MMS-III (Mktg.) 31.10.2013.

MF 03

Roll No. Marketing Finance

Total No. of Printed Pages: 4

Total No. of Questions : 4

Maximum Marks : 30

Duration (hrs.) : 2 HOURS

Section , if any : NIL

Instructions: Q.1 is Compulsory of 10 Marks.

Quality Grocers (UG) operates a grocery store in the West-wood Mall and had income from operations in 2004 of $2,267,305. In 2005, Westwood Mall allowed another grocery store open in the mall in violation of its agreement with QG. The result was that sales of QG declined by 30 percent and profit dropped to only $355,000.

Income from operations, 2004:

Particulars	Value
Sale	$ 42,128,687
Less cost of goods sold	33,702,950
Gross Margin	8,425,737
Selling & Admin Expense	6,158,432
Income from operation	$ 2,267,305

Income from operations, 2005

Particulars	Value
Sale	$ 29,490,081
Less cost of goods sold	23,592,065
Gross Margin	5,898,016
Selling & Admin Expense	5,542,589
Income from operation	$ 355,427

QG has decided to sue Westwood Mall for damages and has hired Wendell Roberts Consulting to help with the calculation. Herold Williams is the consultant assigned to the engagement arid he calculated damages as follows.

First, based on analysis of sales trends, he estimated that sales would have increased by 20 percent to $50,554,424. From this estimate, he subtracted cost of goods sold equal to 80 percent, which is the same percent as in 2004. He then assumed that selling and administrative costs are essentially fixed and subtracted 2004 costs with a minor increase of $100,000. That led to forecasted income from operations of $3,852,453.

Forecasted Income from operations, 2005:

Particulars	Value
Sale	$ 50,554,424
Less cost of goods sold	40,443,539
Gross Margin	10,110,885
Selling & Admin Expense	6,258,432
Income from operation	$ 3,852,453

Williams then calculated damages to be forecasted income minus actual income resulting in a claim of $3,497,026 (i.e., $3,852,453 - $355,427).

QG management reviewed the calculation and had only one question, "Why did you assume that selling and administrative costs are fixed? About 40 percent of them are variable." Williams responded that he assumed they were fixed because that made the claim larger.

"Look," he said. "It you want some real money from this claim; you need to make assumptions that generate real money. And the more costs you assume arc fixed, the higher the claim."

Required:

a. Explain why Williams' assumption leads to a higher claim. Is his behavior ethical?

b. Recalculate the claim assuming 40 percent of selling and administrative costs are variable.

Attempt any two of the following (5 marks each)

Q.2) a) Describe the various method of sales forecasting and explain when one should use each of them with suitable examples.

Q.2) b) XYZ ltd is manufacturing company of electronic goods. It has under consideration two projects 'X' and 'Y', each costing Rs.120 Lakhs. The company is considering selecting one of them. X has the operating life of 8 years and Y has operating life of 6 years. Both have zero salvage value at the end of the operating lives. The company is already making profits and its tax rate is 50%. The Cost of capital of the company is 15%.

The expected cash flow for each of the project is as follows.

Year	1	2	3	4	5	6	7	8
X	25	35	45	65	65	55	35	15
Y	40	60	80	50	30	20	-	-

The company follows straight line depreciation. Advise the company regarding the selection of the project using discounted payback period.

Q.2) c) Surya Industries ltd is thinking of changing the credit period with a view to increase its overall profits. The marketing department has prepared the following estimates for different credit periods:

Particulars	Current	Option 1	Option 2	Option 3
Sales (Lakhs)	120	130	150	180
Credit period (months)	1	1.5	2	3
Bad debts (% of sales)	0.5	0.8	1	2
Fixed costs	30	30	35	40

The company has a contribution sales ratio of 40%, further it requires a pre tax return on investment at 20%. Evaluate each of the above proposals and **recommend the best credit period.**

Attempt any two of the following (5 marks each)

Q.3) a) Silver company makes a product that is very popular as a mother's day gift. Thus, peak sales occur in may of each year. These peak sales are shown in the company's sales budget for the second quarter given below (all sales are on account / credit)

	April	May	June	Total
Budgeted sales	300000	500000	200000	1000000

From past experience the company has learned that 20% of a month's sales are collected in the month of sale, another 70% are collected in the month following sale and the remaining 10% are collected in the second month following sale. Bad debts are negligible and can be ignored. February sales totalled 230000 and march sales totalled 260000.

Required:

1. Prepare a schedule of expected cash collections from the sales, by month and in total for second quarter.

Q.3) b)] Family store wants information about the profitability of individual product lines: soft drinks, fresh produce, and packaged food. The store provides the following data for the current year for each product line:

Particulars	Soft drinks	Fresh produce	Packaged food
Revenues	793500	2100600	1209000
COGS	600000	1500000	900000
Cost of Bottles returned	12000	0	0
No. of purchase orders	360	840	360
No. of deliveries	300	2190	660
Hours of shelf stocking time	540	5400	2700
Units sold	126000	1104000	306000

The family store is currently allocating the support costs as a % of the COGS. The family store also provides the following classification of support cost (indirect OH) information for the current year:

Activity	Total Cost in INR	Cost allocation
Bottle returns	12000	Direct Tracing
Ordering	156000	1560 purchase orders
Delivery	252000	3150 deliveries
Shelf Stocking	172800	8640 hours of shelf stocking
Customer support	307200	1536000 units sold

Required: Calculate the operating income and the profit margin for the 3 product lines based on the:

1. Traditional costing used by the family store
2. Activity Based Costing

Q.3) c) Packaging Cost is not a variable cost. Do you agree or disagree?. Explain with suitable examples.

Attempt any two of the following (5 marks each)

Q.4) a) Write a note on transfer pricing. Explain the implications of transfer pricing for a marketing student

Q.4) b) Olongapo Sports Corporation is the distributor of two premium golf balls in Philippines – Flight Dynamic and the Sure Shot. Monthly Sales and contribution margin ratios are given below

Particulars	Product Type		Total
	Fight Dynamo	Sure Shot	
Sales	P 150000	P 250000	P 400000
CM Ratio	80 %	36 %	?
Sales Mix %	?	?	100 %

Fixed Expenses: P 183750 per month (the currency in Philippines is peso denoted by P)

Required:

1. Find the break-even Sales in Peso for the two products and company as a whole.
2. If the sales for Flight Dynamo increase by P100000 a month by how much the operating income would increase.

Q.4) c) A person has the choice of running a hot snack stall or an ice cream and cool drink shop at a certain holiday resort during the coming summer season. If the weather during the season is cool and rainy he can expect to make s profit of Rs.15000 and if it is warm he can expect to make a profit of only Rs.3000 by running a hot snack stall. On the other hand, if his choice is to run an ice cream and cool drink shop, he can expect to make a profit of Rs. 18000 if weather is warm and only Rs.3000 if the weather is cool and rainy. The meteorological authorities predict that there is a 40% chance of the weather being warm during the coming season. You are to advice him as to the choice between the two types of stalls. Base clearly your arguments on the expected value of the profit of the two courses of action.