Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

TUESDAY, MAY 19, 2009. 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) Leasing
   (b) Debentures
   (c) Importance of Cash Budgeting (25 marks)

2. A friend has come to you looking for advice. He launched a manufacturing business 12 months ago and, to date, it has been very successful. However, it is apparent to you that it is time for the business to employ a full time accountant.

   Write a report to your friend outlining why he should follow your advice.
   (25 marks)

P.T.O.

SECTION B
(Answer THREE questions only)

3. Morrissey Ltd. produce a single product for the electronics industry. This product, the AM236, has the following standard cost card:

			€
Direct Materials	Plastic	0.5 sq feet @ €12 per sq foot	6.00
	Wiring	4 sq feet @ €0.30 per sq foot	1.20
Direct Labour	Machining	2 hours @ €25 per hour	50.00
	Finishing	1.25 hours @ €18 per hour	22.50
Variable Production Overhead		3.25 hours @ €6 per hour	19.50
Total Budgeted Cost			99.20

The company uses a standard marginal costing system. Budgeted production for May was 3,000 units of AM236, at a selling price of €150 per unit.

The actual results for May were as follows:

			€
Sales Revenue			471,200
Direct Materials	Plastic	1,705 sq feet	20,119
	Wiring	12,090 sq feet	3,869
Direct Labour	Machining	6,510 hours	169,260
	Finishing	3,720 hours	68,820
Variable Production Overhead		10,230 hours	60,357
Total Contribution			148,775

Actual Production and Sales in May was 3,100 units

Required:
Calculate all relevant variances for sales, materials, labour and variable overhead. (25 marks)

4. Dunphy Limited has prepared its annual statement for the year ended 31st May 2009, details of which are as follows:

Sales units		40,000
	€	**€**
Sales Revenue		320,000
Less Variable Costs:		
Materials	110,000	
Labour	116,000	226,000
Contribution		94,000
Less Fixed Costs:		
Production Overhead	31,400	
Administration Overhead	24,000	55,400
Profit		38,600

Management of Dunphy Limited is considering how it will improve the performance of the company in the coming year. The following proposals have been received from the management team:

Proposal 1: The sales manager suggests that the selling price of the product could be increased by 12% which should reduce sales volumes by 16%.

Proposal 2: The Production Manager has suggested that labour costs could be decreased by 10% by employing extra supervision at a cost of €9,000.

Proposal 3: The Financial Controller has suggested a cost reduction programme which would reduce all variable costs by 8% in the next year. Training of staff would cost an additional €16,000 however.

Proposal 4: The General Manager has suggested reducing the selling price by 6% which would increase sales volume by 16%. This price change would also require additional advertising expenditure of €4,000.

Required:

(a) For **each** of the four proposals calculate:
  (i) Contribution/sales ratio;
  (ii) Break-even point in units and value;
  (iii) Margin of Safety %; and
  (iv) Total Profit generated. (20 marks)

(b) Recommend a strategy based on your calculations in (a) above. (5 marks)

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5. The following information has been provided for Fleming Limited:

Extracts from Profit & Loss Accounts for the year ended 31st December 2008:

	2007	2008
	€	€
Sales	320,500	352,550
Cost of Sales	189,095	204,479
Gross Profit	131,405	148,071
Net Profit	44,870	56,408

Balance Sheets as at 31 December 2008

	2007		2008	
	€	€	€	€
Fixed assets:				
At cost		375,000		450,000
Less: Accumulated Depreciation		125,000		160,000
		250,000		290,000
Current assets:				
Stock	72,000		84,500	
Debtors	44,500		39,600	
Bank & Cash	29,000		41,158	
	145,500		165,258	
Current liabilities				
Creditors	27,500		18,600	
Corporation Tax	16,850		24,700	
Accruals	27,400		56,800	
	71,750		100,100	
Net Current Assets		73,750		65,158
		323,750		355,158
Financed by:				
Ordinary Share Capital	200,000		200,000	
Reserves	63,750	263,750	120,158	320,158
10% Debentures		60,000		35,000
		323,750		355,158

Required:

(a) Calculate the following ratios for both years using the format:

<u>Ratio</u>	<u>Formula</u>	<u>2007</u>	<u>2008</u>

(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) Highlight any areas you feel may be a cause for concern for Fleming Ltd. (5 marks)

6. As the chief accountant for Risk Limited you have the responsibility for evaluating capital investment proposals. For the coming year the following two proposals have been presented for your approval. Details of both proposals are as follows:

<u>Proposal A1</u>
This project requires an initial investment of €400,000 in plant and equipment. Cash inflows for the five years will be €110,000 per annum. At the end of year five the plant will be decommissioned and it is expected to yield €45,000 from its sale.

<u>Proposal B2</u>
This project will require an initial investment of €300,000 in plant and equipment. The cashflows from this project have not yet been computed but you have been presented with the following data.

	Sales Units
Year 1	6,000
Year 2	10,000
Year 3	12,500
Year 4	10,000

The selling price per unit is €45. Costs per unit are as follows – direct materials €18, direct labour €10 and variable costs €5.

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The selling price and all costs will remain constant over the four years and all costs are paid for in cash as they occur.

Risk Ltd expects the cost of capital to be 10%

Discount Factors – Present value of €1

Year	**5%**	**10%**	**15%**	**20%**
1	0.952	0.909	0.870	0.833
2	0.907	0.826	0.756	0.694
3	0.864	0.751	0.658	0.579
4	0.822	0.683	0.572	0.482
5	0.784	0.621	0.497	0.402
6	0.746	0.564	0.432	0.335

Required:

(a) Evaluate each of the two projects using:

(i) Net Present Value (8 marks)
(ii) Internal Rate of Return (8 marks)
(iii) Payback (6 marks)

(b) If only one project could be pursued, which one would you recommend, giving reasons for your answer? (3 marks)

7. The following summarised accounts are presented to you for Matthews Limited:

Balance Sheets as at 31st December

		2007		**2008**
	€	**€**	**€**	**€**
Fixed Assets:				
Fixed Assets at cost	300,000		420,000	
Accumulated Depreciation	102,000	198,000	140,000	280,000
Current Assets:				
Stock	292,000		321,000	
Debtors	198,000		226,000	
Cash at Bank	28,000		0	
	518,000		547,000	
Current Liabilities:				
Creditors	215,000		238,000	
Bank Overdraft	0		10,000	
Taxation	26,000		24,000	
Proposed Dividend	32,000		28,000	
	273,000		300,000	
Net Current Assets		245,000		247,000
		443,000		527,000
Financed by:				
Ordinary Share Capital		250,000		250,000
Profit & Loss Account		193,000		277,000
		443,000		527,000

There were no sales of fixed assets during the year ended 31st December 2008.

Profit & Loss Account for the year ended 31st December 2008

	€
Net Profit before Tax	136,000
Taxation	(24,000)
Profit after Taxation	112,000
Profit & Loss Account balance 31st Dec 2007	193,000
Proposed Dividend	(28,000)
Profit & Loss Account balance 31st Dec 2008	277,000

Required:
Prepare a cash flow statement in accordance with FRS1 for the year ended 31st December 2008. (25 marks)