Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

WEDNESDAY, MAY 5, 2004. 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. Explain the importance of the accountant to a business. Describe the areas where the assistance of an accountant would be useful.

2. Write notes on:

   (a) Hire Purchase
   (b) Debentures
   (c) Advantages and disadvantages of DCF in Investment Appraisal.

P.T.O.

SECTION B
(Answer THREE questions only)

3. Information has been provided for two businesses in the same industry as shown below:

Extracts from Trading and Profit and Loss Accounts for year ended 31st March 2004:

	Grasp Ltd. €'000s	Grabb Ltd. €'000s
Sales	12,320	15,600
Gross Profit	6,160	7,080
Net Profit before tax	1,760	1,440

Balance Sheets as at 31st March 2004:

	€'000s	€'000s	€'000s	€'000s
Fixed Assets:				
At cost		2,860		3,360
Less: accumulated depreciation		1,100		1,680
		1,760		1,680
Current Assets:				
Stock	1,870		1,560	
Debtors	3,520		2,760	
Bank	440		2,640	
	5,830		6,960	
Current Liabilities:				
Creditors	2,530		3,540	
Proposed dividends	660		360	
Taxation	660		660	
	3,850		4,560	
Net Current Assets		1,980		2,400
		3,740		4,080
		€'000s		€'000s
Financed by:				
Share Capital		550		900
Profit & Loss Account		3,190		3,180
		3,740		4,080

Required:

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

Ratio	Formula	Grasp Ltd.	Grabb Ltd.

(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 ratio
(viii) Return on Capital Employed (ROCE) (20 marks)

(b) Which business is more efficient? Give reasons for your answer. (5 marks)

P.T.O.

4. Bathsoak Ltd. manufacture a range of bath products. One of its products is sold in 125ml bottles and the standard cost is given below:

	125ml bottle
Direct Materials:	**€**
Powdered Soap .25kg	.30
Perfumes & oils .125 litres	.40
Bottle	.25
Direct Labour:	
Mixing department @ €8/hour	.40
Packing department @ €7/hour	.35
Variable Production Overhead:	
.10 hours @ €3/hour	.30
Variable production cost per unit	€2.00
Budgeted selling price per unit	€2.75

Budgeted production and sales is 95,000 bottles per month.

The actual production for the month of April was 100,000 bottles. Actual results are given below:

	€
Sales (100,000 units)	285,000
Direct Materials:	
Powdered soap 26,000 kgs	35,000
Perfumes & oils 12,800 litres	39,680
Bottls 103,000 units	24,720
Direct Labour:	
Mixing department 4,850 hours	39,285
Packing department 5,200 hours	37,440
Variable Production Overhead:	
10,050 hours	32,160

Required:

Calculate all relevant sales and cost variances. (25 marks)

5. Fast Info Ltd. is a company providing computerized accounting, payroll and general software maintenance services to small businesses in the Leinster region. The company has been invited to provide a quotation for the design, development and installation of a computerized stock control system for one of its clients. The following estimates are provided:

	€
Direct materials	1,100
Direct expenses	1,800

The system designers expect to spend 50 hours on this project and are paid €18 per hour for this type of work. It will also be necessary to consult the accounting staff for technical advice in the design of the program and the estimated time is 45 hours @ €20 per hour. Secretarial services staff are paid €9 per hour and are expected to work on this project for 18 hours.

Fast Info Ltd. use departmental overhead absorption rates to recover the overheads of each department. A direct labour hour rate is used in both the System Design and the Accounting departments and a machine hour rate in the Secretarial Services department. Extracts from the annual budget are given below:

Department	***Overheads***	***Direct Labour Hours***	***Direct Machine Hours***
System Design	€30,000	8,000	1,000
Accounting	€25,000	5,000	2,000
Secretarial Services	€40,000	8,000	8,000

25% of all overheads are deemed to be variable in this company. The company would expect to provide support services post installation to the client for 20 hours and this is charged at €30 per hour. It is normal to build this support cost into the quotation.

Required:

(i) Calculate the overhead absorption rates for each department. (6 marks)

(ii) Prepare a detailed cost for the stock control system. (10 marks)

(iii) Calculate the price to be quoted if the company normally earns 20% on sales. (3 marks)

(iv) If Fast Info were offered €5,200 for the stock control system, should they accept? (6 marks)

P.T.O.

6. The management accountant has presented the detailed accounts for each product W, X, Y and Z for the previous year as shown below:

€'000s	**W**	**X**	**Y**	**Z**
Sales	1,320	520	1,800	676
Less Product Costs:				
Direct Materials	350	100	650	485
Direct Labour	250	90	380	295
Variable Production Overhead	192	70	410	156
Fixed Production Overhead	240	325	132	130
Profit/(loss)	288	(65)	228	(390)

The senior management team expressed their concern at the reported losses for products X and Z. The general manager suggests that both of these products should be dropped from the product range.

Required:

(a) Recommend whether products X and/or Z be discontinued giving reasons. Show all detailed calculations and the resulting profits/(losses) for the company as a whole. (15 marks)

(b) Consider the following scenario independently of part (a).

In the coming year a company will be limited by the amount of material 146X which is used for each of the products A, B, C, D, detailed as follows:

	A	**B**	**C**	**D**
	€	**€**	**€**	**€**
Selling Price per unit	50	75	30	35
Variable Costs per unit				
Direct Materials @ €4/litre	20	24	6	4
Direct Labour	15	23	9	12
Variable Overhead	5	8	3	4
Contribution p.u.	10	20	12	15
Maximum demand	800	1,000	2,000	1,200

Required:

Using the information given, recommend a production plan to maximise company profits if the quantity of material available is 10,000 litres. If fixed costs are €50,000 per annum calculate the profit.

(10 marks)

7. The following summarized accounts have been prepared for ABC Co. Ltd:

Balance Sheets as at 31st December	**2002**		**2003**	
	€	**€**	**€**	**€**
Fixed Assets:				
Fixed Assets at cost	11,928		14,336	
Less: Accumulated Depreciation	4,144	7,784	5,208	9,128
Current Assets:				
Stock	2,632		2,996	
Debtors	3,024		3,472	
Bank	252		224	
	5,908		6,692	
Current Liabilities:				
Creditors	1,624		1,792	
Taxation	1,120		280	
Proposed Dividends	336		392	
	3,080		2,464	
Net Current Assets		2,828		4,228
		10,612		13,356
Financed by:				
Ordinary Share Capital		5,936		7,812
Share Premium a/c		84		168
Profit & Loss Account		4,592		5,376
		10,612		13,356

Profit and Loss Account for the year ended 31st December 2003

	€
Net Profit before Tax	1,456
Taxation	280
Profit after Taxation	1,176
Proposed Dividend	392
Retained Profit for year	784

Fixed assets were sold for €168000 during the year and details are as follows:
Original Cost €364000
Net Book Value €140000

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