Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

WEDNESDAY, 23RD AUGUST 2000. 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. You are one of the partners in a relatively new business and early indications are positive. Your bank manager has pointed out that the combined partnership expertise is in production and marketing and has recommended that you employ a financial manager.

   Draft a report to your partners explaining the bank manager's reasons for her recommendation.

   (25 marks)

2. Write notes on:

   (a) The importance of cash budgeting

   (b) Working capital management

   (c) Hire Purchase

   (25 marks)

P.T.O.

SECTION B
(Answer **THREE** questions only)

3. Zite Engineering is considering purchase of a new production line for a new product, the ERZ 10. The following information has been gathered to consider the viability of the project:

(i) The project cost will be a total of £350,000 of which £200,000 will be payable immediately, £100,000 payable in one year and the balance of £50,000 represents the working capital requirement from the beginning of the project. The working capital will be released at the end of the five year project life.

(ii) Estimated net cash flows during the life of the project are:

Year	1	2	3	4	5
Net cash flows (£'000)	60	80	120	100	85

(iii) To maintain sales at the level which will generate the net cash flows in (ii), the company intend to spend £15,000 on advertising at the beginning of year 2 and £18,000 at the end of year 3.

(iv) The production line will have a residual value at the end of year 5 of £25,000.

(v) The company has a required rate of return of 10%.

Required:

(a) Calculate

(i) Payback
(ii) NPV (Net Present Value)
(iii) IRR (Internal Rate of Return) (20 marks)

(b) State whether the project is feasible giving reasons. (5 marks)

Discount Factors

Present Value of £1

Year	***5%***	***10%***	***15%***	***20%***
1	.952	.909	.870	.833
2	.907	.826	.756	.694
3	.864	.751	.658	.579
4	.822	.683	.572	.482
5	.784	.621	.497	.402
6	.746	.564	.432	.335

P.T.O.

4. Extracts from the accounts of three companies in the Bigbiz Group for the period ending 31st December 1999 are given below:

	LitBiz	**LatBiz**	**LetBiz**
	£'000	**£'000**	**£'000**
Turnover	14,320	8,400	13,600
Gross Profit	3,480	1,920	2,400
Net Profit	960	480	616
Buildings	640	1,120	4,160
Plant & Machinery	1,408	560	3,440
Stocks	440	1,008	3,440
Debtors	136	1,280	1,680
Creditors	1,240	560	972
Cash at Bank	1,156	-	-
Bank overdraft	-	872	2,360

Required:

(i) Calculate the following ratios for each of the three companies:

(a) Gross Profit %
(b) Net Profit %
(c) Stock turnover
(d) Number of days in debtors
(e) Fixed Asset turnover
(f) Current ratio
(g) Acid Test ratio
(h) Number of days in creditors (20 marks)

(ii) One of the above companies is part of the retail division of Bigbiz Group. Identify the retail company and explain the reasons for your selection.

(5 marks)

5. One of the products manufactured by the Exewye Co. Ltd. is the Handytidy which retails for £18 per unit. Sales in the coming period are expected to be 6,000 units. The variable unit costs for the Handytidy are:

	£
Direct Materials	7
Direct Labour	3
Variable Production Overhead	2
	12

The company has fixed costs of £18,000 per period.

Required:

(a) Calculate the c/s ratio. (5 marks)

(b) Calculate the breakeven point in units and value. (5 marks)

(c) Calculate the margin of safety. (5 marks)

(d) Calculate how many Handytidys must be sold to earn profits of £24,000. (5 marks)

(e) If all variable costs decreased by 10%, how many units must the company now sell to breakeven? (5 marks)

P.T.O.

6. Exclusive to You is a luxury clothing firm producing designer garments for the fashion industry. The accountant has been asked to quote a price for a garment based on the following information for a high profile customer:

Direct Materials:

10 metres of SK697	@ £12/metre
5 metres of LN23	@ £2.50/metre
3 metres of CFN164	@ £8.00/metre

Beading, thread, buttons are charged at 10% of all other direct material costs.

Direct Labour:

Machining	14 hours	@ £10/hour
Hand Sewing	35 hours	@ £12/hour
Finishing	5 hours	@ £8/hour

This company absorbs overheads on an individual cost centre basis in each cost centre using machine hours in machining and labour hours in both the hand sewing and finishing cost centres. Extracts from the overhead budget are as follows:

Cost Centre	*Machine Hours*	*Labour Hours*	*Variable Overhead*	*Fixed Overhead*
Machining	18,000	2,000	12,000	45,000
Hand Sewing	-	25,000	5,000	50,000
Finishing	-	5,000	2,500	25,000

Design costs for this garment were £500 and pattern making time totalled 10 hours. Pattern makers are paid £8.50/hour.

Required:

(a) Calculate the total cost of this exclusive garment. (17 marks)

(b) This company operates on a margin of 50% on sales price. Recommend a selling price for this garment. (3 marks)

(d) Mention any other business matters relevant to the scenario. (5 marks)

7. The summarised accounts of Cashkropp Ltd. for the years ended 31st March 1999 and 2000 are given below:

Profit and Loss Account for the year ended 31st March 2000

		£000's	***£000's***
Sales			32,000
Cost of Sales			19,200
Gross Profit			12,800
Less:	Depreciation	1,920	
	Interest	480	
	Other expenses	6,720	9,120
Net Profit before tax			3,680
Taxation			640
Net Profit after tax			3,040
Dividend proposed			480
Retained profit			2,560

Balance Sheet as at 31st December

	2000		***1999***	
	£'000	***£'000***	***£'000***	***£'000***
Fixed Assets @ cost		19,200		19,200
Less: Depreciation to date		9,600		7,680
		9,600		11,520
Current Assets:				
Stock	2,080		2,240	
Debtors	640		800	
Cash	5,152	7,872	480	3,520
Less Current Liabilities:				
Creditors	992		960	
Taxation	640		480	
Proposed Dividend	480	2,112	800	2,240
Total Assets less Current Liabilities		15,360		12,800
Financed by:				
Ordinary Share Capital		6,400		6,400
Revenue Reserves		8,960		6,400
		15,360		12,800

Required:

(a) Prepare a cash flow statement using FRS 1 guidelines. (20 marks)

(b) Describe the usefulness of a cash flow statement. (5 marks)