Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

WEDNESDAY, MAY 11, 2005. 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. A rather skeptical Managing Director of a company stated: "I don't need to pay an accountant to tell me what I know instinctively about my own company – I mean, look at how far I have come without one."

   You are required to write a response to this comment outlining the importance of an accountant to any business.

2. Write notes on:

   (a) Debentures
   (b) Raising new equity capital
   (c) Spontaneous sources of finance.

P.T.O.

SECTION B
(Answer THREE questions only)

3. The following information relates to a company for the two years to 31st December 2003 and 2004 respectively:

	2003	2004
	€	€
Sales	8,100	10,260
Less: Cost of Sales	5,265	7,020
Gross Profit	2,835	3,240
Net Profit	1,485	1,350

Balance Sheets as at 31st December

	2003		2004	
	€	€	€	€
Fixed Assets:				
Plant & Machinery at cost	10,098		7,937	
Less: accumulated depreciation	6,966	3,132	5,453	2,484
Current Assets:				
Stock	1,540		2,080	
Debtors	1,025		3,320	
Bank	135		-	
	2,700		5,400	
Current Liabilities:				
Creditors	432		1,080	
Bank overdraft	-		54	
	432		1,134	
Net Current Assets		2,268		4,266
		5,400		6,750
Financed by:				
Ordinary Share Capital		4,860		4,860
		540		1,890
Profit and Loss Account		5,400		6,750

Required:

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

Ratio	Formula	2003	2004

(i) Gross Profit %
(ii) Net Profit %
(iii) Number of days in debtors
(iv) Number of days in creditors
(v) Current Ratio
(vi) Acid Test Ratio
(vii) Stock Turnover
(viii) Return on Capital Employed (20 marks)

(b) Comment on the changes arising in the following ratios between 2003 and 2004

(i) Currrent Ratio
(ii) Acid Test Ratio (5 marks)

P.T.O.

4. Bolts Ltd. is an engineering firm manufacturing specialized equipment to individual customer requirements. The general manager is concerned that many of the estimates prepared do not convert into orders and that the business is not as profitable as it should be. She has recruited you on a consultancy basis to investigate the situation and you are currently examining the following estimate for job no. 8649:

Quotation – Job No. 8649

	€
Direct Materials:	
X3	600
Y2	300
Z4	100
Direct Labour:	
Machining – 8 hrs @ €20/hr	160
Assembly – 3 hrs @ €15/hr	45
Finishing – 1 hr @ €10/hr	10
Prime cost	1,215
Overhead @ 60% of prime cost	729
	1,944
Profit margin (20% on cost)	389
Estimated selling price	€2,333

On further enquiry, you ascertain budget information as follows:

		Machining	**Assembly**	**Finishing**
(1)	Budgeted overhead	€250,000	€200,000	€150,000
	Budgeted machine hours	50,000	-	-
	Budgeted labour hours	-	80,000	25,000

(2) Bolts Ltd. Summary Budget

Direct Materials		917,000
Direct Labour		500,000
Prime Cost		1,417,000
Overhead:		
Production	600,000	
Administration & Selling	250,000	850,000
Budgeted total cost		€2,267,000

(3) You observed that the total overhead budget of €850,000 represented 60% of the budgeted prime cost.

Required:

(a) Explain briefly the problem with the quotation for job no. 8649. (5 marks)

(b) Calculate a revised cost for job no. 8649 using a more acceptable approach. (15 marks)

(c) Calculate the selling price to be quoted based on your calculations in (b) if the profit margin is based on 25% of selling price. (5 marks)

5. A company in the textile industry produces a range of products. They have recently introduced a standard costing system on a pilot basis for one of its products TEX 051. The standard cost of one unit of TEX 051 is detailed below:

		€
Direct Material:	101 – 1.5 kgs @ €2/kg	3.00
	102 – 3 units @ €.50/unit	1.50
Direct Labour:	.25 hours @ €10/hr	2.50
Production overhead:	.25 hrs @ €6/hr	1.50
		€8.50

The budgeted selling price is €12 per unit and the company expects to produce and sell 6,000 units per month.

The actual results for January for TEX 051 were as follows:

Sales and Production		6,350 units
		€
Sales		76,835
Direct Material:	101 – (@ €2.10/kg)	21,336
	102 – (20,320 units)	9,144
Direct Labour:	(1,610 hours)	17,710
Production overhead:		9,750
Actual Profit		€18,895

Required:

Calculate all sales and cost variances for January 2005. (25 marks)

P.T.O.

6. At a recent meeting the management of High Sales were dismayed to find that the accountant was forecasting a loss for the period of €60,000. The original projection had been a budgeted profit of €40,000. Management now hope to improve the situation in consultation with the financial team. The accountant's forecast is based on the following data:

	€	€
Budgeted sales (20,000 units)		900,000
Variable costs:		
Direct materials	300,000	
Direct labour	300,000	
Variable production overhead	110,000	710,000
Contribution		190,000
Fixed Costs		250,000
Profit/(Loss)		(60,000)

A number of suggestions have been made to convert the potential €60,000 loss into a €40,000 profit as follows:

1. Reduce the selling price by 10% which it is hoped will increase sales by 20%.

2. Repackage the product at an increased material cost of €1.50 per unit which it is hoped will sell 15% more units at the existing selling price.

3. Lease a new labelling machine at an annual cost of €30,000 which is expected to improve labour efficiency and reduce labour cost by 20% per unit and sell an extra 5,000 units.

4. Develop an advertising campaign at a cost of €40,000 and increase sales by 6,000 units.

Required:

(a) For each suggestion calculate

(i) Break even in units
(ii) Number of units required to be sold to reach the target profit
(iii) Profit/(Loss) (18 marks)

(b) Based on your calculations in (a) recommend a strategy giving reasons. (7 marks)

7. The following is a summary of the accounts of Flowcash Ltd.:

Balance Sheets as at 31st December

	2003		**2004**	
	€	**€**	**€**	**€**
Fixed Assets:				
Fixed Assets at cost	18,810		25,080	
Less: Accumulated Depreciation	9405	9405	12,540	12,540
Current Assets:				
Stock	7524		6270	
Debtors	9,530		11,913	
Bank	753		1,003	
	17,807		19,186	
Current Liabilities:				
Creditors	7,524		6,646	
Taxation	6,521		8,151	
Proposed Dividends	2,508		3,135	
	16,553		17,932	
Net Current Assets		1,254		1,254
		10,659		13,794
Financed by:				
Ordinary Share Capital		9,405		9,405
Profit & Loss Account		1,254		4,389
		10,659		13,794

Profit and Loss Account for the year ended 31st December 2004

	€
Net Profit before Tax	14,421
Taxation	8,151
Profit after Taxation	6,270
Proposed Dividend	3,135
Retained Profit for year	3,135

During the year the company sold a fixed asset for €1,505 which had originally cost €3,135 but had a written down value of €1,881.

Required:

Prepare a cash flow statement according to FRS1 for the year ended 31st December 2004. (25 marks)