Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

WEDNESDAY, MAY 7, 2003. 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. Users of accounting information can be either within the organization or external to the organization. Describe the types of accounting information that would be useful to each of the above categories of user.

2. Write notes on:

   (a) Inventory (stock) management
   (b) The importance of cash budgeting
   (c) Factoring.

P.T.O.

SECTION B
(Answer THREE questions only)

3. A multinational company is considering further investment in one of its European plants. Extracts from the accounts of the Irish and French factories have been provided to help the company make its decision as follows:

Extracts from Trading and Profit and Loss Accounts for year ended 31st March 2003:

	Irish Factory	**French Factory**
	€	**€**
Sales	4,150,000	3,984,000
Less: Cost of Sales	3,320,000	2,988,000
Gross Profit	830,000	996,000
Less: Expenses	332,000	498,000
Net Profit	498,000	498,000

Balance Sheets as at 31st March 2003:

	€	**€**	**€**	**€**
Fixed Assets:				
At cost				
Less: accumulated depreciation		863,200		1,261,600
Current Assets:				
Stock	796,800		664,000	
Debtors	498,000		929,600	
Bank	697,200		398,400	
	1,992,000		1,992,000	
Current Liabilities:				
Creditors	405,040		740,360	
Proposed dividends	126,160		189,240	
	531,200		929,600	
Net Current Assets		1,460,800		1,062,400
		2,324,000		2,324,000
Financed by:				
Share Capital		1,328,000		1,660,000
Profit & Loss Account		996,000		664,000
		2,324,000		2,324,000

Required:

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

Ratio	Formula	Irish Factory	French Factory

(i) Gross Profit %
(ii) Net Profit %
(iii) Number of days in debtors
(iv) Number of days in creditors
(v) Stock turnover
(vi) Current Ratio
(vii) Acid Test Ratio
(viii) Return on Capital Employed (ROCE) (20 marks)

(b) In which factory should the company invest? Why? (5 marks)

4. BopPop manufactures a portable CD player which retails at €75 per unit. The company intends to produce and sell 50,000 units in the forthcoming year. Cost details per unit are as follows:

	€
Direct Material	15
Direct Labour	18
Variable Production Overheads	15
Variable Selling and Distribution Overheads	5
Fixed Production Overheads	€110,000 per annum
Fixed Selling and Distribution	€80,000 per annum

Required:

(i) Calculate the C/S Ratio. (5 marks)

(ii) Calculate breakeven in units and value (5 marks)

(iii) Calculate the margin of safety. (5 marks)

(iv) How much profit will BopPop earn in the coming year based on sales of 50,000 units. (5 marks)

(v) The marketing director has stated that if the company wished to earn €1,200,000 next year extra advertising would be necessary at a cost of €50,000. It was also suggested that packaging should be improved at a cost of €5 per unit. Calculate the number of units that must be sold to reach the target profit of €1,200,000. (5 marks)

P.T.O.

5. The following summarized accounts have been prepared for Pergaeus Ltd:

Profit and Loss Account for the year ended 31st March 2003:

	€
Net Profit before Tax	48,490
Taxation	(7,963)
Profit after Taxation	40,527
P & L a/c balance 31st March 2002	7,173
Proposed Dividend	(11,850)
P & L a/c balance 31st March 2003	35,850

Balance Sheets as at 31st March

	2002		**2003**	
	€	**€**	**€**	**€**
Fixed Assets:				
Fixed Assets at cost	106,223		117,204	
Less: Accumulated Depreciation	46,547	59,676	56,438	60,766
Current Assets:				
Stock	94,990		129,860	
Debtors	64,654		65,981	
	159,644		195,841	
Current Liabilities:				
Creditors	34,586		46,199	
Bank overdraft	6,573		4,645	
Taxation	9,828		7,963	
Proposed Dividends	18,960		11,850	
	66,947		70,657	
Net Current Assets		89,697		125,184
		149,373		185,950
Financed by:				
Ordinary Share Capital		94,800		118,500
Profit & Loss Account		7,173		35,850
10% Debentures		47,400		31,600
		149,373		185,950

The company sold fixed assets during the year with the following details:

Cost	€32,706
Depreciation	€20,382
Loss on Sale	€1,801

Required:
Prepare a cash flow statement according to FRS1 for the year ended 31st December 2003. (25 marks)

6. A company currently has two projects under consideration to completely overhaul its air conditioning/filtration system. As the accountant for this company you have been asked to evaluate each project. Details are as follows:

Project 1: This sytem is expected to cost €100,000 and will have an annual running cost of €160,000 each year for 5 years. The residual value will be €25,000 at the end of the five years.

Project 2: This system has a higher initial outlay of €160,000 but the running costs are estimated as €140,000 per annum for 5 years. The system will have a residual value of €30,000 at the end of the project life of five years.

Currently the company has an air conditioning system which has been fully written off and has an annual running cost of €180,000. It could be sold in five years time for €5,000.

Cost of capital for this company is 10%.

Required:
(a) Evaluate the costs using Net Present value of each of the two proposed projects and the existing system. (18 marks)
(b) Which of the three systems (1, 2 or the existing systems has the minimum cost? Mention any other relevant consideration.(7 marks)

Present Value of €1 annually		**Present Value of €1**	
Year	*10%*	*Year*	*10%*
1	.909	1	.909
2	1.735	2	.826
3	2.486	3	.751
4	3.169	4	.683
5	3.790	5	.621
6	4.354	6	.564

P.T.O.

7. A company manufactures a single product and uses a standard costing system. Extracts from its budget shows the following information for November 2002.

	€
Sales (1,000 units)	100,000
<u>Costs:</u>	
Direct Materials:	
X (30 litres per unit)	33,000
Y (25 litres per unit)	15,000
Direct Labour :	
Machining (@ €8 per hour)	16,000
Assembly (@ €7 per hour)	7,000
Fixed Production Overhead (@ €14 p.u.)	<u>14,000</u>
Budgeted Profit	€15,000

Budgeted Production = 1,000 units

The following actual results are now available for November 2002:

1. Sales revenue was €95,000 for 980 units.
2. The charge to production for materials was 27,440 litres of X costing €32,928 and 25,480 litres of Y costing €16,562.
3. Labour cost in the machining department was €17,787 for 2,156 hours and €7,250 in the assembly department for 1,000 hours.
4. Actual fixed production overhead was €14,600.
5. Actual production in the period was 980 units. There was no change in stock.

<u>Required</u>:

Calculate the following variances:

(i) Sales price and volume.
(ii) Material price and usage (separately for each material).
(iii) Labour rate and efficiency (separately for each department).
(iv) Fixed production overhead expenditure and volume variances.

(25 marks)