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In deciding whether to introduce the new range of products, in order to assist the directors, the marketing department has set out the problem in the form of a decision tree. The research and development costs already incurred are £50 000, which have to be paid even if the new range is not introduced. Full development and launch will cost £500 000, a figure which includes the £50 000 already spent.

Expert opinion states that there is a 60 per cent chance of an upturn in the economy during 2008–2009 and a 40 per cent chance of a downturn.

In the event of an economic upturn, there would be a 70 per cent chance of receiving £2.1 million in gross revenue and a 30 per cent chance of receiving £1.5 million.

In the event of a downturn in the economy, there would be a 20 per cent chance of receiving £1.8 million in gross revenue and an 80 per cent chance of receiving £0.8 million.

- (b) (i) Using the data above, construct the decision tree and recommend the course of action which *Cox and French plc* should take.

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Note: the data provided in Question 1 is also relevant to your answers to Question 2.

2. Here is an extract from the published accounts for *Cox and French plc* for the financial year 2007:

Profit and Loss Account		£m	Balance Sheet		£m
Turnover		6.4	Fixed Assets		4.0
Cost of Goods Sold		4.6	Current Assets:		
Other Costs		1.0	Stock		2.4
		—	Debtors		1.2
			Cash		0.2
Profit before interest and tax		0.8	Current Liabilities		3.4
			Net Current Assets		0.4
			Share Capital		2.0
			Reserves		0.8
			Long-Term Loan		1.6

(a) With reference to the accounting data provided above, evaluate the financial position and performance of *Cox and French plc*.

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Q2

(Total 40 marks)

QUALITY OF WRITTEN COMMUNICATION: 4 MARKS

TOTAL FOR PAPER: 84 MARKS

END

