WOMEN'S UNIVERSITY IN AFRICA

Addressing gender disparity and fostering equity in University Education

FACULTY OF MANAGEMENT AND ENTREPRENEURIAL SCIENCES

MASTER OF SCIENCE DEGREE IN STRATEGIC MARKETING MANAGEMENT

MAIN PAPER

MSM 212 : FINANCIAL ASPECTS OF MARKETING

INTAKE 3 : SECOND YEAR FIRST SEMESTER

DATE : DECEMBER 2020 **TIME : 2 HOURS**

INSTRUCTIONS TO CANDIDATES

Answer Question **1** and any other **two.**

Question 1

You are a consultant working for a company called MMCS, which started trading four years ago in 2010 and which manufactures plastic rainwater drainage goods. You have the following information.

(a) Revenue and cost of sales are expected to increase by 10% in each of the financial years ending 31 December 2017, 2018 and 2019. Operating expenses are expected to increase by 5% each year.

(b) The company expects to continue to be liable for tax at the marginal rate of 30%. You can assume that tax is paid or refunded 12 months after the year end.

(c) The ratios of receivable to sales and trade payables to cost of sales will remain the same for the next three years.

(d) Non-current assets comprise land and buildings, for which no depreciation is provided. Other assets used by the company, such as machinery and vehicles, are hired on operating leases.

(e) The company plans for dividends to grow at 25% in each of the financial year 2017, 2018 and 2019.

(f) The company plans to purchase new machinery to the value of $500,000 during 2017, to be depreciated straight line over ten years. The company charges a full year's depreciation in the first year of purchase of its assets. Tax allowable depreciation at 25% reducing balance is available on this expenditure.

(g) Inventory was purchased for $35,000 at the beginning of 2017. The value of inventory after this purchase is expected to remain at $361,000 for the foreseeable future.

(h) No decision has been made on the type of finance to be used for the expansion programme. The company's directors believe that they can raise new medium-term secured bonds if necessary.

(i) The average P/E ratio of listed companies in the same industry as MMCS is 15.

The company's objectives include the following.

(a) To earn a pre-tax return on the closing book value of shareholders' funds of 35% per year

(b) To increase dividends per share by 25% per year

(c) To obtain a quotation on a recognized stock exchange within the next three years.

A summary of the financial statements for the year ended 31 December 2016 is set out below

Statement of the profit and loss for the year ended 31 December 2016

		$000
Revenue		1560
Cost of sales		(950)
Gross profit		610
Operating expenses		325
interest		30
Tax liability		77
Net profit		**178**
Dividends declared		**68**

Statement of financial position as at 31 December 2016

		$000
Non-current assets		750
Current assets		
inventories		326
Receivables		192
Cash at bank		50
Total assets		**1318**
Financing		
Capital		500
Retained profits		128
Current profits		110
10% redeemable 2020		300
Current liabilities		
Trade payables		135
Other payables		145
Total equity and liabilities		**1318**

Required

(a) Prepare forecast statements of comprehensive income for the years 2017, 2018 and 2019, and calculate whether the company is likely to meet its stated financial objective (return on shareholders' funds) for these three years. [20]

(b) Prepare cash flow forecasts for the years 2017, 2018 and 2019 and estimate the amount of funds which will need to be raised by the company to finance its expansion [20]

Notes

1. You should ignore interest or returns on surplus funds invested during the three year period of review.

2. You may ignore the timing of cash flows within each year and you should not discount the cash flows.

Question 2

Alcatel Profit and Loss Statement for the year ended 31 December 2019

	2019	**2018**	**2017**
Revenues	16984	17792	12282
Cost of sales	(11190)	(12083)	(8214)
Gross profit	5794	5709	4068
Admin expenses	(3093)	(3462)	(1911)
Research costs	(2757)	(2954)	(1470)
Income from operating activities	(56)	(856)	(707)
Restructuring costs	(562)	(856)	(707)
Impairment of assets	(4725)	(2944)	(141)
Loss/gain on disposal	(7)	0	15
Post retirement plan	47	258	0
Income (loss)	(5303)	(4249)	(146)
Income from continuing activities	(5206)	(4087)	219
Net Income/loss	(5173)	(3477)	(61)

Alcaltel statement of financial position as at 31 December 2019

	2019	**2018**	**2017**
Total non-current assets	**12742**	**20135**	**25665**
Inventories	2196	2235	2259
Amounts due from customers	495	704	615
Trade receivables	4330	4163	3877
Advances	99	110	87
Total current assets	**14569**	**13695**	**16225**
Total assets	**27311**	**33830**	**41890**
Total shareholder equity	**5224**	**11702**	**16323**
pensions	4807	4447	5449
Bonds, long term	4807	4447	5449
Other long term debt	67	48	147
Deferred tax	1152	1897	2583
Other NCL	443	366	276
Total NCL	10400	11275	13356
provisions	2424	2566	2366
Current portion of long term debt	1097	483	1161
Customers deposits	929	847	778
Amounts owing	188	407	273
Trade payables	4571	4514	4027
Disposal liabilites	0	0	1606
Tax liabilities	185	70	66
Other CL	2293	1966	1934
Total current liabilities	**11687**	**10853**	**12211**
Total Capital	**27311**	**33830**	**41890**

Required:

a) Calculate Alcatel inventory turnover, number of days of inventory on hand, gross profit margin, current ratio, debt-to- equity ratio, and return on total assets for 2019 and 2018 based on the numbers reported. Use an average for inventory and total asset amounts and year-end numbers for other ratio items. [10]

b) Based on the answer to Question 1, comment on the changes from 2017 to 2018. [10]

Question 3

Your company has been losing its market share to the main rivals due to continued use of obsolete machinery. The company is now considering the purchase of a piece of manufacturing equipment costing $120000 that would earn it cash flows of $15000 each of the 8 years. The equipment could be sold at the end of its useful life for $10000. The company requires every project to yield a return of 10% or more otherwise they will be rejected.

Required:

a) As the marketing manager responsible for the sales from this equipment advise the Managing Director whether this equipment should be purchased. [15]

b) Compare and contrast NPV and IRR [5]

Question 4

Critically discuss the concept of financial brand equity. [20]

Question 5

Make an argument that money spent on advertising commercials should be treated as investment and not expenses. [20]

END