**Foundation Certificate in Marketing - Stage 2**

**MARKETING FINANCE**

**WEDNESDAY, AUGUST 22, 2001. 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) Spontaneous sources of finance.
   (c) Factoring.

2. How important is working capital management to business? Why?

**P.T.O.**

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

3. Anne Marie is in the process of preparing a business plan for her new business "For all Occasions" which will specialise in gateaus decorated to individual customer requirements. She has negotiated a start up loan of £50,000 and expects to get a grant of £5,000. Additional information is provided:

(i) Gateaus will sell for £45 each. Anne Marie expects 60% of sales to be cash sales and the balance will be sold on credit. 80% of credit customers will pay within one month of the month of sale and the balance one month later.

(ii) The ingredients will be purchased in the month prior to sale and paid for one month later and will cost £10 for each gateau.

(iii) Wages will be paid for 75% in the month they are incurred and the balance in the following month. Wages cost is expected to be £5 for each gateau.

(iv) Catering equipment and a delivery van will be purchased in February at a total cost of £28,000 and paid for one month later.

(v) Initially, Anne Marie intends to rent a premises at a cost of £500 per month.

(vi) Production overheads will be paid 50% in the month of sale and 50% one month later and will be charged at £3 per gateau.

(vii) Interest on the bank loan will be at 5% per annum payable at the end of each quarter.

(viii) Selling and distribution costs will be 5% of sales including a monthly depreciation charge of £500. Selling and distribution costs will be paid for in the month in which they are incurred.

(ix) Gateau Sales in units

| Jan | Feb | Mar | Apr | May | June |
|---|---|---|---|---|---|
| 300 | 400 | 500 | 550 | 590 | 600 |

(x) Packaging will cost £1 per unit and will be paid for in the month of sale.

**Required:**

(i) Prepare a cash budget for Anne Marie for the six months January – June. (20 marks)

(ii) Explain to Anne Marie the difference between cash and profit. (5 marks)

4. A manufacturing company sells three products Standard, Luxury and Elite. The management accountant has produced the following profit and loss accounts by product and in total for the previous financial year.

| | **Standard** | **Luxury** | **Elite** | **Total** |
|---|---|---|---|---|
| | **£** | **£** | **£** | **£** |
| Sales | 240,000 | 245,000 | 384,000 | 869,000 |
| Less: | | | | |
| Product Costs: | | | | |
| Direct Materials | 84,000 | 107,000 | 96,000 | 287,000 |
| Direct Labour | 48,000 | 39,000 | 57,600 | 144,600 |
| Variable production overhead | 48,000 | 59,000 | 76,800 | 183,800 |
| Fixed production overhead | 40,000 | 50,000 | 70,000 | 160,000 |
| Profit/(loss) | 20,000 | (10,000) | 83,600 | 93,600 |
| Number of units sold | 10,000 | 8,000 | 7,680 | |

The general manager was shocked to discover that product Luxury made a loss and suggested that this product should be dropped from the product range.

**Required:**

(a) Calculate the total company profit if Luxury was discontinued. Explain your answer. (10 marks)

(b) (i) Consider the following scenario INDEPENDENTLY of part (a). The company is restricted by the number of direct labour hours available in the coming year to 80,000 when demand is expected to remain at the same level as the previous year given above. One unit of each product uses the following direct labour hours:

| | |
|---|---|
| Standard | 2 |
| Luxury | 1 |
| Elite | 10 |

Recommend the production plan which will maximise company profits utilising 80,000 direct labour hours and using the information given. (10 marks)

(ii) Mention any other business matters which you consider relevant. (5 marks)

**P.T.O.**

5. The summarised accounts of two companies in a similar business Patricia Ltd. and Pat Ltd. are given below for the year ended 31st December 2000:

**Trading and Profit & Loss Accounts for the year ended 31st December 2000**

| | Patricia Ltd. | | Pat Ltd. | |
|---|---|---|---|---|
| | £'000s | £'000s | £'000s | £'000s |
| Sales | | 200,000 | | 300,000 |
| Less: Cost of Sales: | | | | |
| Opening Stock | 62,500 | | 56,250 | |
| Plus Purchases | 125,000 | | 227,500 | |
| Less: Closing Stock | 37,500 | 150,000 | 43,750 | 240,000 |
| Gross Profit | | 50,000 | | 60,000 |
| Less: | | | | |
| Expenses | | 25,000 | | 22,500 |
| Net Profit | | 25,000 | | 37,500 |

**Balance Sheets as at 31st December 2000**

| | Patricia Ltd. | | Pat Ltd. | |
|---|---|---|---|---|
| | £'000s | £'000s | £'000s | £'000s |
| Fixed Assets: | | | | |
| Fixtures and fittings at cost | 25,000 | | 50,000 | |
| Less accumulated depreciation | 20,000 | 5,000 | 15,000 | 35,000 |
| Current Assets: | | | | |
| Stock | 37,500 | | 43,750 | |
| Debtors | 62,500 | | 56,250 | |
| Bank | 12,500 | | - | |
| | 112,500 | | 100,000 | |
| Less:Current Liabilities | | | | |
| Creditors | 12,500 | | 18,750 | |
| Bank overdraft | - | | 6,250 | |
| | 12,500 | | 25,000 | |
| Net Current Assets | | 100,000 | | 75,000 |
| | | 105,000 | | 110,000 |
| Financed by: | | | | |
| Share Capital | | 95,000 | | 90,000 |
| Profit & Loss Account | | 10,000 | | 20,000 |
| | | 105,000 | | 110,000 |

**Required:**

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

| Ratio | Formula | Patricia Ltd. | Pat Ltd. |
|---|---|---|---|

(i) Gross Profit %
(ii) Net Profit %
(iii) Return on Capital Employed
(iv) Stockturn
(v) Current Ratio
(vi) Acid test ratio
(vii) Number of days in debtors
(viii) Number of days in creditors (16 marks)

(b) Using the above ratios explain which business is the most efficient giving reasons for your conclusion. (9 marks)

**P.T.O.**

6. A company producing a single product for the toy industry set a standard cost for its product, the Teetletoo, as follows:

| | |
|---|---|
| Direct Materials: | |
| 20 kgs @ £1.8 per kg | £36 |
| | |
| Direct Labour: | |
| Machining 2 hours @ £6 per hour | 12 |
| Finishing 1.5 hours @ £8 per hour | 12 |
| | |
| Variable Production Overhead: | |
| Machining: 2 hours @ £3 per hour | 6 |
| Finishing: 1.5 hours @ £2 per hour | 3 |
| | £69 |

The Teetletoo sells for £85 per unit and the budgeted sales are 10,000 units per month.

For the month of September the actual sales were 9,400 units for which the sales revenue was £822,500. Actual costs were:

| | |
|---|---|
| Direct materials: | |
| 190,350 Kgs | £323,595 |
| | |
| Direct labour: | |
| Machining 19,780 hours | 116,702 |
| Finishing 15,040 hours | 124,080 |
| | |
| Variable Production Overhead: | |
| Machining | 61,000 |
| Finishing | 27,000 |
| | £652,377 |

**Required:**

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

7. (a) List the advantages and disadvantages of the net present value method of capital investment appraisal. (5 marks)

(b) The All Racket Club is a racquet centre facilitating a number of sports including tennis, badminton and squash. Many tournaments are held each year which necessitates good catering facilities. The club management are currently assessing the acquisition of new catering equipment which is expected to cost £50,000 and will have an estimated useful life of 5 years. It is expected that the existing equipment will be sold for £3,500 cash at the end of year 1. The net cash inflows from catering at the club using the new equipment are expected to be:

| | |
|---|---|
| Year 1 | £10,000 |
| Year 2 | £12,000 |
| Year 3 | £15,000 |
| Year 4 | £16,000 |
| Year 5 | £17,000 |

The equipment will have a residual value of £5,000 at the end of year 5. With the increase in catering capacity there will also be an increase in the working capital requirement of £5,000 from the beginning of the project. This working capital will not be released at the end of the useful life of this equipment.

The company has a cost of capital of 5%.

Calculate:

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