Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

WEDNESDAY, AUGUST 13, 2008. 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) Spontaneous sources of finance
   (c) Hire Purchase (25 marks)

2. In your opinion does the accountant make a contribution to the efficiency and effectiveness of the organisation? Explain the reasons for your opinion. (25 marks)

P.T.O.

SECTION B
(Answer THREE questions only)

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

	€
Direct Materials	18,000
Direct Labour	6,000
Variable Overhead	800
Fixed Overhead	16,200
	41,000

The company sells one product for which the normal sales level is 4,000 units at a selling price of €14.00. However, factory capacity is such that up to 5,200 units could be produced in a period. The management are considering various options for the coming period.

Option 1: Reduce the selling price to €12.50 per unit and sell at full capacity. At full capacity fixed costs will increase by €1,800.

Option 2: Increase the selling price to €16.00 per unit at which price the sales would be 3,200 units.

Option 3: Continue with current sales level and price.

Option 4: The company has the option to spend €7,000 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
- Breakeven point in units
- Margin of Safety %
- 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. Todd Ltd is examining its cash flow for the coming months. The following information has been provided:

	Oct	**Nov**	**Dec**	**Jan**
	€	**€**	**€**	**€**
Sales	280,000	350,000	365,000	270,000
Material purchases	110,000	200,000	150,000	125,000
Direct Wages	96,000	102,000	104,000	99,000
Production overhead	12,000	2,000	10,000	10,000

(i) Sales revenue is received as follows: 50% in cash sales and 50% in the month following the month of sales. Cash sales customers receive a cash discount of 3%. Total sales for September were €260,000.

(ii) Materials are paid for 70% in the month of purchase and the balance in the following month. Material purchases in September were €150,000.

(iii) Direct wages are paid for 75% in the month in which it is incurred and the balance in the following month. Wages of €22,000 is outstanding at the end of September.

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

(v) In October the company expects to replace Plant & Equipment at a cost of €110,000. 50% of the cost will be paid immediately, with the balance payable in November. The old Plant & Equipment will be sold for cash of €35,000 and this will be received in December.

(vi) The company expects to have a bank balance of €25,000 at the end of September.

Required:

(a) Prepare the cash budget for Todd 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 Information Technology systems. As the accountant for this

company you have been asked to evaluate each project. Whichever project is chosen will be in place for 4 years, at which time another complete review will be undertaken. Details are as follows:

Project A: This system is expected to cost €170,000 and will have an annual running cost of €200,000 in year one. The annual running cost will increase by €10,000 each year. The system can be sold for €30,000 at the end of four years.

Project B: This system has an initial cost of €250,000 and annual running costs of €175,000 per annum for the first 3 years. The annual running costs for year 4 will be €200,000. The residual value of the system is €55,000.

Currently the company is using a system which has an annual running cost of €250,000 and could be sold for €25,000 in four 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

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

Extracts from Profit & Loss Accounts for the year ended 31st December 2007:

	2006	2007
	€	**€**
Sales	80,000	82,550
Cost of Sales	50,400	51,181
Gross Profit	29,600	31,369
Net Profit	3,200	4,953

Balance Sheets as at 31 December 2007

	2006		2007	
	€	**€**	**€**	**€**
Fixed assets:				
At cost		22,000		25,000
Less: Accumulated Depreciation		4,000		5,500
		18,000		19,500
Current assets:				
Stock	16,500		20,000	
Debtors	14,000		17,000	
Bank & Cash	700		1,750	
	31,200		38,750	
Current liabilities				
Creditors	12,000		13,500	
Corporation Tax	2,350		1,397	
Accruals	2,000		4,800	
	16,350		19,697	
Net Current Assets		14,850		19,053
		32,850		38,553
Financed by:				
Ordinary Share Capital	11,000		11,000	
Reserves	13,100	24,100	18,053	29,053
10% Debentures		8,750		9,500
		32,850		38,553

P.T.O.

Required:
Calculate the following ratios for the company using the format:

Ratio	Formula	2006	2007

(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)

7. Hayes and Co. operates a Pet Shop in Kildare which specialises in the sale of horse feed. Standard data per 3kg bag of the most popular type of feed sold for the current year is:

		€	€
Selling price			7.00
Direct Materials	3kgs @ €0.55 per kg	1.65	
Direct Labour	0.2 hours @ €10.00 per hour	2.00	
Variable Overhead	0.2 hours @ €4.00 per hour	0.80	
Fixed Overhead	0.2 hours @ €8.00 per hour	1.60	
			6.05
Standard Gross Profit			0.95

The company uses a standard absorption costing system. Budgeted production and sales for August was 20,000 bags of horse feed.

The actual results for August were as follows:

		€	€
Sales Revenue			148,050
Direct Materials	63,900 kgs	33,867	
Direct Labour	3,900 hours	38,610	
Variable Overhead		16,380	
Fixed Overhead		31,005	119,862
Actual Gross Profit			28,188

Actual Production and Sales in August was 21,000 bags of feed.

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