

# MARKETING, ACCOUNTING AND FINANCE



## Multiple choice

- |      |       |       |       |
|------|-------|-------|-------|
| 1. B | 6. C  | 11. D | 16. C |
| 2. B | 7. D  | 12. B | 17. D |
| 3. D | 8. B  | 13. A | 18. A |
| 4. C | 9. B  | 14. A | 19. A |
| 5. C | 10. B | 15. B | 20. B |

## Matching terms

The foundations of the marketing plan, covering issues such as product, position, price, promotion and place	<b>Marketing mix</b>
A financial information system directed towards internal stakeholders	<b>Management accounting</b>
A financial information system directed towards external stakeholders	<b>Financial accounting</b>
A statement that describes the financial position of a business at a particular point in time	<b>Balance sheet</b>
The resources owned by a business, which are expected to produce future economic benefits	<b>Assets</b>
Future sacrifices of economic benefits that a business must make to another business, as a result of a past transaction	<b>Liabilities</b>
The residual interest in the assets of the business, after the deduction of its liabilities	<b>Owner's equity</b>
Inflows of economic benefits resulting from an increase in assets or a reduction in liabilities, which result in an increase in owner's equity	<b>Revenue</b>
Consumptions or losses of economic benefits in the form of reductions in assets or increases in liabilities, which result in a decrease in owner's equity	<b>Expenses</b>
A financial statement that reports an entity's operating, investing and financing cash inflows and outflows during a period of time	<b>Cash flow statement</b>

# Short answer questions

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## Question 1

- (a) The target market is the product's intended market, defined by a particular set of characteristics. Without an identified target market, a marketing plan is unable to define effective strategies to promote and sell the product, according to the characteristics of target customers.
- (b) (i) Demographic factors – these refer to personal attributes of potential customers. Demographic factors could be age, gender, education levels or employment type.
- (ii) Geographic factors – these factors relate to where potential customers live and make their purchase decisions. Marketing strategies could target specific geographic locations such as a particular suburb if a new local store was being opened.
- (c) (i) Vladimir's pricing strategy will depend on his costs and how he wants his yoghurt to be seen in the market. Ideally, he will price it to cover his costs and make a decent profit. However, if price is to be his competitive advantage he may have to lower prices below substitutes and reduce profit margins. Alternatively he could increase prices above substitutes in an attempt to pitch his product as being of higher quality.
- (ii) Vladimir's greatest product attribute – 100% fat free – is not used at all in his marketing. Vladimir's marketing plan should cover how he wants his yoghurt to be seen by the market. If the fat-free product attribute is important, the marketing should incorporate this and attack markets such as gym's and health-conscious markets.

## Question 2

- (a)  $A - L = OE$

Let  $x$  = Retained Earnings

$$600,000 - 350,000 = 150,000 + x$$

$$x = 100,000$$

$$\text{Retained Earnings} = \$100,000$$

- (b) The balance sheet allows management to oversee and control the assets, owners' equity and liability of the business. Management can also use it to help decide how to structure the firm to maximise profits.

External stakeholders have limited access to financial information. The balance sheet allows investors and regulators to determine whether the business is generating sufficient returns relative to its assets and liabilities. This indicates the investment worthiness and sustainability of the business.

(c) Vanstone's Meats has total debts of \$350,000. This is amply covered by the business' assets of \$600,000, showing the firm is in a long term sustainable position. However current liabilities of wages payable and creditors are exactly equal to current assets of debtors and inventories at \$250,000. This means the business must be careful with shorter term cash flow so they can meet their debt liability.

(d)

$$\text{Gearing} = \frac{350,000}{600,000} \times \frac{100}{1} = 58\%$$

Vanstone's Meats has a very sustainable gearing ratio of 58%. The gearing of the business relates to the amount of the company financed by debt. As mentioned in (c) above, the company is financially stable, with 58% being a very sustainable and normal level of gearing

### Question 3

(a) Budgets are of vital importance to internal stakeholders. They allow management to identify the business' financial objectives, and then allow the creation of strategies to achieve those objectives. They allow the strengths and weaknesses of a business to be identified and set a performance benchmarks for workers.

(b) Debt finance relates to funds borrowed by the business, which must be repaid, over a fixed period(s) of time. Debt holders do not have ownership rights to the business.

Equity finance refers to capital contributed to the business by the owners, giving them an ownership stake in the business with rights. A business only pays equity contributors dividends when business is good, unlike debt, where repayments must be paid according to the debt agreement.

(c) (i) Advantage: The returns paid to equity holders are generally lower than interest payments on debts as they also benefit from capital gains.

Disadvantage: The freedom of the original owners is reduced as new equity investors now have certain rights of control over the business.

(ii) Advantage: The looming threat of debt payments can act like a "wolf at the door" of management, encouraging effective cash flow management.

Disadvantage: The business is open to the risk of increased interest payments if interest rates rise.