



Foundation Certificate in Marketing - Stage 2

MARKETING FINANCE

TUESDAY, AUGUST 18, 2009. 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) Factoring
 - (b) Spontaneous sources of finance
 - (c) Hire Purchase (25 marks)

2. Users of accounting information can be either within the organisation or external to the organisation. Describe the types of accounting information that would be useful to each of the above category of user. (25 marks)

P.T.O.

SECTION B
(Answer THREE questions only)

3. The accountant of Maher Ltd. has outlined the following costs for the previous period when normal sales and production levels were achieved:

	€
Direct Materials	24,000
Direct Labour	8,000
Variable Overhead	1,200
Fixed Overhead	<u>18,600</u>
	<u>51,800</u>

The company sells one product for which the normal sales level is 5,000 units at a selling price of €16.50. However, factory capacity is such that up to 6,000 units could be produced in a period. The management are considering various options for the coming period.

- Option 1: Reduce the selling price by €1.75 per unit and sell at full capacity. At full capacity fixed overhead will increase by €2,200.
- Option 2: Increase the selling price to €18.00 per unit at which price the sales would be 4,300 units.
- Option 3: Continue with current sales level and price.
- Option 4: The company could spend €10,000 on an advertising campaign. At current selling price it is believed that this will increase sales volume by 25% on normal sales levels, should production capacity allow.

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

	Sept €	Oct €	Nov €	Dec €
Sales Revenue	240,000	320,000	310,000	290,000
Material purchases	105,000	180,000	140,000	120,000
Direct Wages	84,000	96,000	100,000	93,000
Production overhead	10,000	10,000	11,000	11,000

- (i) Sales revenue is received as follows: 60% in cash sales and 40% in the month following the month of sales. Cash sales customers receive a cash discount of 3%. Total sales for August were €280,000.
- (ii) Materials are paid for 75% in the month of purchase and the balance in the following month. Material purchases in August 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 August.
- (iv) Production overhead is paid in the month in which it is incurred.
- (v) In September the company expects to replace Plant & Equipment at a cost of €105,000. 40% of the cost will be paid immediately, with the balance payable in October. The old Plant & Equipment will be sold for cash of €30,000 and this will be received in December.
- (vi) The company expects to have a bank balance of €22,000 at the end of August.

Required:

- (a) Prepare the cash budget for McGuigan Ltd. for the period September to December. (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 Security systems. As the accountant for this company it is your job 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 X: This system would cost €150,000 and will have an annual running cost of €160,000 in year one. The annual running cost will increase by €10,000 each year. The system can be sold for €20,000 at the end of four years.

Project Y: This system has an initial cost of €210,000 and annual running costs of €165,000 per annum for the first 3 years. The annual running costs for year four will be €180,000. The residual value of the system is €50,000.

Currently the company is using a system which has an annual running cost of €220,000 and could be sold for €20,000 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). (20 marks)
- (b) Which of the three projects has the minimum cost? Mention any other relevant considerations. (5 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 Brann Limited for two years as shown below:

Extracts from Profit & Loss Accounts for the year ended 31st December 2008:

	2007	2008
	€	€
Sales	90,000	97,250
Cost of Sales	51,300	54,460
Gross Profit	38,700	42,790
Net Profit	3,600	3,890

Balance Sheets as at 31 December

	2007		2008	
	€	€	€	€
<u>Fixed assets:</u>				
At cost		23,000		26,000
Less: Accumulated Depreciation		<u>5,000</u>		<u>6,500</u>
		18,000		19,500
<u>Current assets:</u>				
Stock	14,500		21,000	
Debtors	18,000		18,000	
Bank & Cash	<u>6,750</u>		<u>1,750</u>	
	39,250		40,750	
<u>Current liabilities</u>				
Creditors	15,500		13,000	
Corporation Tax	2,000		1,260	
Accruals	<u>2,500</u>		<u>3,500</u>	
	20,000		17,760	
Net Current Assets		<u>19,250</u>		<u>22,990</u>
		<u>37,250</u>		<u>42,490</u>
<u>Financed by:</u>				
Ordinary Share Capital	14,000		14,000	
Reserves	15,100	29,100	18,990	32,990
		<u>8,150</u>		<u>9,500</u>
10% Debentures		<u>37,250</u>		<u>42,490</u>

P.T.O.

Required:

Calculate the following ratios for the company using the format:

<u>Ratio</u>	<u>Formula</u>	<u>2007</u>	<u>2008</u>
(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. Conway and Co. operates a Sweet Shop in Kildare which specialises in the sale of large bags for parties. Standard data per 3kg bag of the most popular type of sweet sold for the current year is:

		€	€
Selling price			13.50
Direct Materials	3kgs @ €1.15 per kg	3.45	
Direct Labour	0.3 hours @ €8.00 per hour	2.40	
Variable Overhead	0.3 hours @ €5.00 per hour	1.50	
Fixed Overhead	0.3 hours @ €4.00 per hour	<u>1.20</u>	<u>9.55</u>
Standard Gross Profit			<u>4.95</u>

The company uses a standard absorption costing system. Budgeted production and sales for August was 8,000 bags of sweets.

The actual results for August were as follows:

		€	€
Sales Revenue			112,750
Direct Materials	25,010 kgs	30,012	
Direct Labour	2,420 hours	19,844	
Variable Overhead		11,979	
Fixed Overhead		9,922	<u>71,757</u>
Actual Gross Profit			<u>40,993</u>

Actual Production and Sales in August was 8,200 bags of sweets.

Required:

Calculate all relevant cost variances.

(25 marks)