Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

WEDNESDAY, AUGUST 16, 2006. 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. Users of accounting information can be either within the organization or external to the organization. Describe the types of accounting information that would be useful to each of the above category of user. (25 marks)

2. Write notes on:

   (a) Inventory management
   (b) Term loans
   (c) Importance of cash budgeting (25 marks)

P.T.O.

SECTION B
(Answer THREE questions only)

3. Information has been provided for the Plactor Company operating in the plastics industry for two years as follows:

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

	2004		2005	
	€	€	€	€
Sales		331,776		414,720
Cost of Sales		221,184		276,480
Gross Profit		110,592		138,240
Net Profit before tax		55,296		80,178

Balance Sheets as at 31st December	**2004**		**2005**	
	€	€	€	€
Fixed Assets:				
At cost				
Less: accumulated depreciation		110,592		145,152
		41,472		55,296
		69,120		89,856
Current Assets:				
Stock	55,296		74,652	
Debtors	24,882		27,648	
Bank	44,238		16,590	
	124,416		118,890	
Current Liabilities:				
Creditors	30,414		20,736	
Taxation	23,502		30,414	
Proposed Dividends	27,648		34,560	
	81,564		85,710	
Net Current Assets		42,852		33,180
		111,972		123,036
Financed by:				
Share Capital		69,120		76,032
Profit & Loss Account		16,590		41,472
10% Debentures		26,262		5,532
		111,972		123,036

Required:

Calculate the following ratios for each year using the format:

Ratio	Formula	2004	2005

(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
(ix) Stock Turnover
(x) Fixed Asset Turnover (25 marks)

P.T.O.

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

	Aug	**Sept**	**Oct**	**Nov**	**Dec**
	€	**€**	**€**	**€**	**€**
Sales Revenue	200,000	270,000	300,000	230,000	170,000
Material purchases	80,000	92,000	80,000	55,000	40,000
Direct wages	66,000	70,000	60,000	48,000	49,000
Production overheads	7,000	8,000	7,000	6,500	6,000

(i) Sales revenue is received: 25% cash sales, 50% in the monthly 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 50% in the month of sale and the balance in the following month. At the end of September €46,000 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. €13,000 is outstanding at the end of September for direct wages.

(iv) Production overhead is paid in the month following 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 October the company expects to replace delivery vehicles at a cost of €95,000. These will be paid for in November. The old vehicles will be sold to company employees for €30,000 cash which will be received in October.

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

<u>Required</u>:

(a) Prepare a cash budget for Handycash for the period October–December 2006.(20 mark

(b) Briefly comment on the cash position revealed in (a). (5 marks)

5. Caroline, a young engineer, has joined an enterprise start up programme. She has two ideas that have market potential but each idea will need further development. She has prepared the following forecasts for each potential project:

Project 1: The development cost is estimated at €90,000 with annual cash flows of:

Year	**Cash Flow**
1	30,000
2	44,000
3	48,000
4	28,000
5	18,000

Project 2: The work on this program has an estimated cost of €120,000 and is expected to return cash flows of €65,000, €45,000, €40,000 and €25,000 for Years 1, 2, 3 and 4 respectively.

Each project will have a working capital requirement of €25,000 from the beginning of the project. There is no residual value expected on any of the projects. Caroline 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)

P.T.O.

6. The following summarized accounts are presented to you for Tribio Ltd:

Balance Sheets as at 31st December

	2004		2005	
	€	€	€	€
Fixed Assets:				
Fixed Assets at cost	720,545		930,462	
Less: Accumulated Depreciation	240,737	479,808	325,275	605,187
Current Assets:				
Stock	309,876		300,213	
Debtors	407,837		416,571	
Bank	45,315		-	
	763,028		716,784	
Current Liabilities:				
Creditors	172,597		154,438	
Bank overdraft	-		9,663	
Taxation	71,305		51,646	
Proposed Dividends	41,650		49,980	
	285,552		265,727	
Net Current Assets		477,476		451,057
		957,284		1,056,244
Financed by:				
Ordinary Share Capital		833,000		833,000
Profit & Loss Account		124,284		223,244
		957,284		1,056,244

There were no sales of fixed assets during the year ended 31st December 2005.

Profit and Loss Account for the year ended 31st December 2005

	€
Net Profit before Tax	200,586
Taxation	(51,646)
Profit after Taxation	148,940
Profit & Loss Account balance 31st Dec 2004	124,284
Proposed Dividend	(49,980)
Profit & Loss balance 31st Dec 2005 carried forward	223,244

Required:

Prepare a cash flow statement according to FRS1 for the year ended 31st December 2005. (25 marks)

7. A company is currently selling 180,000 units of its single product, Exelle, per annum and operating at full capacity. The product sells for €3.00 per unit and its variable cost structure is:

	Per Unit
	€
Direct Material	0.75
Direct Labour	0.25
Variable overhead	0.30
	€1.30

The company has fixed costs of €48,000. A marketing graduate has recently joined the company and has suggested relaunching the product but packaged differently and aimed at a younger market. The expected sales of Exelle and the new product which will be referred to as Exelleplus will total 475,000 units and all units will be sold for €2.10 per unit. This will mean that the company must expand its existing production facility which will increase fixed costs to €95,000. It is expected that the variable overhead will reduce to €0.22 per unit in the expanded facility.

Required:

(a) Calculate: (i) Breakeven point, (ii) Margin of safety, (iii) Profit/(loss) for both the existing situation and the new proposal. (20 marks)

(b) Calculate the sales required under the new scheme which would give the company the same profit as it earns under the existing situation. (5 marks)