those included above, and therefore no separate statement of total recognised gains and losses has been presented.

**Balance sheet**  
**as at 31 December 2000**

	Notes	2000 £000	1999 £000
<b>Fixed assets</b>			
Tangible assets	8	42,200	29,522
<b>Current assets</b>			
Stocks	9	5,702	4,144
Debtors	10	18,202	16,634
Cash at bank and in hand		4	12
		<hr/> 23,908	<hr/> 20,790
<b>Creditors: amounts falling due within one year</b>	11	(23,274)	(14,380)
<b>Net current assets</b>		<hr/> 634	<hr/> 6,410
<b>Total assets less current liabilities</b>		42,834	35,932
<b>Creditors: amounts falling due after more than one year</b>			
Borrowings and finance leases	12	(6,000)	-
<b>Provisions for liabilities and charges</b>	13	(1,356)	(1,508)
<b>Accruals and deferred income</b>	14	(1,264)	(1,380)
<b>Net assets</b>		<hr/> 34,214	<hr/> 33,044
<b>Capital and reserves</b>			
Share capital	15	22,714	22,714
Profit and loss account		11,500	10,330
<b>Shareholders' funds</b>	16	<hr/> 34,214	<hr/> 33,044

**Cash flow statement  
for the year ended 31 December 2000**

	<b>2000</b>	<b>1999</b>	
	<b>£000</b>	<b>£000</b>	
<b>Net cash inflow from operating activities</b>	12,962	3,622	
<b>Returns on investments and servicing of finance</b>			
Interest received	268	76	
Interest paid	(1,174)	(1,044)	
<b>Net cash outflow from returns on investments and servicing of finance</b>	(906)	(968)	
<b>Capital expenditure</b>			
Purchase of tangible fixed assets	(20,490)	(14,006)	
Sale of tangible fixed assets	12	30	
Government grants received	1,060	1,900	
<b>Net cash outflow from investing activities</b>	(19,418)	(12,076)	
Net cash inflow/(outflow) before financing [Hint: 12,962 – 906 – 19,418]	(7,362)	(9,422)	
<b>Financing</b>			
Issue of ordinary share capital	-	8,000	
Increase in borrowings	6,000	-	
<b>Net cash (outflow)/inflow from financing</b>	6,000	8,000	
<b>Decrease in cash in the period</b>	(1,362)	(1,422)	
<b>Note – reconciliation of net cash flows to the movement in net funds</b>	2000	1999	
	£000	£000	
Decrease in cash in the period	(1,362)	(1,422)	
Cash inflow from movement in borrowings	(6,000)	-	
Opening net debt	(1,974)	(552)	
<b>Closing net debt</b>	(9,336)	(1,974)	
<b>Note – analysis of changes in net debt during the year</b>	<b>1999</b>	<b>Cash flow</b>	<b>2000</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash at bank and in hand	12	(8)	4
Overdraft	(1,986)	(1,354)	(3,340)
Borrowings due after one year	-	(6,000)	(6,000)
<b>Net debt</b>	(1,974)	(7,362)	(9,336)

## **Accounting policies**

The financial statements have been prepared in accordance with applicable accounting standards. A summary of the more important accounting policies which have been applied consistently is set out below.

### **Basis of accounting**

The accounts are prepared under the historical cost convention.

### **Research and development**

Expenditure on research and development is written off as it is incurred.

### **Tangible fixed assets**

Tangible fixed assets are stated at their purchase price together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Freehold buildings	20 years
Plant and machinery (including capitalised tooling)	4 - 8 years
Office equipment and fixtures and fittings	5 - 8 years
Motor vehicles	4 years

Freehold land is not depreciated

### **Government grants**

Grants received on qualifying expenditure or projects are credited to deferred income and amortised in the profit and loss account over the estimated useful lives of the qualifying assets or over the project life as appropriate.

### **Stocks and work in progress**

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis; in the case of manufactured products cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition. Provision is made where necessary for obsolescent, slow moving and defective stocks.

**Foreign currencies**

Assets, liabilities, revenues and costs denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction; monetary assets and liabilities at the balance sheet date are translated at the year end rate of exchange or where there are related forward foreign exchange contracts, at contract rates. All exchange differences thus arising are reported as part of the results for the period.

**Turnover**

Turnover represents the invoiced value of goods supplied, excluding value added tax.

**Warranties for products**

Provision is made for the estimated liability arising on all known warranty claims. Provision is also made, using past experience, for potential warranty claims on all sales up to the balance sheet date.

## Notes to the accounts

### 1 Segmental analysis

	Turnover		Profit on ordinary activities before taxation	
	2000 £000	1999 £000	2000 £000	1999 £000
<b>Class of business</b>				
Automotive components	115,554	95,766	1,170	2,944
<b>Geographical segment</b>				
United Kingdom	109,566	92,020		
Rest of Europe	5,290	3,746		
Japan	698	-		
	<u>115,554</u>	<u>95,766</u>		

### 2 Net interest

	2000 £000	1999 £000
Interest payable on bank loans and overdrafts	(1,182)	(1,048)
Interest receivable	314	76
	<u>(868)</u>	<u>(972)</u>

<b>3 Profit on ordinary activities before taxation</b>	<b>2000</b>	<b>1999</b>
	<b>£000</b>	<b>£000</b>
<b>Profit on ordinary activities before taxation is stated after crediting:</b>		
Amortisation of Government grant	1,176	796
(Loss)/profit on disposal of fixed assets	(18)	10
	<hr/>	<hr/>
And after charging:		
Depreciation charge for the year:		
Tangible owned fixed assets	7,782	4,742
Research and development expenditure	7,694	6,418
Auditors' remuneration for:		
Audit	58	58
Other services	40	52
Hire of plant and machinery - operating leases	376	346
Hire of other assets - operating leases	260	314
Foreign exchange losses	40	20
	<hr/>	<hr/>

#### **4 Directors and employees**

**The average weekly number of persons (including executive directors) employed during the year was:**

	<b>2000</b>	<b>1999</b>
	<b>number</b>	<b>number</b>
Production	298	303
Engineering, quality control and development	49	52
Sales and administration	56	45
	<hr/>	<hr/>
	403	400
	<hr/>	<hr/>

	<b>2000</b>	<b>1999</b>
	<b>£000</b>	<b>£000</b>
<b>Staff costs (for the above persons):</b>		
Wages and salaries	6,632	5,837
Social security costs	562	483
Other pension costs	286	218
	<hr/>	<hr/>
	7,480	6,538
	<hr/>	<hr/>

## 8 Tangible fixed assets

	<b>Freehold land and buildings</b>	<b>Motor vehicles</b>	<b>Plant, machinery and tooling</b>	<b>Office equipment, fixtures and fittings</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost</b>					
At 1 January 2000	15,450	114	20,648	4,600	40,812
Additions	20	28	19,808	634	20,490
Disposals	-	-	(80)	(10)	(90)
At 31 December 2000	15,470	142	40,376	5,224	61,212
<b>Depreciation</b>					
At 1 January 2000	834	54	7,932	2,470	11,290
Charge for year	734	22	6,226	800	7,782
Eliminated in respect of disposals	-	-	(58)	(2)	(60)
At 31 December 2000	1,568	76	14,100	3,268	19,012
<b>Net book value at 31 December 2000</b>	13,902	66	26,276	1,956	42,200
Net book value at 31 December 1999	14,616	60	12,716	2,130	29,522

**9 Stocks**

	<b>2000</b>	<b>1999</b>
	<b>£000</b>	<b>£000</b>
Raw materials and consumables	4,572	3,274
Work in progress	528	360
Finished goods and goods for resale	602	510
	<hr/> 5,702	<hr/> 4,144
	<hr/>	<hr/>

**10 Debtors**

	<b>2000</b>	<b>1999</b>
	<b>£000</b>	<b>£000</b>
<b>Amounts falling due within one year</b>		
Trade debtors	13,364	8,302
Other debtors	4,276	7,678
Prepayments and accrued income	562	654
	<hr/> 18,202	<hr/> 16,634
	<hr/>	<hr/>

**11 Creditors: amounts falling due within one year**

	<b>2000</b>	<b>1999</b>
	<b>£000</b>	<b>£000</b>
Overdraft	3,340	1,986
Trade creditors	13,806	8,646
Other taxation and social security payable	2,334	1,412
Other creditors	122	350
Accruals and deferred income	3,672	1,986
	<hr/> 23,274	<hr/> 14,380
	<hr/>	<hr/>

**12 Borrowings**

	<b>2000</b>	<b>1999</b>
	<b>£000</b>	<b>£000</b>
Bank and other loans repayable otherwise than b instalments		
Over five years	<hr/> 6,000	<hr/> -
	<hr/>	<hr/>

### 13 Provisions for liabilities and charges

	<b>Pensions £000</b>	<b>Warranties for products £000</b>	<b>Total £000</b>
At 1 January 2000	732	776	1,508
Expended in the year	(572)	(494)	(1,066)
Charge to profit and loss account	562	352	914
<b>At 31 December 2000</b>	<b>722</b>	<b>634</b>	<b>1,356</b>

### 14 Accruals and deferred income

	<b>2000 £000</b>	<b>1999 £000</b>
<b>Government grants</b>		
At 1 January 2000	1,380	2,176
Amount receivable	1,060	-
Amortisation in year	(1,176)	(796)
<b>At 31 December 2000</b>	<b>1,264</b>	<b>1,380</b>

### 15 Share capital

	<b>2000 £000</b>	<b>1999 £000</b>
<b>Authorised</b>		
28,000,000 (1999: 28,000,000) ordinary shares of £1 each	28,000	28,000
<b>Issued and fully paid</b>		
22,714,000 (1999: 22,714,000) ordinary shares of £1 each	22,714	22,714

## 16 Reconciliation of movements in shareholders' funds

	<b>2000</b>	<b>1999</b>
	<b>£000</b>	<b>£000</b>
<b>Opening shareholders' funds</b>	33,044	22,100
Issue of ordinary share capital	-	8,000
Profit for the financial year	1,170	2,944
<b>Closing shareholders' funds</b>	<hr/> 34,214	<hr/> 33,044

## 17 Capital commitments

	<b>2000</b>	<b>1999</b>
	<b>£000</b>	<b>£000</b>
Capital expenditure that has been contracted for but has not been provided for in the financial statements	1,506	162
Capital expenditure that has been authorised by the directors but has not yet been contracted for	<hr/> 6,768	<hr/> 5,404

## 18 Financial commitments

At 31 December 2000 the company had annual commitments under non-cancellable operating leases as follows:

	<b>Land and buildings</b>	<b>Other</b>	<b>Land and buildings</b>	<b>Other</b>
	<b>2000</b>	<b>2000</b>	<b>1999</b>	<b>1999</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Expiring within one year	-	96	112	210
Expiring within two to five years	-	254	-	360
Expiring after five years	-	120	-	90
	<hr/> -	<hr/> 470	<hr/> 112	<hr/> 660