Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

WEDNESDAY, AUGUST 15, 2007. 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) Debentures
   (b) Inventory Management
   (c) Hire Purchase (25 marks)

2. Should the accountant in an organisation be a member of the senior management team? Why? (25 marks)

P.T.O.

SECTION B
(Answer THREE questions only)

3. At a recent meeting of Smith Ltd the accountant outlined the following costs for the previous period when normal sales and production levels were achieved:

	€
Direct Materials	12,000
Direct Labour	4,000
Variable Overhead	400
Fixed Overhead	12,600
	29,000

The company sells one product for which the normal sales level is 5,000 units at a selling price of €7.00. However, factory capacity is such that up to 6,500 units could be produced in a period. The management are considering various options for the coming period.

Option 1: Reduce the selling price to €6.20 per unit and sell at full capacity. At full capacity fixed costs will increase by €2,000.

Option 2: Increase the selling price to €8.00 per unit at which price the sales would be 3,600 units.

Option 3: Continue with current sales level and price.

Option 4: The company has the option to spend €4,500 on an advertising campaign. At current selling price it is believed that this will increase sales volume by 25% on normal sales levels.

Required:

(a) Calculate the
   (i) Breakeven point in units
   (ii) Margin of Safety %
   (iii) Profit/(Loss)
   for each option. (20 marks)

(b) Recommend the most profitable plan and mention any other relevant matters which may affect your decision. (5 marks)

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

	Oct	Nov	Dec	Jan
	€	€	€	€
Sales Revenue	300,000	405,000	425,000	330,000
Material purchases	125,000	180,000	120,000	95,000
Direct Wages	99,000	105,000	90,000	70,000
Production overhead	10,000	12,000	10,000	9,500

(i) Sales revenue is received as follows: 40% in cash sales and 60% in the month following the month of sales. Cash sales customers receive a cash discount of 3%. Total sales for September were €270,000.

(ii) Materials are paid for 60% in the month of purchase and the balance in the following month. Material purchases in September were €140,000.

(iii) Direct wages are paid for 75% in the month in which it is incurred and the balance in the following month. Wages of €24,000 are outstanding at the end of September.

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

(v) In November the company expects to replace motor vehicles at a cost of €115,000. These will be paid for immediately. The old vehicles will be sold for cash of €40,000 and this will be received in December.

(vi) The company expects to have a bank balance of €10,000 at the end of September.

Required:

(a) Prepare the cash budget for Murray Ltd for the period October to January. (20 marks)

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

P.T.O.

5. A company currently has two projects under consideration to completely overhaul its computer systems. As the accountant for this company you have been asked to evaluate each project. Details are as follows:

Project 1: This system is expected to cost €150,000 and will have an annual running cost of €240,000 each year for 5 years. The system can be sold for €40,000 at the end of the five years.

Project 2: This system has an initial cost of €200,000 and annual running costs of €180,000 per annum for 5 years. The residual value of the system is €35,000.

Currently the company is using a system which has an annual running cost of €200,000 and could be sold for €10,000 in five years time.

The company has a cost of capital of 10%.

Required:

(a) Evaluate the Net Present Value of each of the three projects (the two proposed projects and the current system). (18 marks)

(b) Which of the three projects has the minimum cost? Mention any other relevant considerations. (7 marks)

Discount Factors – Present value of €1

Year	**5%**	**10%**	**15%**	**20%**
1	0.952	0.909	0.870	0.833
2	0.907	0.826	0.756	0.694
3	0.864	0.751	0.658	0.579
4	0.822	0.683	0.572	0.482
5	0.784	0.621	0.497	0.402
6	0.746	0.564	0.432	0.335

P.T.O.

6. Information has been provided for Hennebry Limited for two years as shown below:

Extracts from Profit & Loss Accounts for the year ended 31st December 2006:

	2005	2006
	€	€
Sales	75,000	73,215
Cost of Sales	48,750	43,929
Gross Profit	26,250	29,286
Net Profit	1,000	1,025

Balance Sheets as at 31 December 2006

	2005		2006	
	€	€	€	€
Fixed assets:		20,000		24,000
At cost		3,500		4,725
Less: Accumulated Depreciation		16,500		19,275
Current assets:				
Stock	19,500		21,000	
Debtors	12,500		14,000	
Bank & Cash	750		2,750	
	32,750		37,750	
Current liabilities				
Creditors	11,000		12,000	
Corporation Tax	6,000		7,500	
Accruals	3,000		6,500	
	20,000		26,000	
Net Current Assets		12,750		11,750
		29,250		31,025
Financed by:				
Ordinary Share Capital	9,900		9,900	
Reserves	11,100	21,000	12,125	20,025
10% Debentures		8,250		9,000
		29,250		31,025

P.T.O

Required:

Calculate the following ratios for each company using the format:

Ratio	Formula	2005	2006

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

7. Hearty and Co. operates a fish farm off the coast of Waterford which specialises in the sale of high grade salmon. Standard data per kilogramme of salmon sold for the current year is:

		€	€
Selling price			6.00
Direct Materials	feed 2kgs @ €0.45 per kg	0.90	
Direct Labour	0.1 hours @ €12.00 per hour	1.20	
Variable Overhead	0.1 hours @ €4.50 per hour	0.45	
Fixed Overhead	0.1 hours @ €18.00 per hour	1.80	4.35
Standard Gross Profit			1.65

The company uses a standard absorption costing system. Budgeted production for August was 50,000 kgs of salmon.

The actual results for August were as follows:

		€	€
Sales Revenue			314,600
Direct Materials	101,400 kgs	48,672	
Direct Labour	5,100 hours	62,220	
Variable Overhead		23,460	
Fixed Overhead		91,035	225,387
Actual Gross Profit			89,213

Actual Production in August was 52,000 kgs of salmon.

Required:
Calculate all relevant cost variances. (25 marks)