



Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

WEDNESDAY, AUGUST 20, 2003. 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) Working capital management.
 - (b) Spontaneous sources of finance.
 - (c) Term loans.
2. Should the accountant in an organization be a member of the senior management team? Why?

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SECTION B
(Answer THREE questions only)

3. Information has been provided for two businesses in the same industry as shown below:

Extracts from Trading and Profit and Loss Accounts for year ended 31st December 2002:

	M Ltd.	N Ltd.
	€000's	€000's
Sales	4,760	3,672
Gross Profit	2,652	2,108
Net Profit	988	920

Balance Sheets as at 31st December 2002:

	€000's	€000's	€000's	€000's
<u>Fixed Assets:</u>				
At cost		5,576		2,516
Less: accumulated depreciation		<u>2,448</u>		<u>544</u>
		3,128		1,972

Current Assets:

Stock	780	408
Debtors	444	200
Bank	<u>170</u>	<u>73</u>
	1,394	681

Current Liabilities:

Creditors	444	314
Proposed dividends	<u>100</u>	<u>60</u>
	544	374

Net Current Assets 850 307

3,978 2,279

€000's **€000's**

Financed by:

Share Capital	1,000	400
Profit & Loss Account	1,346	1,096

10% Debentures 1,632 783
3,978 2,279

Required:

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

<u>Ratio</u>	<u>Formula</u>	<u>M Ltd.</u>	<u>N Ltd.</u>
(i) Gross Profit %			
(ii) Net Profit %			
(iii) Return on Capital Employed (ROCE)			
(iv) Number of days in debtors			
(v) Number of days in creditors			
(vi) Debt/Equity ratio			
(vii) Current Ratio			
(viii) Acid Test Ratio			

(20 marks)

- (b) Which business is more profitable? Give reasons for your answer. (5 marks)

4. A printing and packaging firm produces jobs to individual customer requirements. An enquiry has been received from one of the company's regular customers for a price on packaging for a new product range. As the demand for the new product is uncertain, the company has been asked to quote for two levels of activity. The expected requirements per unit are as follows:

<u>Direct Materials:</u>	€
Cardboard: 2 square metres @ €8 per m ²	16
Printing inks A1: 0.25 litres @ €20/litre	5
C9: 0.1 litres @ €30/litre	3

Staples and tape are provided for by adding 10% to cardboard and printing inks cost.

<u>Direct Labour:</u>	€
Cutting Department: 0.1 hrs @ €10/hour	1
Printing Department: 0.25 hrs @ €16/hour	4
Finishing Department: 0.15 hrs @ €8/hour	1.20

Overheads are recovered using departmental overhead absorption rates. A machine hour rate is used in the cutting department and printing department and a direct labour hour rate is used in the finishing department. Extracts from the annual budget are given overleaf:

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<i>Department</i>	<i>Production Overheads</i>	<i>Machine Hours</i>	<i>Direct Labour Hours</i>
Cutting	€150,000	15,000	4,000
Printing	€60,000	10,000	5,000
Finishing	€80,000	4,000	10,000

Note:

1. If the quantity of the particular type of cardboard required for this order exceeds 25,000 m², the supplying company will offer a 10% bulk quantity discount on the total order.
2. Production above 10,000 units will reduce the time taken for each unit in the printing department to an average of 0.2 hours per unit for all units.
3. In order to cover administration costs the company usually adds 15% to production costs.

Required:

- (a) Calculate the overhead absorption rates for each department. (6 marks)
- (b) Calculate separately the cost for orders of:
 - (i) 10,000 units
 - (ii) 20,000 units
 (16 marks)
- (c) Calculate the price to be quoted to the customer for the orders of (i) 10,000 units and (ii) 20,000 units if the company wishes to earn a profit of 25% on sales. (3 marks)

5. Maria, a recently graduated computer programmer wishes to start her own business. She has two projects from College which have market potential but will need further development – a payroll program and a materials control program. She has prepared the following forecasts for each program:

Payroll: The development cost is estimated at €30,000 with annual cash flows of:

Year	Cash Flow
1	12,000
2	14,000
3	14,000
4	18,000

Materials Control: The extra work on this program has an estimated cost of €5,000 and is expected to return cash flows of €45,000, €35,000 and €30,000 for Years 1, 2 and 3 respectively.

Each project will have a working capital requirement of €15,000 from the beginning of the project. There is no residual value expected on any of the projects. Maria expects the cost of capital to be 10%.

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

Required:

- (a) Evaluate each of the two projects using:
- (i) Payback (4 marks)
 - (ii) Net Present Value (6 marks)
 - (iii) Internal Rate of Return (8 marks)
- (b) If only one project could be pursued, which would you recommend? Give reasons. (7 marks)

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6. The standard cost card for the single project “Elle” produced by the Ayebee Co. Ltd. is given below:

<u>Direct Material:</u>	
5 Kgs @ €8/Kg	€40
<u>Direct Labour:</u>	
Department A 6 hours @ €10/hr	60
Department B 2 hours @ €7/hour	14
Fixed Production Overhead	<u>40</u>
	€154

The fixed production overhead cost per unit is based on a budget of 12,000 units per annum. Production is evenly spread throughout the year. The budgeted selling price is €200 per unit.

During January 2003 the company produced 1,100 units. The actual costs are given below:

<u>Direct Material:</u>	
6,000 Kgs	€46,800
<u>Direct Labour:</u>	
Department A – 6,500 hours	68,250
Department B – 2,300 hours	16,675
Fixed Production Overhead	45,500

Note:

Actual sales were 1,100 units and sales revenue was €214,500.

Required:

- (a) Calculate all relevant sales and cost variances. (20 marks)
(b) Give two possible reasons for the sales price variance. (5 marks)

7. The following summarized accounts have been prepared for ABC Co Ltd.:

Balance Sheets as at 31st December

	2001		2002	
	€	€	€	€
<u>Fixed Assets:</u>				
Fixed Assets at cost	30,275		39,095	
Less: Accumulated Depreciation	<u>10,115</u>	20,160	<u>13,667</u>	25,428
<u>Current Assets:</u>				
Stock	13,020		12,614	
Debtors	17,136		17,503	
Bank	<u>1,904</u>		<u>-</u>	
	32,060		30,117	
<u>Current Liabilities:</u>				
Creditors	7,252		6,489	
Bank overdraft	-		406	
Taxation	2,996		2,170	
Proposed Dividends	<u>1,750</u>		<u>2,100</u>	
	11,998		11,165	
 Net Current Assets	 <u>20,062</u>		 <u>18,952</u>	
	<u>40,222</u>		<u>44,380</u>	
<u>Financed by:</u>				
Ordinary Share Capital	35,000		35,000	
Profit & Loss Account	<u>5,222</u>		<u>9,380</u>	
	<u>40,222</u>		<u>44,380</u>	

There were no sales of fixed assets during the year ended 31st December 2002.

Profit and Loss Account for the year ended 31st December 2002

	€
Net Profit before Tax	8,428
Taxation	<u>(2,170)</u>
Profit after Taxation	6,258
Profit & Loss Account balance 31 st Dec 2001	5,222
Proposed Dividend	<u>(2,100)</u>
Profit & Loss balance 31 st Dec 2002 carried forward	9,380

Required:

Prepare a cash flow statement according to FRS1 for the year ended 31st December 2002. (25 marks)