

Financial Management for Global Decision Makers Coursework 2

Coursework 2 (CW2) is worth 40% of your final mark and the assignment should be submitted via Turnitin by **2 pm on November 18th**. The report should be 2,000 words in length (-/+ 200 words, excluding tables and references).

Smith Construction Ltd

Smith Construction Limited was formed in January 2019 by a brother and sister, Ted and Freda Smith. Ted had been in the construction industry for many years and had grown frustrated by the inflexibility of the industry to meet customers' requirements speedily and with appropriate quality and inventiveness. Freda had worked herself up in management circles after having gained an excellent first class honours degree in business studies. However, she felt she had more to offer especially in the area of entrepreneurial flair and marketing.

Both siblings therefore started the business by investing £200,000 each receiving for this 200,000 £1 shares. Ted looked after the operational side of the business whilst Freda looked after the marketing, human resources and administration functions.

The first year proved difficult as the firm sought to build up a customer base and had to invest heavily in marketing and building up the infrastructure of the business. By the second year the business had started making profits. As the business grew both siblings realised that there were inherent weaknesses in their business planning and financial management and hired James Blond to assist in the financial side of the business. After a year of James being with the company the siblings decided to ask James if he would be willing to become a shareholder and financial director due to the skills he brought to the management of the business. James was delighted with this prospect as he saw the firm's potential as well as the possibilities for him to influence further the direction and profitability of the company. He therefore bought 60,000 of each of the siblings' shareholdings in November 2021 for a price of £3 per share.

The company however has had a setback in 2022. The profits planned for the first six months did not come to fruition with instead a heavy loss having been made (the first loss since the company's first year of trading). Given the upward trend of the sales and profit figures in the recent past this has caused great and heated debate at the directors' board meeting. Unfortunately, the discussion became somewhat heated with James Blond accusing the siblings of having cheated him into investing into the company at an inflated price and then having sat back and expected the business to run itself while they have taken holidays and "taken their foot off the pedal". In private he has stated to his friends that he would not be surprised if one or both of the siblings was "milking" the company, siphoning off the business' (and his) assets. At the Board meeting Freda Smith accused James of not running the financial

side of the business appropriately and even hinted at the fact that since he was in charge of the finances he could be “helping himself to some of the cash for all we know”. At her book club Freda has also commented to her friends that she is a bit concerned about the business and also Ted’s role in the business. She has stated that she thinks Ted seems to have “very close relationships” with customers and suppliers and might be more interested in their (and possibly his) well-being and profits rather than the company’s. She also noted that these days Ted seems to be spending a lot of money on himself including £70,000 on a new Tesla. This concerns her as although the business has been making profits this sort of expenditure was flamboyant.

Freda, herself, has started building her own house on the back of the past profits made but this was backed up by a personal loan from the bank.

The profiles of the 3 directors are as follows:

Ted Smith

Age: 38
Position: Operations director
Salary: £60,000 per annum
Responsibilities: Construction planning, site management and materials procurement.
Duties: Finalising drawings
Planning materials
Hire of equipment for contracts
Site management and supervision of site staff
Recruitment and cash payments of casual employees (labourers hired by the day)
Signing off on completed contracts
Liaison with external contractors, architects and surveyors

Freda Smith

Age: 36
Position: Managing director
Salary: £60,000 per annum
Responsibilities: Marketing, Company Secretary, Human Resources
Duties: Hiring and firing of staff
Other staff related issues
Security and maintenance of company property and assets
Insurance of company property, equipment and staff
Customer liaison
Marketing of company

James Blond

Age: 28
Position: Financial director
Salary: £45,000 per annum
Responsibilities: All financial responsibilities, including billing sales, receipt of cash, payment for payroll and expenses, banking
Duties: Invoicing customers
Paying suppliers
Paying staff (except casual employees who are Ted's responsibility)
Maintenance of company bank account
Preparation of monthly accounts
Preparation of business plans

Appendix A shows the company accounts for the last 3 years in addition to forecast figures for the next financial year.

Coursework Requirements

You have recently been engaged as a Management Consultant for Smith Construction Ltd. After a recent meeting, where certain accusations were made between the three Smith Construction Ltd directors, you have been asked to review the company's situation.

You have been asked to submit your report to the directors by **2 pm on November 18th 2022**

Your report must include the following:

Part One

The directors are extremely concerned about the fall in working capital. Provide a comprehensive analysis of the accounts of Smith Construction Ltd using an **appropriate range of financial ratios** in order to investigate. For the ratios you calculated, comment on any areas of concern identified and suggest reasons as to why these changes in performance may have occurred. Your workings (e.g. ratio calculations) should be attached as an Appendix in your final report and **the ratios you have calculated should be placed in a table at the appropriate point of the report.**

Part Two

Extend your report to discuss findings regarding possible areas of misappropriation of company assets, outline what internal controls are and highlight the components of internal control that you feel the directors of Smith Construction Ltd should focus on for the forthcoming year. This should be based on your review of the case study and **should be informed by further reading** on the subject area of Internal Controls.

Part Three

The directors have independently assessed that they need funding of £250,000 to invest in projects and to secure the future competitiveness of the business. The directors are unsure as to whether to approach a bank for a loan or other potential investors in order to secure the money required. Advise the directors on both forms of financing. Your discussion should cover the advantages and disadvantages of these forms of finance, it should be based on your review of the case study and should be **developed through further reading** on the subject area. You should conclude by providing a justified recommendation for the directors.

Rules

Any report submitted late will receive a zero mark.

Marking Criteria

A marking scheme is available in appendix B

NOTE: The overall pass mark for the module is 50%. The minimum mark required in either course work is 45% but you must get 50% overall.

This is an entirely fictitious scenario and the financial impact of the pandemic had no effect on the company's finances in this scenario*

Appendix A

Smith Construction Financial Statements

Profit & Loss account 2019-2021

	Actual 2019		Actual 2020		Actual 2021	
	£'000	£'000	£'000	£'000	£'000	£'000
Sales		1800		1350		2900
Construction Costs:						
Labour costs	-590		-420		-900	
Materials *	-670		-400		-1000	
Subcontractor	-60		-30		-80	
Production overheads	-275	-1595	-200	-1050	-350	-2330
Gross Profit		205		300		570
Other costs:						
Administration salaries	-150		-100		-180	
Administration overheads	-25		-10		-26	
Marketing expenses	-20	-195	-20	-130	-20	-226
Net Profit		10		170		344
Interest expence (Finance cost)	-20		-40		-20	
Taxation	0	-20	-70	-110	-120	-140
Net Profit after Tax		-10		60		204

* Materials are purchased on credit from a single supplier

Profit & Loss account 2022

	Forecast 2022		1st Half of 2022				2nd Half of 2022			
	Forecast		Forecast		Actual		Forecast		Actual	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Sales		4100		1800		1700		2300		
Construction Costs:										
Labour costs	-1240		-600		-850		-640			
Materials *	-1150		-600		-610		-550			
Subcontractor	-220		-100		-170		-120			
Production overheads	-360	-2970	-180	-1480	-175	-1805	-180	-1490		
Gross Profit		1130		320		-105		810		
Other costs:										
Administration salaries	-280		-100		-100		-180			
Administration overheads	-32		-16		-18		-16			
Marketing expenses	-24	-336	-12	-128	-14	-132	-12	-208		
Net Profit		794		192		-237		602		
Interest expence (Finance cost)	-20		-10		-30		-10			
Taxation	-180	-200	-60	-70	0	-30	-120	-130		
Net Profit after Tax		594		122		-267		472		

* Materials are purchased on credit from a single supplier

Balance Sheet 2019-2021

	Actual 2019	Actual 2020	Actual 2021
	£'000	£'000	£'000
Fixed assets	400	584	674
Current assets:			
Inventory	110	140	220
Debtors	160	180	340
Bank balance	20	36	40
Total current assets	290	356	600
Current liabilities:			
Creditors	100	150	160
VAT	0	40	60
PAYE	0	60	80
Corporation tax	0	40	120
Bank overdraft	0	0	0
Total current liabilities	100	290	420
Working capital *	190	66	180
Long term loan	200	200	200
Net assets	390	450	654
Equity:			
Share capital	400	400	400
Reserves	-10	50	254
	390	450	654

* Current assets - current liabilities

Balance Sheet 2022

	1st Half of 2022		2nd Half of 2022		
	Forecast	Forecast	Actual	Forecast	Actual
	£'000	£'000	£'000	£'000	£'000
Fixed assets	1064	774	860	1064	
Current assets:					
Inventory	260	232	230	260	
Debtors	444	340	336	444	
Bank balance	200	50	0	200	
Total current assets	904	622	566	904	
Current liabilities:					
Creditors	160	200	260	160	
VAT	80	70	80	80	
PAYE	100	90	100	100	
Corporation tax	180	60	60	180	
Bank overdraft	0	0	106	0	
Total current liabilities	520	420	606	520	
Working capital *	384	202	-40	384	
Long term loan	200	200	200	200	
Net assets	1248	776	620	1248	
Equity:					
Share capital	400	400	400	400	
Reserves	848	376	220	848	
	1248	776	620	1248	

* Current assets - current liabilities

Appendix B

COURSEWORK 2 MARKING SCHEDULE

MODULE & ASSESSMENT INSTRUMENT	Financial Management for Global Decision Makers	Marks available
	Smith Construction Limited	
Part 1 (approx. 500 words)		30%
Analysis of the accounts: Ratio analysis and critically discuss (drawing on the academic literature) any areas of concern that require further investigation		
Part 2 (approx. 750 words)		30%
Discussion of misappropriation and identification of weak areas of internal control and suggestions to resolve. You should define, summarise, critique, apply relevant evidence and display an ability to logically develop your argument. This should be a discussion and not a series of bullet points.		
Part 3 (approx. 750 words)		30%
Review of the sources of finance identified by Smith Construction Ltd given the need to raise £250,000 for investment in the business. Recommendation along with justification required. You should define, summarise, critique, apply relevant evidence and display an ability to logically develop your		

argument. This should be a discussion and not a series of bullet points.		
Presentation of report, references and reference list		10%

***It is good practice to include a brief introduction to your report**