



Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

TUESDAY, MAY 11, 2010. 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 the question in your 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) Leasing
 - (b) Factoring
 - (c) Inventory Management (25 marks)

2. Due to the current difficult economic climate, your boss has decided to cut back on the number of staff he employs. He has asked all employees to submit a report outlining what they bring to the business, and he will then decide who he will make redundant.

Write a report outlining how you, as the accountant, are a vital part of the business and can play a key role in its future success. (25 marks)

P.T.O.

SECTION B
(Answer THREE questions only)

3. Foskin Ltd. operates a chain of clothes stores. It currently sells inexpensive 'Own Brand' Jeans, at a selling price of €30 per unit. Foskin Ltd. is interested in increasing its profitability on this product and has come up with the following budgeted costs for 2010:

Material price per unit	€19.50
Sales commission	5% of selling price
Rent	€50,000
Salaries	€150,000
Advertising	€75,000
Other Fixed Costs	€20,000

The company plans to sell 35,000 units in 2010.

Required:

- (a) Calculate the breakeven point in units AND revenue for 2010. (5 marks)
- (b) Calculate the operating profit based on the budgeted figures above. (5 marks)
- (c) The company wishes to improve its profitability and has come up with three different options:
- (i) Remove sales commission and increase annual salaries by €55,000.
 - (ii) Reduce the selling price by €2.00, which would increase volume by 20%.
 - (iii) Increase sales volume by 10% by spending an extra €25,000 on advertising.

For each option calculate the breakeven point in units and revenue as well as the operating profit the company will earn. State which option you would advise the company to select, giving reasons why. (15 marks)

P.T.O

4. Hickey Ltd. manufactures a single product at a factory in Wicklow. This product, the 'Barce', has the following standard cost card:

			€
Direct Materials	A	6 kg @ €14 per kg	84.00
	B	4 kg @ €21 per kg	84.00
Direct Labour	Grade 1	2 hours @ €25 per hour	50.00
	Grade 2	1.5 hours @ €16 per hour	24.00
Variable Overhead		3.5 hours @ €20 per hour	<u>70.00</u>
Total Budgeted Cost			<u>312.00</u>

The company uses a standard marginal costing system. Budgeted production for May was 2,000 units of the 'Barce', at a selling price of €450 per unit.

The actual results for May were as follows:

			€
Sales Revenue			951,300
Direct Materials	A	12,390 kg	174,699
	B	8,610 kg	182,532
Direct Labour	Grade 1	4,158 hours	99,792
	Grade 2	3,255 hours	50,778
Variable Production Overhead		7,413 hours	<u>140,847</u>
Total Contribution			<u>302,652</u>

Actual Production and Sales in May was 2,100 units

Required:

Calculate all relevant variances for sales, materials, labour and variable overhead. (25 marks)

P.T.O.

5. The following summarised accounts are presented to you for Murphy Limited:

Balance Sheets as at 31st December

	€	2008 €	€	2009 €
<u>Fixed assets:</u>				
Fixed Assets at cost	320,000		390,000	
Accumulated Depreciation	<u>104,000</u>	216,000	<u>133,000</u>	257,000
<u>Current assets:</u>				
Stock	282,000		329,000	
Debtors	228,000		248,000	
Bank & Cash	<u>23,000</u>		<u>0</u>	
	533,000		577,000	
<u>Current liabilities:</u>				
Creditors	209,000		195,000	
Bank Overdraft	0		8,000	
Taxation	33,000		26,000	
Proposed Dividend	<u>34,000</u>		<u>29,000</u>	
	276,000		258,000	
Net Current Assets		<u>257,000</u>		<u>319,000</u>
		<u>473,000</u>		<u>576,000</u>
<u>Financed by:</u>				
Ordinary Share Capital		300,000		300,000
Profit & Loss Account		<u>173,000</u>		<u>276,000</u>
		<u>473,000</u>		<u>576,000</u>

There were no sales of fixed assets during the year ended 31st December 2009.

Profit & Loss Account for the year ended 31st December 2009

	€
Net Profit before tax	158,000
Taxation	<u>(26,000)</u>
Profit after Taxation	132,000
Profit & Loss Account balance 31 st Dec 2008	173,000
Proposed Dividend	<u>(29,000)</u>
Profit & Loss Account balance 31 st Dec 2009	<u>276,000</u>

Required:

Prepare a cash flow statement according to FRS1 for the year ended 31st December 2009. (25 marks)

6. The following information has been provided for Cronin Limited:

Extracts from Profit & Loss Accounts for the year ended 31st December 2009:

	2008	2009
	€	€
Sales	416,000	404,000
Cost of Sales	228,800	226,240
Gross Profit	187,200	177,760
Net Profit	37,440	28,280

Balance Sheets as at 31st December 2009

	2008	2009
	€	€
<u>Fixed assets:</u>		
At cost	330,000	370,000
Less: Accumulated Depreciation	<u>145,000</u>	<u>175,000</u>
	185,000	195,000
<u>Current assets:</u>		
Stock	61,000	64,500
Debtors	34,500	29,600
Bank & Cash	<u>26,000</u>	<u>28,180</u>
	121,500	122,280
<u>Current liabilities:</u>		
Creditors	27,500	38,600
Corporation Tax	12,500	24,500
Accruals	<u>17,400</u>	<u>36,800</u>
	57,400	99,900
Net Current Assets	<u>64,100</u>	<u>22,380</u>
	<u>249,100</u>	<u>217,380</u>
<u>Financed by:</u>		
Ordinary Share Capital	150,000	150,000
Reserves	9,100	37,380
	159,100	187,380
10% Debentures	<u>90,000</u>	<u>30,000</u>
	<u>249,100</u>	<u>217,380</u>

P.T.O.

Required:

(a) Calculate the following ratios for both years using the format:

<u>Ratio</u>	<u>Formula</u>	<u>2008</u>	<u>2009</u>
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- (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) Highlight any areas you feel may be a cause for concern for Cronin Ltd. (5 marks)

7. As the chief accountant for Windle Limited you have the responsibility for evaluating capital investment proposals. For the coming year the following two proposals have been presented for your approval. Details of both proposals are as follows:

Proposal A1

This project requires an initial investment of €500,000 in plant and equipment. Cash inflows for the five years will be €130,000 per annum. At the end of year five the plant will be decommissioned and it is expected to yield €40,000 from its sale.

Proposal B2

This project will require an initial investment of €350,000 in plant and equipment. The cashflows from this project have not yet been computed but you have been presented with the following data.

	Sales Units
Year 1	8,000
Year 2	10,000
Year 3	12,000
Year 4	9,000

The selling price per unit is €42. Costs per unit are as follows – direct materials €16, direct labour €8 and variable costs €5.

The selling price and all costs will remain constant over the four years and all costs are paid for in cash as they occur.

Windle Ltd. expects the cost of capital to be 5%.

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

Required:

(a) Evaluate both projects using:

- (i) Net Present Value (8 marks)
- (ii) Internal Rate of Return (8 marks)
- (iii) Payback (4 marks)

(b) List the advantages and disadvantages of the net present value method of capital investment appraisal. (5 marks)