Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

WEDNESDAY, AUGUST 17, 2005. 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) Working Capital Management
    (b) Term Loans
    (c) Factoring

2. Discuss the main purposes for which information may be required in any business and describe its usefulness in that context.

P.T.O.

SECTION B
(Answer THREE questions only)

3. The following information relates to Margaretti Ltd. for the two years ended 31st December 2003 and 2004 respectively:

	2003	2004
	€	€
Sales	27,900	31,340
Less: Cost of Sales	18,135	20,180
Gross Profit	9,765	11,160
Net Profit	4,005	4,650

Balance Sheets as at 31st December

	2003		2004	
	€	€	€	€
Fixed Assets:				
Plant & Machinery at cost	16,656		13,544	
Less: accumulated depreciation	5,868	10,788	4,989	8,556
Current Assets:				
Stock	1,860		6,720	
Debtors	3,975		6,880	
Bank	3,465		5,000	
	9,300		18,600	
Current Liabilities:				
Creditors	1,488		3,906	
	1,488		3,906	
Net Current Assets		7,812		14,694
		18,600		23,250
Financed by:				
Ordinary Share Capital		16,740		16,740
Profit and Loss Account		1,860		6,510
		18,600		23,250

Required:

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

Ratio	Formula	2003	2004

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

(b) Comment on the changes arising in the following ratios between 2003 and 2004.
(i) Number of days in debtors
(ii) Number of days in creditors (5 marks)

P.T.O.

4. A company in the pharmaceutical industry produces a range of luxury hair products. One of the products, Shine & Glo, has the following standard unit cost for a 300ml bottle:

	€
Direct Materials:	
AL2 - .4 litres @ €6/litre	2.40
PQ8 - .25 litres @ €3/litre	.75
Bottle and cap 1 unit @ €.50/unit	.50
Direct Labour:	
Mixing - .15 hours @ €15/hour	2.25
Filling - .2 hours @ €18/hour	3.60
Production overhead:	4.00
Standard product cost	€13.50

The company expects to produce 50,000 units per month.

The actual results for March for Shine & Glo were as follows:

Actual production was 54,000 units.

	€
Direct Materials:	
AL2 – 22,140 litres	135,054
PQ8 – 13,000 litres	41,600
Bottle & Cap – 56,000 units	30,500
Direct Labour:	
Mixing – 8,150 hours	120,620
Filling – 11,500 hours	208,725
Production overhead:	220,000

Required:

Calculate all cost variances for March 2005. (25 marks)

5. A company in the information technology sector has been very successful in recent years. They are planning to expand the company's activities. Consequently, they are examining the possibility of investing funds in a new project. Two possible projects have been identified and details are given below:

		Alpha	**Beta**
		€	**€**
Initial investment		300,000	250,000
Subsequent investment (Year 2)		75,000	-
Annual cash flows:	Year 1	100,000	180,000
	Year 2	125,000	125,000
	Year 3	145,000	110,000
	Year 4	120,000	-
	Year 5	65,000	-
Working capital requirement from start of project		50,000	35,000
Residual value at end of project		25,000	15,000

The company has a cost of capital of 10%.

Required:

(a) Evaluate each project using
- (i) Payback (6 marks)
- (ii) Net Present Value (14 marks)

(b) Which project should be undertaken? Why? (5 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.

6. John intends to use his redundancy money of €180,000 plus a loan of €40,000 to start up a new business from 1st October 2005. He will commence with a property costing €100,000, equipment valued at €30,000 and a delivery vehicle costing €20,000. The following information is provided:

(a) Sales in October are expected to be €15,000 and then rising by €4,000 per month until March 2006 when the sales level will stabilize.

(b) All sales will be on credit. Customers are expected to settle their accounts: 60% in the month following sale and the balance in the month after that.

(c) All sales are made at a mark-up of 100% on cost. Initial purchases on 1st October of stock for sale will be €30,000 (at sales value) plus each month John will purchase sufficient stock to meet the following months sales requirement.

(d) Purchases will be paid for in the month following the month of purchase.

(e) Wages will total €1,600 per month. There will be one weeks delay in payment of wages.

(f) Other expenses payable within the month will be €800 per month for the first three months and €1,000 per month thereafter. These figures include depreciation of €150 per month.

(g) A sales commission of 5% will be paid one month after sale.

(h) Interest on loan will be payable monthly at a rate of 10% per annum.

<u>Required</u>:

(a) Prepare a cash budget for John for the six months to 31st March 2006. (20 marks)

(b) Explain the difference between profit and cash. (5 marks)

7. A company currently sells 75,000 units of a single novelty gift product at €25 per unit. The variable costs per unit are made up of the following:

Direct materials	€8
Direct labour	4
Variable overhead	6

Fixed costs amount to €350,000 per annum.

Required:

(a) How many units must the company sell in order to break even? (5 marks)

(b) Calculate the margin of safety at present. (5 marks)

(c) Calculate the current profit/(loss). (5 marks)

(d) How much profit/(loss) would be earned if sales were increased by 33 1/3%? (5 marks)

(e) How many units must the company sell to earn a profit of €250,000? (5 marks)