Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

WEDNESDAY, AUGUST 21, 2002. 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 a bank manager speaking to one of your clients. This client launched a successful manufacturing business 12 months ago. It is now apparent to you that it is time for the business to employ an accountant.

   Explain to your client why your advice should be followed.

2. Write notes on:

   (a) Hire Purchase
   (b) Leasing
   (c) Working capital management.

P.T.O.

SECTION B
(Answer THREE questions only)

3. An Irish company based in Dublin produces products for the European market. The following information has been provided for the two years ended 31st December 2000 and 2001.

Extracts from Trading and Profit and Loss Accounts for year ended 31st December

	2000		2001	
	€'000s	€'000s	€'000s	€'000s
Sales		2,280		3,464
Less: Cost of Sales		1,792		2,584
Gross Profit		488		880

Balance Sheets as at 31st December	**2000**		**2001**	
Fixed Assets:				
Plant and Machinery at cost	820		1,120	
Less: accumulated depreciation	500	320	600	520
Current Assets:				
Stock	384		496	
Debtors	520		584	
Bank	164		276	
	1,068		1,356	
Current Liabilities:				
Creditors	396		404	
Taxation	196		272	
	592		676	
Net Current Assets		476		680
		796		1,200
Financed by:				
Ordinary Share Capital	320		320	
Profit and Loss Account	72	392	400	720
10% Debentures		404		480
		796		1,200

Required:

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

Ratio	Formula	2000	2001

(i) Gross Profit %
(ii) Fixed Asset Turnover
(iii) Number of days in debtors
(iv) Number of days in creditors
(v) Current Ratio
(vi) Acid Test Ratio
(vii) Stock Turnover
(viii) Capital Gearing (16 marks)

(b) Comment on the changes arising in the following ratios between 2000 and 2001:

(i) Gross Profit %
(ii) Stock turnover
(iii) Number of days in creditors (9 marks)

P.T.O.

4. The management of Staplet Ltd. are examining the liquidity of the company using the following information:

(i) All figures in €'000s

	Jan	**Feb**	**March**	**April**	**May**	**June**
Direct materials	50	45	60	40	30	35
Direct wages	40	36	44	32	24	28
Production overheads	31	28	38	36	32	37
Administration costs	4	5	5	6	6	7
Total Sales	170	210	250	210	170	170

(ii) Cash sales represent €10,000 per month of the total sales.

(iii) Credit sales will be paid for 75% in the month following the month of sale and the balance will be paid one month later. All sales paid for in the month following the month of sale will get a 5% settlement discount.

(iv) Material suppliers have agreed a two month credit period.

(v) There is a delay of half a month in payment of wages.

(vi) Production overheads are paid for one month after they are incurred and administration costs are paid for two months after they are incurred.

(vii) The company intends to purchase new production equipment in February at a cost of €150,000. This will be paid for in April.

(viii) The company has a leasing agreement whereby €10,000 per month is payable.

(ix) Sales commission of 1% of all sales is to be paid three months after the month of sale.

(x) The opening bank balance is €20,000. This does not include a bank loan of €40,000 which the company have negotiated and will be received in March. Interest is incurred at 1% per month on the loan and will be paid at the end of each quarter.

Required:

(a) Prepare a cash budget for Staplet Ltd. for the three months April to June 2002. (20 marks)

(b) Comment on any matters arising from the cash budget. (5 marks)

5. Alwin Ltd. manufactures single products for use in industry. The profit statement for the year ended 31st March 2002 was as follows:

	€	€
Sales (100,000 units)		726,000
Less: Variable Costs:		
Materials	168,300	
Labour	231,000	399,300
Contribution		326,700
Less: Fixed Costs:		
Production overhead	82,500	
Administration overhead	66,000	148,500
Profit		€178,200

The company would like to improve the performance of the company in the coming year and has asked for ideas from the management team.

(i) The Production Manager has suggested that labour cost could be decreased by 10% by employing extra supervision at a fixed cost of €10,000.

(ii) The Sales Manager suggests that the selling price of the product could be reduced by 15% which should result in increased sales value of 20%.

(iii) The Financial Controller has suggested that a cost reduction programme should be implemented which would cut variable costs per unit by 5% in the first year. Training for this programme would cost €20,000.

(iv) The General Manager suggested that the selling price should be increased by 10% which will have the effect of reducing the sales volume by 5%. An advertising campaign should support this price change at a cost of €20,000.

Required:

(a) Calculate **SEPARATELY** for each suggestion
  (i) C/S ratio
  (ii) Break-even point in units and value
  (iii) Margin of safety
  (iv) Profit (20 marks)

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

P.T.O.

6. A specialist furniture manufacturer has been asked to prepare a quotation for custom made furniture. The requirements are detailed below:

Direct Materials:	
VL689	20 metres @ €10/metre
VH435	8 metres @ €7/metre
	1 packet of M104 @ €6/packet
	2 litres of specialist paint @ €10/litre
Direct Labour:	
Cutting Department	10 hours @ €8/hour
Assembly Department	13 hours @ €7/hour
Finishing Department	7 hours @ €6/hour

The company uses departmental overhead absorption rates to recover the overheads of each department. The relevant budget figures are as follows:

Department	**Machine Hours**	**Labour Hours**	**Fixed Production Overheads**
Cutting	20,000	2,000	€80,000
Assembly	4,000	15,000	€45,000
Finishing	2,000	12,500	€50,000

The overheads are recovered in the cutting department on the basis of machine hours and in the assembly and finishing departments on the basis of direct labour hours. The machine hours booked to this job in the cutting department are the same as the direct labour hours.

Required:

(a) Calculate the overhead absorption rates for each department. (6 marks)

(b) Calculate the job cost adding 10% for fixed administration costs to the production cost. (12 marks)

(c) If the company expects to earn 20% on sales, what price should be quoted to the customer? (2 marks)

(d) If the customer is only prepared to pay €650, should the manufacturer accept the job? Explain your answer. (5 marks)

7. A company in the engineering industry produces automotive spare parts. One of the products B975 has the following standard cost:

		€
Direct Material:		
3 metres of steel @ €10/metre		30
Direct Labour:		
Machining	2 hours @ €7/hour	14
Finishing	1 hour @ €5/hour	5
Fixed Production Overhead		20
		€69

The fixed production overhead cost per unit is based on a budget of 15,000 units per month.

During February 2002 the company produced 14,000 units. The actual costs are given below:

Direct Material:		
45,000 metres		€438,750
Direct Labour:		
Machining	31,000 hours	220,100
Finishing	14,500 hours	75,400
Fixed Production Overhead		310,000

Required:

(a) Calculate all relevant variances. (20 marks)

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