UNIVERSITY OF FORT HARE

INTRODUCTION TO FINANCIAL MANAGEMENT
BEC225 AND BEC225E

DEGREE EXAMINATIONS

NOVEMBER MAIN EXAMINATION 2019

Time: 3 Hours
Subject: BEC225 AND BEC225E
Marks: 75

This paper consists of 9 pages including the cover page

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INSTRUCTIONS

1. Answer THREE questions: Question 1 in Section A (compulsory). Answer 2 questions from Section B.
2. Number the questions correctly.
3. Write your student number and name on your answer books.
4. Write legibly.
5. Enter your student number on the multiple choice answer sheet provided with this paper and place the answer sheet inside the front cover of your answer book.
SECTION A
QUESTION 1 IS COMPULSORY
QUESTION 1: MULTIPLE CHOICE QUESTIONS

1. Damien is the financial manager for a large fresh-produce wholesaler. He'd like to calculate whether his firm's collection term of 30 days is acceptable. Given that the accounts receivable for the firm during a 360-day year were equal to R355 444,00, and the annual sales were equal to R5 454 569,00, the firm's average collection period is equal to ____ days and is ________.

   a. 24 days; acceptable
   b. 55 days; unacceptable
   c. 15 days; unacceptable
   d. 32 days; acceptable

2. David decides to invest R1 200 in a savings account at 15% p.a. compound interest for five years. What is the end value of David's investment?

   a. R5 324,44
   b. R6 000,00
   c. R2 413,63
   d. R2 100,00

3. What is the future-value interest factor for an interest rate of 18% over 15 periods?

   a. 6,747
   b. 0,536
   c. 11,974
   d. 12,375

4. What is the future value of R1 200 invested for four years in succession at the end of each year earning 17% compound interest p.a.?

   a. R 4 800,00
   b. R 6 168,62
   c. R 6 878,45
   d. R 4 744,00
5. What is the present value interest factor for a 4-year R1 300 annuity, assuming a 14% opportunity cost?
   
   a. 2,3549
   b. 2,7432
   c. 2,7545
   d. 2,4623

6. What size annuity will result in a sum of R135 000 if an equal annual year-end deposit is made into an account paying an annual interest of 9%, assuming you’d like the sum at the end of eight years?
   
   a. R10 814,00
   b. R11 846,00
   c. R13 453,00
   d. R12 241,00

7. Michael borrows R5 534 459 at 12% to finance the purchase of his new home and agrees to make equal annual end of year payments over 20 periods. What is the size of each payment he needs to make?
   
   a. R4 586 980,30
   b. R1 150 281,25
   c. R4 825 919,36
   d. R2 349 876,67

8. What is the PVIF of the following streams of cash flows?

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Flow</th>
<th>PVIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>1 433</td>
<td>4</td>
</tr>
<tr>
<td>2017</td>
<td>1 300</td>
<td>3</td>
</tr>
<tr>
<td>2016</td>
<td>1 200</td>
<td>2</td>
</tr>
<tr>
<td>2015</td>
<td>1 022</td>
<td>1</td>
</tr>
<tr>
<td>2014</td>
<td>1 000</td>
<td>0</td>
</tr>
</tbody>
</table>
9. Co-Sign is a large advertising firm in Cape Town. Over a period of three years, the value of their ordinary shares which are being traded increases substantially. This value is defined as the share's:

a. Book value
b. Market value added
c. Economic value
d. Par value

10. The book value of a non-current asset is defined as:

a. The value of the non-current asset multiplied by the depreciation of that asset
b. The arbitrarily assigned value of that asset
c. The cost of buying and installing the asset minus accumulated depreciation
d. The sum of the present value and/or the increase in market value

11. Which of the following statements is true concerning the risk-return relationship of an asset?

a. The lower the monthly cash flow generated by an asset, the higher the risk.
b. The lower the risk, the higher the value of an asset.
c. The more certain the cash flow, the higher the risk.
d. The lower the risk, the higher the discount rate one has to use in calculating the present value.

12. What is the value of an asset costing R1 200 expected to generate cash flows of R120, R30, R160 and R400 at the end of years 1, 2, 3 and 4 respectively, if the opportunity cost is 13% and a risk premium of 4% is involved?

a. \( V_0 = R437,86 \)
b. \( V_0 = R453,60 \)
c. \( V_0 = R443,36 \)
d. \( V_0 = R445,81 \)

13. What is the value of a debenture issued at a par value of R1 100, if interest is paid semi-annually and the required rate of return is equal to the debenture’s coupon rate of 15% (i.e. R150), and the initial maturity is equal to 10 years?

a. R989,99  
 b. R1 023,53  
 c. R1 453,00  
 d. R1 000,45

14. The short-term financial goal should be to ensure the profitability, liquidity and _______ solvency of the firm. The main objective of financial management is to _____.

a) maximise the remuneration paid to executive management  
 b) maximise shareholders’ value  
 c) ensure maximised profits  
 d) ensure maximised sales

15. When the JSE is classified as a secondary market it means that:

a) it facilitates the trading of new shares between the issuing company and investors.  
 b) it facilitates the raising of new capital  
 c) it allows for the trading of previously issued securities to investors.  
 d) none of the above apply.

16. Which of the following measurements is NOT a typical measurement of profitability of a firm?

a) Inventory Turnover  
 b) Return of Investment  
 c) Return of Equity (ROE) or Return on Net Assets (RONA)  
 d) Gross Profit Margin

17. The assets held by a business which can be converted in the form of cash, without disturbing the normal operations of a business.

a. Tangible assets
b. Intangible assets  
c. Fixed assets  
d. Current assets  

18. The return that the company pays on borrowed funds is termed as  
a. Dividend  
b. Interest  
c. Bonus  
d. All of the above  

19. The following is(are) the type(s) of capital budgeting decision(s)  
a. Diversification  
b. Replacements  
c. Expansion  
d. All of the above  

20. The following is(are) the external source(s) of cash  
a. Long terms loans  
b. Short term borrowings  
c. Issue of new shares  
d. All of the above  

21. Current assets are also referred to as  
a. Working capital  
b. Investments  
c. Inventory  
d. Livestock  

22. The only feasible purpose of financial management is  
   a) Wealth Maximization  
   b) Sales Maximization  
   c) Profit Maximization  
   d) Assets maximization  

23. Financial management process deals with
a) Investments  
b) Financing decisions  
c) Both a and b  
d) None of the above

24. The objective of wealth maximization takes into account  
a) Amount of returns expected  
b) Timing of anticipated returns  
c) Risk associated with uncertainty of returns  
d) All of the above

25. Financial management mainly focuses on  
a) Efficient management of every business  
b) Brand dimension  
c) Arrangement of funds  
d) All elements of acquiring and using means of financial resources for financial activities
SECTION B ANSWER ANY TWO QUESTIONS

QUESTION 2 [25 Marks]
2.1 Explain and apply the fundamental principles of financial management [10 marks]
2.2 Briefly discuss capital budgeting and the steps of capital budgeting process. [15 marks]

QUESTION 3 [25 Marks]
The accounting clerk has extracted the following information for you of a small company you are interested in buying.

<table>
<thead>
<tr>
<th></th>
<th>R</th>
<th>R</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>12 500 000</td>
<td>Depreciation</td>
</tr>
<tr>
<td>Postage and courier expenses</td>
<td>5 600</td>
<td>Maintenance</td>
</tr>
<tr>
<td>Rent paid</td>
<td>42 000</td>
<td>Fuel</td>
</tr>
<tr>
<td>Telephones</td>
<td>104 000</td>
<td>Fixed assets</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>4 900 000</td>
<td>Account Payable</td>
</tr>
<tr>
<td>Advertising</td>
<td>360 000</td>
<td>Printing</td>
</tr>
<tr>
<td>Water &amp; electricity</td>
<td>196 000</td>
<td>Inventory</td>
</tr>
<tr>
<td>Account receivable</td>
<td>1 600 000</td>
<td>Long term liabilities</td>
</tr>
<tr>
<td>Cash</td>
<td>248 000</td>
<td>Interest expense</td>
</tr>
<tr>
<td>Salaries</td>
<td>1 805 000</td>
<td>Tax rate is at 30%</td>
</tr>
<tr>
<td>Insurance</td>
<td>125 000</td>
<td>Capital</td>
</tr>
</tbody>
</table>

Required: Construct a statement of comprehensive income and financial position using the relevant information supplied above.

Question 4 [25 Marks]
a) Briefly discuss the five users of financial statements [10 marks]
b) What is the difference between a primary and secondary market [3 marks]
c) The Balance Sheet of Punjab Auto Limited as on 31-12-2002 was as follows:
<table>
<thead>
<tr>
<th>Particular</th>
<th>Rs.</th>
<th>Particular</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Share</td>
<td>40,000</td>
<td>Plant and Machinery</td>
<td>24,000</td>
</tr>
<tr>
<td>Capital Capital</td>
<td>8,000</td>
<td>Land and Buildings</td>
<td>40,000</td>
</tr>
<tr>
<td>Reserve</td>
<td>32,000</td>
<td>Fixtures</td>
<td>16,000</td>
</tr>
<tr>
<td>8% Loan on</td>
<td>16,000</td>
<td>Stock</td>
<td>12,000</td>
</tr>
<tr>
<td>Mortgage Creditors</td>
<td>4,000</td>
<td>Debtors</td>
<td>4,000</td>
</tr>
<tr>
<td>Bank</td>
<td></td>
<td>Investments (Short-term)</td>
<td></td>
</tr>
<tr>
<td>overdraft</td>
<td>4,000</td>
<td>Cash in hand</td>
<td>12,000</td>
</tr>
<tr>
<td>Taxation:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>12,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Future</td>
<td>1,20,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From the above information, compute the following ratios:

- Current Ratio: [3 marks]
- Quick Ratio, [3 marks]
- Debt-Equity Ratio, [3 marks]
- Proprietary Ratio [3 marks] [12 Marks]