Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

WEDNESDAY, 3RD MAY 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. Accountants are a necessary evil to all businesses.
   Do you agree with this statement?
   Why?

2. Write notes on:

   (a) Debentures
   (b) Term Loans
   (c) Venture Capital

P.T.O.

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

3. Elmoe Ltd. is a company wholesaling in the motor vehicle spare parts market. One of the services offered by the motor industry trade association is an inter-firm comparison. The summarised results of Elmoe Ltd. for the two years ended 31st December 1998 and 1999 are given below together with extracts from the most recent inter-firm comparison.

Trading and Profit and Loss Accounts for the years ended 31st December

	1998	**1999**
	£000	**£000**
Sales	2,352	2,808
Cost of Sales	1,440	1,800
Gross Profit	912	1,008
Less:		
Employee costs	264	266
Other expenses	574	674
Net Profit	74	68

	1998	**1999**
	£000	**£000**
Fixed Assets:		
Buildings	480	451
Fixtures and Fittings	192	221
Vehicles	120	96
	792	768
Current Assets:		
Stocks	204	288
Debtors	216	209
	420	497
Current Liabilities:		
Creditors	168	216
Bank Overdraft	218	276
	386	492
Net Current Assets	34	5
Total Assets less current liabilities	826	773
Financed by:		
Ordinary Share Capital	240	240
Profit & Loss Account	226	294
Long Term Liabilities:		
8% Bank Loan	360	239
	826	773

The inter-firm comparison reveals:

Gross profit %	35%
Net profit %	2.8%
Employee costs to sales	8%
Current ratio	1.6
Acid Test ratio	1.1
Debtor days	70 days
Creditor days	60 days
Stock Turnover	65 days

Required:

(a) Calculate relevant ratios for Elmoe for 1998 and 1999 to facilitate an evaluation in relation to the inter-firm statistics.

(16 marks)

(b) Comment on Elmoe's performance in each of the years compared with the industry as shown in the inter-firm comparison.

(9 marks)

P.T.O.

4. Cool Consumers manufactures a range of four refrigerated units for retail outlets. Details are given as follows:

	Unit Selling Prices	**Unit Variable Costs**
	£	**£**
CC 101	200	140
CC 102	250	190
CC 103	290	189
CC 104	350	245

The annual demand for each product is estimated below:

	Estimated Demand
CC 101	90,000
CC 102	120,000
CC 103	40,000
CC 104	50,000

The company has an estimated production capacity of 375,000 units and, therefore, is currently operating below full capacity. An enquiry has been received from a supermarket chain interested in buying 60,000 CC104's. The finance director informs you that this order will increase fixed costs from £15 million to £16.2 million and that minor design alterations will increase variable costs by £10 per unit.

Required:

(a) Calculate estimated profit before the supermarket chain enquiry. (5 marks)

(b) Calculate C/S ratios for each of the four products. (8 marks)

(c) Recommend a selling price for the special order of CC104's which will earn an increase in profit of £5 million. (7 marks)

(d) At what selling price per unit will Cool Consumers breakeven on the special order?(5 marks)

5. The ABC Co. Ltd. is a light engineering company in business for 20 years. Following a complete review of all equipment in line with current replacement policy, the company wishes to purchase 3 new machines details of which are given below:

	Machine A	**Machine B**	**Machine C**
Initial Cost	£80,000	£58,000	£60,000
Net Cash Inflows	**£**	**£**	**£**
Year 1	10,000	48,000	2,000
Year 2	16,000	12,000	3,000
Year 3	24,000	2,000	4,000
Year 4	36,000	2,000	5,000
Year 5	32,000	2,000	90,000
Residual Value	10,000	7,000	8,000

All machines will be disposed of at the end of year 5. The company has a cost of capital of 10%.

Required:

(a) For **each** Machine:

(i) Calculate payback (6 marks)
(ii) NPV (Net Present Value) (12 marks)

(b) For Machine A, calculate the IRR (Internal Rate of Return). (7 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.

6. Glam Gardens is a manufacturer of garden furniture. One of its products, a bench, is budgeted for production and sales of 5,000 units per month. The standard cost card for one bench is detailed below:

	£
Direct Materials:	
20 metres of P1098 @ £3/metre	60
Fixtures and Fittings	3
Direct Labour:	
5 hours @ £5 per hour	25
Variable Production Overhead:	
5 hours @ £2 per hour	10
	98
Budgeted Selling Price per unit	£150

During the previous month, 4,800 benches were produced and sold generating revenue of £768,000. The actual costs incurred were as follows:

	£
Direct Materials:	
P1098 – 100,000 metres	310,000
Fixtures and Fittings	13,920
Direct Labour:	
22,500 hours	118,125
Variable Production Overhead	56,250
	498,295

Required:

(a) Calculate all relevant sales and cost variances. (20 marks)

(b) Give two possible reasons for the sales price variance. (5 marks)

7. Dotte Comme Ltd. is a small company in the computer consumables market. Since start up, the manager has managed all aspects of the business including cash. She has now approached you for advice because she had a bank overdraft of £20,400 at the end of July. You have established the following:

(a) The sales to 31st December are:

	Units
June actual	30,000
July actual	35,000
Forecast:	
August	40,000
September	45,000
October	50,000
November	55,000
December	60,000

(b) The selling price is £25 per unit.

(c) The standard variable cost of production per unit is £17.5 consisting of:

Direct Materials	£10
Direct Labour	5
Variable Production Overhead	2.5

(d) 60% of debtors are expected to pay in the month following sale and are allowed a prompt payment discount of 5%. The balance will pay one month later.

(e) Production will take place one month prior to sale. All raw materials will be purchased in the month before production.

(f) Raw materials will be paid for in the month following purchase.

(g) Wages are paid one week in arrears and, therefore, one quarter of the wages of each month will be paid for in the following month.

(h) Variable production overheads are paid two months following month of production.

(i) New delivery vehicles will be purchased in September at a cost of £90,000. These will be paid for in October. **P.T.O.**

(j) Fixed costs are £22,000 per month. This includes a monthly depreciation charge of £2,000. Fixed costs are paid one month in arrears.

(k) Taxation estimated at £40,000 will be paid for in September.

Required:

(a) Prepare a cash budget for three months August – October.

(20 marks)

(b) Make recommendations based on the information prepared in (a).

(5 marks)