

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF MARKETING

OCT 2023

PROGRAMME: BACHELOR OF BUSINESS STUDIES HONOURS IN MARKETING

BS231 FINANCIAL ASPECTS OF MARKETING

DURATION: 3 HOURS

EXAMINATION

INSTRUCTIONS

1. Answer Question **One** and any other three questions.
2. Each question should begin on a new page
3. Each question carries 25 marks
4. Start answering each main question on a fresh page
5. Credit will be given for appropriate use of illustrative examples.
6. No cell phones and programmable calculators are allowed in the examination room.

QUESTION ONE (Compulsory)

Cosmas Ltd makes three products: Gilo, Grox and Patx. The Budgeted production for three months is as follows.

	Gilo	Grox	Patx
No. of units	1000	2000	800
Selling price per unit	\$14	\$25	\$20
Direct material per unit (litres)	2.5	3.25	4
Direct labour per unit (hours)	0.5	1.4	0.6

Direct material costs \$2 per litre. Direct labour is paid at \$2 per litre. Direct labour is paid at \$10 per hour.

Fixed expenses are \$10 000.

Cosmas Ltd has been informed that only 10 575 units of material are available.

Required:

- a) Calculate the contribution per unit per product. (6)
- b) Calculate contribution per limiting factor per product (3)
- c) Prepare a revised production budget that will produce the most profit from the available materials. (10)
- d) Prepare a marginal costing income statement basing on optimum budget (6)

[25 Marks]

QUESTION TWO

Alberta Limited produces one product, plates, for which the following information is available.

	\$ per unit
Selling price	12.00
Direct materials	5.00
Direct labour	2.80
Variable overheads	2.20
Total fixed costs (per annum)	\$240 000
Sales per annum (units)	400 000

Required:

- (a) Using the information above, calculate the following:
 - i) Break- even point in units and sales value; (4)
 - ii) Profit for one year , clearly showing the contribution per unit; (4)
 - iii) Margin of safety in units and as a percentage of sales. (2)

Alberta limited is now considering extending the product range by adding two products, cups and saucers. The fixed costs would double to \$480 000 if any new product was introduced.

The following information is available for the additional products.

	Cups	Saucers
	\$ per unit	\$ per unit
Selling price	18.00	26.00
Direct materials	7.20	14.00
Direct labour	4.80	4.20
Variable overheads	3.00	1.80
Sales per annum (units)	100 000	60 000

The current workforce is operating at full capacity in the production of the plates. There is, however, machine capacity available to undertake the production of both cups and saucers.

Alberta Limited extended their product range by adding both products.

- (b) Calculate the maximum profit for one year that Alberta Limited could achieve if it was to produce plates, cups and saucers. Show the contribution per unit and total contribution for each product. (10)
- (c) Explain the implications for the local community if Alberta Limited decides to extend its product range. (5)

[25 Marks]

QUESTION THREE

Veerich Ardson Ltd makes and sells mobile phones. The following information is given.

Per phone:	\$
Selling price	50
Direct materials	18
Direct labour	20
Variable selling expenses	3

Fixed overheads amount to \$70 000.

Required:

a) Calculate the profit or loss from the sale of:

- i) 10 000 phones at \$50 each. (4)
- ii) 15 000 phones at \$48 each. (4)
- iii) 20 000 phones at \$42 each. (4)

Diva Chikwange enterprise has been operating for the past two seasons. Output and cost data is given below:

Cost element	At 2000 units	At 3000 units
Direct materials	\$5260	\$7890
Direct labour	\$800	\$1200
Rent	\$500	\$500
General expenses	\$4389	\$5589

b) The marketing department of Diva Chikwange enterprise has projected an increase in demand to 5000 units. Prepare a flexible budget which shows costs of direct materials, direct labour, rent and general expenses at 5000 units.

(13)

[25 Marks]

QUESTION FOUR

Describe the following pricing strategies, giving numerical examples:

- a) Marginal cost pricing (6)
- b) Full cost pricing (6)
- c) Mark up pricing (3)
- d) Target pricing (5)
- e) Destroyer pricing (5)

[25 Marks]

QUESTION FIVE

The directors of Joloss Plc intend to purchase an additional machine to manufacture one of their new products. Two machines are being considered: Miligan and Bentine. The company depreciates its machinery using the straight-line method.

Joloss Plc will borrow money required to purchase the machine and pay interest of 10% per annum on the loan.

Estimates of the machines are as follows.

		Miligan	Bentine
		\$	\$
Cost of machine		100 000	130 000
Additional receipts	Year 1	70 000	72 000
	2	80 000	84 000
	3	90 000	90 000
	4	90 000	100 000
Additional costs	Year 1	50 000	60 000
(see note)	2	60 000	70 000
	3	65 000	75 000
	4	70 000	80 000

Note: These costs include the charges for depreciation and interest on the loans.

Useful life of the machine		4 years	4 years
Value at end of useful life		Nil	Nil
Present value of \$1		10%	10%
	Year 1	0.909	0.833
	2	0.826	0.694
	3	0.751	0.579
	4	0.683	0.482

Required

(a) Calculate the net present value of each machine. (Base your calculations on the cost of capital.) (20)

(b) State, with your reason, which machine Joloss plc should purchase. The directors require the machine to produce a return on outlay of not less than 25%. (5)

[25 Marks]

QUESTION SIX

The following information is available for the purchases and sales of 'pomsels' during October. At 30 September one "pomsel" costing \$100 remained in stock.

Date	Purchases	Sales
4 October	6 at \$100	
7 October		4
12 October	5 at \$110	
23 October	7 at \$120	
30 October		6

During October the selling price for 'pomsels' was \$200.

Required:

a) Calculate the value of 'pomsels' in stock using :

i) The 'first in, first out' (FIFO) method in valuing stock (4)

ii) The 'last in, first out' (LIFO) method in valuing stock (4)

iii) The weighted average stock (AVCO) method in valuing stock (4)

Use a perpetual method for each calculation.

b) Prepare a trading account for each method, using your results from (a) (13)

[25 Marks]

END OF PAPER