



Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

WEDNESDAY, MAY 9, 2001. TIME: 9.30 am - 12.30 pm

Please attempt **ONE** question from Section A and **THREE** questions from Section B.

(If more than the specified number of questions are attempted, delete those you do not wish to have marked. Otherwise the Examiner will mark the **FIRST** four questions.)

All questions carry equal marks.

Do **NOT** repeat question in answer, but show clearly the number of the question attempted on the appropriate page of the Answer Book.

SECTION A (Answer **ONE** question only)

1. Write notes on:
 - (a) Advantages and disadvantages of Internal Rate of Return (IRR) in capital investment appraisal.
 - (b) Importance of cash budgeting.
 - (c) Inventory management.
2. You are currently attending a “start your own business” course. There is to be a class debate on Tuesday week and you are proposing the following motion:
“*A business with no accountant is a failed business.*”
Write your speech as captain of the proposition.

P.T.O.

SECTION B
(Answer THREE questions only)

3. Smellwell and Kleenbrite are companies producing a range of toiletries in two factories, one in Munster and the other in Ulster. Information has been provided for each of the factories, which trade as independent operating divisions as follows:

Extracts from Trading and Profit and Loss Accounts for year ended 31st March 2001

	Smellwell		Kleenbrite	
		Munster		Ulster
	£'000	£'000	£'000	£'000
Sales		4,620		3,564
Cost of Sales		<u>2,046</u>		<u>1,518</u>
Gross Profit		2,574		2,046
Less: Expenses				
Administration	264		132	
Selling & Distribution	<u>1,254</u>	<u>1,518</u>	<u>924</u>	<u>1,056</u>
Net Profit		<u>1,056</u>		<u>990</u>

Balance Sheets as at 31st March 2001

	£'000	£'000	£'000	£'000
<u>Fixed Assets:</u>				
At cost	5,412		2,442	
Less: accumulated depreciation	<u>2,376</u>	3,036	<u>528</u>	1,914
<u>Current Assets:</u>				
Stock	759		396	
Debtors	528		264	
Bank	<u>66</u>		<u>-</u>	
	<u>1,353</u>		<u>660</u>	
<u>Current Liabilities:</u>				
Creditors	528		297	
Bank overdraft	<u>-</u>		<u>66</u>	
	<u>528</u>		<u>363</u>	
Net Current Assets		<u>825</u>		<u>297</u>
		<u>3,861</u>		<u>2,211</u>
	£'000	£'000	£'000	£'000

Financed by:

Share Capital	1,617	1,000
Profit & Loss Account	<u>660</u>	<u>452</u>
Shareholders funds	2,277	1,452
Debentures (10%)	<u>1,584</u>	<u>759</u>
	<u>3,861</u>	<u>2,211</u>

Required:

- (a) Calculate the following ratios for each business using the format:

<u>Ratio</u>	<u>Formula</u>	<u>Smellwell</u>	<u>Kleenbrite</u>
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- | | | | |
|--------|-----------------------------|--|--|
| (i) | Gross Profit % | | |
| (ii) | Net Profit % | | |
| (iii) | Current Ratio | | |
| (iv) | Acid Test Ratio | | |
| (v) | Number of days in debtors | | |
| (vi) | Number of days in creditors | | |
| (vii) | Stock turnover | | |
| (viii) | Capital gearing | | |
| (ix) | ROCE | | |
| (x) | Fixed Asset Turnover | | |

(15 marks)

- (b) Compare the performance of the firms using the ratios calculated in (a).

(10 marks)

P.T.O.

4. Allgames is a new shop specialising in sales of computer games. You are a part-time worker and a college student studying accounting and business studies. You have explained to the owner of Allgames that you can help her set some targets to ensure that the business will earn a profit. The owner provides you with the following information:

Selling Price per game:	£50
Cost price per game:	£35
Delivery cost per game:	£1

Fixed costs per month:

Salaries	£4,000
Shop rent	£800
Other expenses	£1,200

Required:

- (a) How many computer games must Allgames sell each month to breakeven? (5 marks)
- (b) If the shop currently sells 500 games per month calculate the margin of safety and the profit. (5 marks)
- (c) Calculate the c/s ratio and breakeven in value. (5 marks)
- (d) How many games must be sold to earn a profit of £3,000? (5 marks)
- (e) The estate agent has suggested that the shop rent may be increased to £1,300 per month and a new storage cost will be introduced costing 50p per game. How many games must Allgame sell to breakeven? (5 marks)

5. Freestranne Ltd. produces a quarterly budget which is given below. The actual results for the quarter are also given but do not compare directly because actual production and sales are different from the fixed budget of 20,000 units:

	Fixed Budget	Actual Results
Production and Sales in units	20,000	18,000
Sales Revenue	£270,000	£261,000
Direct Materials	£90,000	£85,000
Direct Labour	£72,000	£81,000
Variable Production Overhead	£36,000	£42,000
Fixed Production Overhead	£25,000	£26,000
Direct material per unit	2 litres	2.2 litres
Direct labour hours per unit	.5 hours	.6 hours

Variable production overhead is absorbed on the basis of direct labour hours and fixed production overhead is absorbed on the basis of units of output.

Required:

- (a) Prepare the detailed standard cost card using the fixed budget information. (5 marks)
- (b) Calculate all relevant sales and cost variances. (20 marks)

P.T.O.

6. The following information relates to Clantech Ltd. for the two years to 31st December as follows:

	1999		2000	
	£'000s	£'000s	£'000s	£'000s
Sales		23,040		28,800
Less: Cost of Sales		<u>15,360</u>		<u>19,200</u>
Gross Profit		7,680		9,600
Less: Expenses				
Administration	1,824		2,016	
Selling & Distribution	1,152		1,056	
Depreciation:				
Office Equipment	528		576	
Motor Vehicles	<u>336</u>	<u>3,840</u>	<u>384</u>	<u>4,032</u>
Net Profit		3,840		5,568
Less: Taxation		<u>1,152</u>		<u>1,440</u>
		2,688		4,128
Less: Dividends		<u>1,920</u>		<u>2,400</u>
Retained Profit		<u>768</u>		<u>1,728</u>

Balance Sheets as at 31st December

	1999		2000	
	£'000s	£'000s	£'000s	£'000s
<u>Fixed Assets:</u>				
Office Equipment at cost	5,760		7,680	
Less: Depreciation	<u>1,920</u>	3,840	<u>2,496</u>	5,184
Motor Vehicles at cost	1,920		2,400	
Less: Depreciation	<u>960</u>	960	<u>1,344</u>	1,056
<u>Current Assets:</u>				
Stock	3,840		5,184	
Debtors	1,728		1,920	
Cash	<u>3,072</u>		<u>1,152</u>	
	<u>8,640</u>		<u>8,256</u>	
Less:				
<u>Current Liabilities</u>				
Creditors	2,592		2,880	
Taxation	1,632		2,112	
Proposed Dividends	<u>1,440</u>		<u>960</u>	
	<u>5,664</u>		<u>5,952</u>	
Net Current Assets		<u>2,976</u>		<u>2,304</u>
		<u>7,776</u>		<u>8,544</u>

	£'000	£'000	£'000	£'000
<u>Financed by:</u>				
Ordinary Share Capital		4,800		5,280
Profit & Loss Account		<u>1,152</u>		<u>2,880</u>
Shareholder funds		5,952		8,160
Debentures (10%)		<u>1,824</u>		<u>384</u>
		<u>7,776</u>		<u>8,544</u>

There were no sales of fixed assets during the year ended 31st December 2000.

Required:

Prepare a cash flow statement according to FRS1 for the year ended 31st December 2000. (25 marks)

P.T.O.

7. Woodworld is a company in the furniture industry selling into the designer furniture market. The budget for the year ended 31st December 2001 shows the following costs:

	£	£
<u>Direct Materials:</u>		
W141	450,000	
W896	300,000	
Component 110	100,000	
Fittings (10% of other material costs)	85,000	935,000
<u>Direct Labour:</u>		
Cutting (@ £12 per hour)	230,400	
Assembly (@ £10 per hour)	96,000	
Finishing (@ £8 per hour)	<u>30,720</u>	357,120
<u>Production Overhead:</u>		
Cutting	76,800	
Assembly	28,800	
Finishing	<u>13,440</u>	119,040
Selling, Distribution and Administration Costs (5% of total production cost)		<u>70,558</u> <u>1,481,718</u>

A request was received for beech furniture in March 2001. A cost estimate was prepared by the new trainee accountant details of which are given below:

Job Estimate 391

	£
<u>Direct Materials:</u>	
W141 – 18 sq metres @ £55 per sq. metre	990
W896 – 12 sq metres @ £25 per sq. metre	300
Component 110	150
Fittings	144
<u>Direct Labour:</u>	
Cutting: 20 hours	240
Assembly: 12 hours	120
Finishing: 6 hours	<u>48</u>
	1,992
Plus 75%	<u>1,494</u>
Estimated total cost	£3,486

The company accountant on reviewing the cost estimate expressed his concerns at the accuracy of the estimate.

Required:

- (a) You have been asked by the company accountant to review Job Estimate 391 and briefly explain the problem. (5 marks)
- (b) Prepare a revised cost for Job 391 consistent with your explanation in part (a). (15 marks)
- (c) Recommend a selling price for Job 391 if the company expects to earn 25% on sales price. (5 marks)