Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

WEDNESDAY, MAY 17, 2006. 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. In your opinion does the accountant make a contribution to the efficiency and effectiveness of the organisation? Explain. (25 marks)

2. Write notes on:

   (a) Hire Purchase
   (b) Debentures
   (c) Factoring (25 marks)

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 December 2005:

	Spin Ltd.	Spun Ltd.
	€	**€**
Sales	238,500	183,900
Gross Profit	127,296	101,184
Net Profit	49,400	46,000

Balance Sheets as at 31st December

	Spin Ltd.		Spun Ltd.	
	€	**€**	**€**	**€**
Fixed Assets:		278,800		125,800
At cost		122,400		27,200
Less: accumulated depreciation		156,400		98,600
Current Assets:				
Stock	39,000		20,000	
Debtors	22,200		10,400	
Bank	8,500		3,650	
	69,700		34,050	
Current Liabilities:				
Creditors	21,000		15,700	
Proposed dividends	6,200		3,000	
	27,200		18,700	
Net Current Assets		42,500		15,350
		198,900		113,950
		€'000's		**€'000's**
Financed by:				
Share Capital		50,000		20,000
Profit and Loss Account		67,300		54,800
10% Debentures		81,600		39,150
		198,900		113,950

Required:

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

Ratio	Formula	Spin Ltd.	Spun Ltd.

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

(b) Briefly state which business, in your opinion, is more profitable.
Give reasons for your answer. (5 marks)

P.T.O.

4. The standard cost card for one unit of the single product "B102" produced by the Paypack Co. Ltd. is given below:

Direct Material:			**€**
	15 Kgs @ €4/Kg		60
Direct Labour:			
	Machining	4 hours @ €12/hr	48
	Finishing	3 hours @ €10/hour	30
Fixed Production Overhead			25
			€163

The fixed production overhead cost per unit is based on a budget of 15,000 units per annum. Production is evenly spread throughout the year. The budgeted selling price is €195 per unit.

During January 2006 the company produced 1,200 units. The actual costs are given below:

Direct Material:			**€**
	17,000 Kgs		71,400
Direct Labour:			
	Machining	5,200 hours	61,100
	Finishing	3,300 hours	31,680
Fixed Production Overhead			€35,500

Note:
Actual sales were 1,200 units and sales revenue was €240,000.

Required:
(a) Calculate all relevant sales and cost variances. (20 marks)
(b) Suggest two possible reasons for the material price variance. (5 marks)

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

Balance Sheets as at 31st December

	2004		**2005**	
	€	**€**	**€**	**€**
Fixed Assets:				
Fixed Assets at cost	211,925		273,665	
Less: Accumulated Depreciation	70,805	141,120	95,669	177,996
Current Assets:				
Stock	91,140		88,298	
Debtors	119,952		122,521	
Bank	13,328		-	
	224,420		210,819	
Current Liabilities:				
Creditors	50,764		45,423	
Bank overdraft	-		2,842	
Taxation	20,972		15,190	
Proposed Dividends	12,250		14,700	
	83,986		78,155	
Net Current Assets		140,434		132,664
		281554		310,660
Financed by				
Ordinary Share Capital		245,000		245,000
Profit & Loss Account		36,554		65,660
		281,554		310,660

There were no sales of fixed assets during the year ended 31st December 2005

Profit and Loss Account for the year ended 31st December 2005

	€
Net Profit before Tax	58,996
Taxation	(15,190)
Profit after Taxation	43,806
Profit & Loss Account balance 31st Dec 2004	36,554
Proposed Dividend	(14,700)
Profit & Loss balance 31st Dec 2005 carried forward	65,660

Required:

Prepare a cash flow statement according to FRS1 for the year ended 31st December 2005. (25 marks)

P.T.O.

6. A company producing leather handbags had the following profit statement in the year ended 31st December, 2005:

		€	€
	Sales 160,000 units		16,000,000
Less:	Production Costs:		
	Direct Material	4,000,000	
	Direct Labour	1,600,000	
	Variable Production Overhead	800,000	
	Fixed Production Overhead	240,000	
			6,640,000
	Profit		€9,360,000

Required

(a) (i) How many units should the company have sold to earn a profit of €12,000,000? (4 marks)

(ii) What is the margin of safety at present? (4 marks)

(b) To improve performance in the coming year the Managing Director has asked for suggestions:

(i) The management accountant has suggested a cost reduction programme which he expects will cut both fixed costs and variable costs by 10%.
Sales price and quantity will not change.

(ii) The sales manager suggests decreasing the selling price by 10% which will increase sales quantity by 5%.

(iii) The marketing manager suggests an internet advertising campaign at a cost of €300,000 which is expected to increase sales by 10%.

Calculate SEPARATELY for **each** suggestion:

1. C/S Ratio
2. Break-even point (units and value)
3. Profit (12 marks)

And recommend a strategy based on your calculations in (b). (5 marks)

7. Games Ltd. is a company in the leisure industry that has developed a revolutionary new product for the consumer market. They are now examining two alternatives in order to maximize profits from this product:

Production Alternative:
Manufacture the product with the following variable costs:

Direct material	€10 per unit
Direct labour	€8 per unit
Variable production overhead	€4 per unit

It is expected that the product will sell for €40 per unit. Sales are expected to be:

Year 1	15,000 units
Year 2	18,000 units
Year 3	15,000 units
Year 4	10,000 units
Year 5	6,000 units

The working capital requirement of €32,000 will be invested from the beginning of the project. The initial outlay on manufacturing equipment will be €660,000 and the residual value of the equipment is expected to be €25,000 at the end of year 5.

Subcontract Alternative:
Games Ltd. can subcontract the production of the product at a cost of €25 per unit. The product would be packaged by Games Ltd. using existing equipment at a cost of €3 per unit. This packaged product would then sell at €36 per unit for six years as follows:

Year 1	8,000 units
Year 2	10,000 units
Year 3	10,000 units
Year 4	8,000 units
Year 5	7,000 units
Year 6	3,000 units

The cost of capital for Games Ltd. is 10%.

P.T.O.

Required:

(a) Examine each of the options using Net Present Value (NPV) (20 marks)

(b) Recommend the best course of action giving reasons. (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