Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

WEDNESDAY, AUGUST 18, 2004. 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. Discuss the types of financial information that would be useful to a business in the retail sector.

2. Write notes on:

    (a) Factoring
    (b) Leasing
    (c) Inventory (Stock) Management.

P.T.O.

SECTION B
(Answer THREE questions only)

3. Information has been provided for the LM Company for two years as follows:

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

	2002	**2003**
	€'000s	**€'000s**
Sales	55,296	69,120
Cost of Sales	36,864	46,080
Gross Profit	18,432	23,040
Net Profit before tax	9,216	13,363

Balance Sheets as at 31st December		**2002**		**2003**
	€'000s	**€'000s**	**€'000s**	**€'000s**
Fixed Assets:				
At cost		18,432		24,192
Less: accumulated depreciation		6,912		9,216
		11,520		14,976
Current Assets:				
Stock	9,216		12,442	
Debtors	4,147		4,608	
Bank	7,373		2,765	
	20,736		19,815	
Current Liabilities:				
Creditors	5,069		3,456	
Taxation	3,917		5,069	
Proposed dividends	4,608		5,760	
	13,594		14,285	
Net Current Assets		7,142		5,530
		18,662		20,506
		€'000s		**€'000s**
Financed by:				
Share Capital		11,520		12,672
Profit & Loss Account		2,765		6,912
10% Debentures		4,377		922
		18,662		20,506

Required:

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

<u>Ratio</u>	<u>Formula</u>	<u>2002</u>	<u>2003</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) Has LM Company improved in 2003? Explain your answer briefly.
(5 marks)

P.T.O.

4. Titebolts Ltd. is an engineering company that has developed a revolutionary new product for the consumer market. They are now examining two options in order to maximize profits from this product:

Option 1: Manufacture the product with the following variable costs:

Direct material	€6 per unit
Direct labour	€4 per unit
Variable production overhead	€2 per unit

It is expected that the product will sell for €25 per unit for the first three years and €20 per unit in its final year (year 4). Sales are expected to be:

Year 1	-	9,000 units
Year 2	-	10,000 units
Year 3	-	11,000 units
Year 4	-	9,000 units

The working capital requirement of €21,000 will be invested from the beginning of the project. The initial outlay on manufacturing equipment will be €180,000 and the residual value of the equipment is expected to be €12,000 at the end of year 4.

Option 2: Titebolts can subcontract the production of the product at a cost of €14 per unit. The product would be packaged by Titebolts using existing equipment at a cost of €4 per unit. This packaged product would then sell at €26 per unit for five years as follows:

Year 1	-	7,000 units
Year 2	-	9,000 units
Year 3	-	9,000 units
Year 4	-	7,000 units
Year 5	-	6,000 units

The cost of capital for Titebolts is 10%.

Required:

(a) Examine each of the options using Net Present Value (NPV). (15 marks)

(b) Recommend the best course of action giving reasons. Discuss any other business factors that you consider relevant to the decision. (10 marks)

Present Value of €1 annually		**Present Value of €1**	
Year	*10%*	*Year*	*10%*
1	.909	1	.909
2	1.735	2	.826
3	2.486	3	.751
4	3.169	4	.683
5	3.790	5	.621
6	4.354	6	.564

5. Wood Karver produces a standard range of furniture for the domestic market. One of the products, a kitchen dresser, has budgeted production of 1,000 units per month and has the following standard costs for 2004:

Standard Cost Card:

	€
Direct Materials:	
Timber board 40 metres @ €2/metre	80
Fixtures and fittings	8
Direct Labour:	
4 hours @ €15/hour	60
Variable overhead:	
4 hours @ €2/hour	8
Fixed overhead	4
	€160

During January 2004, 1,000 dressers were produced. The actual costs were as follows:

	€
Direct Materials:	
Timber board 45,000 metres	87,750
Fixtures and fittings	8,500
Direct Labour:	
3,600 hours	55,800
Variable overhead:	
3,600 hours	7,380
Fixed overhead:	3,950
	€163,380

Required:

Calculate all relevant cost variances for January 2004. (25 marks)

P.T.O.

6. Flowfree is examining its cash flow for the coming months. The following information has been provided:

	Aug	**Sep**	**Oct**	**Nov**	**Dec**
	€	**€**	**€**	**€**	**€**
Sales	280,000	300,000	330,000	250,000	180,000
Material purchases	90,000	102,000	82,000	64,000	40,000
Direct wages	76,000	80,000	70,000	58,000	59,000
Production overheads	9,000	10,000	9,000	7,500	7,000

(i) Sales revenue is received: 20% cash sales, 60% in the month following the month of sale and the balance in the following month. Those debtors who pay in the month following sale are entitled to 5% prompt settlement discount.

(ii) Materials are paid for 40% in the month of purchase and the balance in the following month. At the end of August €45,000 is outstanding to creditors for material purchases.

(iii) Direct wages is paid for 75% in the month in which it is incurred and 25% in the following month. €3,000 is outstanding at the end of August for direct wages.

(iv) Production overhead is paid in the month in which it is incurred.

(v) Sales commission at 5% of sales revenue is payable in the month following the month of sale.

(vi) In September, the company expects to replace delivery vehicles at a cost of €80,000. These will be paid for in October. The old vehicles will be sold to company employees for €25,000 cash which will be received in October.

(vii) The company expects to have a bank balance of €15,000 at the end of September.

Required:

(a) Prepare a cash budget for Flowfree for the period October – December 2004. (20 marks)

(b) Briefly explain the difference between cash and profit. (5 marks)

7. A company producing fashion earrings for the young teenage market had the following profit statement in the year ended 31st December, 2003:

		€
Sales 150,000 units		600,000
Less: Production Costs:	**€**	
Direct Material	300,000	
Direct Labour	90,000	
Variable Production Overhead	45,000	
Fixed Production Overhead	150,000	
		585.000
Profit		€15,000

Required

(a) (i) How many units should the company have sold to earn a profit of €50,000? (3 marks)

(ii) What is the margin of safety at present? (3 marks)

(b) To improve performance in the coming year the Managing Director has asked for suggestions:

(i) The management accountant has suggested a cost reduction programme which she expects will cut fixed costs by 10% and variable costs by 5%. Sales price and quantity will not change.

(ii) The sales manager suggests decreasing the selling price by 10% which will increase sales quantity by 20%.

(iii) The marketing manager suggests an internet advertising campaign at a cost of €25,000 which is expected to increase sales by 20%.

Calculate SEPARATELY for each suggestion:

1. C/S Ratio
2. Break-even point (units and value)
3. Profit (14 marks)

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