

UNIVERSITY OF FORT HARE

INTRODUCTION TO FINANCIAL MANAGEMENT  
BEC225 AND BEC225E

DEGREE EXAMINATIONS

NOVEMBER SUPPLEMENTARY EXAMINATION 2024

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

**This paper consists of 10 pages including the cover page**

**Internal Examiners**

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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. Taylor is fourteen and working as a part-time waitress in a local restaurant. She would be regarded as:
  - a. Part of the economically active population
  - b. Discounted from the economically active population
  - c. Unemployed as she is only a part-time worker
  - d. Part of the civilian labour force
  
2. Which of the following statements regarding the money market is correct?
  - a. The main buyers in the money market are banks and insurance companies.
  - b. The stock exchange is the most important institution in this market.
  - c. Semi-public banks are regarded as indirect securities.
  - d. The money market brings long-term lenders into direct contact with one another.
  
3. Abe is a customer at BestBank. He has successfully and timeously paid back two previous short-term loans to the bank. What kind of interest rate would BestBank charge him?
  - a. The minimum lending rate
  - b. A fixed interest rate
  - c. The nominal interest rate
  - d. The prime interest rate
  
4. Which of the following statements is true with regards to ordinary shares?
  - a. Ordinary shares in a private company must carry equal voting rights.
  - b. Ordinary shares entitle the holders to some residual earnings before tax.
  - c. Ordinary shareholders receive dividends paid before preference shareholders have been paid dividends.
  - d. Ordinary shareholders don't receive any interest on the capital that they invest.
  
5. Why are preference shares referred to as a 'hybrid' form of financing?
  - a. The owner of preference shares is given the option to gain dividends at a fixed or fluctuating value of the share.
  - b. Preference shares may be redeemable or non-redeemable.
  - c. Preference shares give the owner claim on both the earnings and assets of a firm.
  - d. Preference shares have the characteristics of both debt and equity financing.

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6. The purchase of ordinary shares by the owners and investors of a public company would be recorded in:
  - a. The statement of financial performance
  - b. The cash flow statement
  - c. The statement of financial position
  - d. The statement of retained earnings

7. Alec's transport company replaced several of their vehicles on 2nd of January 2024 in the financial period spanning March 2023–March 2024. They took out a loan from their bank to finance this undertaking. What would this loan be classified as when calculating the profit for this period?
- Equity
  - An obligation
  - An asset
  - A liability
8. Soraya's catering company purchase ten new industrial ovens at a total cost of R750 630,00 with an added installation cost of R135 000,00. The straight-line depreciation of the asset, given that the depreciable life is equal to six years, would be:
- R50 042,00 p.a.
  - R147 605,00 p.a.
  - R22 500,00 p.a.
  - R141 042,00 p.a.
9. The total assets for a firm are equal to R23 444 677,00. The shareholders' interest is equal to R18 456 309,00. What is the total value of this firm's liabilities?
- R4 988 368,00
  - R41 900 986,00
  - R18 456 309,00
  - R1 172 238,00
10. Whose claims against the assets of a firm are of highest priority?
- Creditors, because their claims are liabilities to a firm
  - Owners, because their claims are long-term deferred obligations to a firm
  - Creditors, because their claims are equity to a firm
  - Shareholders, because their claims are short-term debt to a firm
11. Safya runs a large party supplies warehouse near her city's CBD. She decides to purchase a small flat nearby as a separate office space. What would this office space be listed as in the statement of financial position?
- Total equity
  - A current asset
  - A non-current asset
  - A current liability
12. Which of the following documents would disclose the cash receipts and payments between two consecutive statements of financial position?
- Statement of retained earnings
  - Cash flow statement
  - Statement of financial position
  - Financial performance statement

13. Consider a firm's statement of retained earnings below:

RETAINED EARNINGS STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2024			
	Notes	2024	
Retained earnings balance (1 March 2023)		4 565 500	00
Net income for 2015/16		1 434 900	00
Cash dividends paid (during 2023/24)		(412 000	00)
Dividends on preference shares		50 000	00
Dividends on ordinary shares		362 000	00
<b>RETAINED EARNINGS BALANCE (28 FEBRUARY 2024)</b>			<b>00</b>

What was the retained earnings balance as of 28 February 2024?

- R5 576 000,00
  - R6 400 000,00
  - R3 130 600,00
  - R5 588 400,00
14. Danny's Hardware received R3 000 345,00 from customers over the past year. Suppliers and employees were paid R500 000,00. The firm paid interest of R56 656,00 and received no interest. The firm paid dividends of R80 000,00 and taxes of R800 000,00. The cash flow from operating activities is closest to:
- R1 300 00,00
  - R1 563 692,00
  - R2 363 692,00
  - R2 400 655,00
15. Which of the following statements regarding the role of the financial manager is correct?
- The financial manager is responsible for providing consistently processed and easily interpreted data on the firm's past, present and future operations.
  - The primary focus of the financial manager and the accountants in a firm are the same, because their goal is to ensure maximum profitability for the firm.
  - The financial manager must only use raw data provided from the firm's accountants to make financial decisions that are as accurate as possible.
  - The financial manager uses the data concerning the firm's past, present and future operations provided by accountants to make sound financial decisions.
16. Which of the following statements is true for a firm undertaking a time-series analysis?
- The firm is interested in how well it performs in relation to its competitors at the same point in time.
  - The firm wants to compare its performance to industry leaders specifically.
  - The firm is interested in comparing its past performance to current performance to assess its progress.
  - The firm wants to compare its past performance with the current performance of its competitors.

17. If a firm decides to undertake a ratio analysis that combines both industry-comparative and time-series analyses, then it is best for the firm to:
- Compare data that has been developed in the same way using the same accounting treatments
  - Interpret large and positive deviations from the norms as indicative of good performance against the industry average
  - Use financial statements that have undergone external auditing as they may provide erroneous data that is not reflective of the firm's true financial position
  - Use financial statements from differing years in order to account for the effect of seasonality on the performance indicator that is being measured
18. ABC Stationers are trying to calculate the return on owners' investment for the period March 2023–March 2024. Given that their earnings after tax is equal to R356 67,00, and their shareholders' equity is equal to R7 629 142,00, the return on the owners' investment is equal to:
- 4,68 %
  - 21,39%
  - 0,21%
  - 7,27%
19. ABC Stationers need to use an appropriate liquidity ratio to determine how capable they are of satisfying their accounts as they become due for payment. Their current assets amount to R890 657,00, their current liabilities amount to R454 367,00, and their inventory is equal to R345 879,00. Given that their stock is relatively liquid, the most appropriate means of calculating liquidity would be to use the \_\_\_\_\_ ratio, which would result in a value of \_\_\_\_ for every R1 owed to creditors.
- Quick ratio; R2,00
  - Current ratio; R1,96
  - Quick ratio; R1,20
  - Current ratio; R2,72
20. Is the value calculated in Question 19 above an acceptable value given the nature of the firm? What measures should the firm take as corrective action if so?
- No; the firm should reduce the discounts given to creditors.
  - Yes; the firm could always aim to increase this value, just in case, by buying fewer goods on credit to reduce their current liabilities.
  - Yes; there are no corrective measures necessary in this case.
  - No; the firm should accelerate their cash inflow by increasing the level of ending inventory.

21. 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 \_\_\_\_\_.
- 24 days; acceptable
  - 55 days; unacceptable
  - 15 days; unacceptable
  - 32 days; acceptable
22. Alison's heavy-duty vehicle manufacturing firm has a debt–equity ratio that is too high for the industry average. What kind of corrective action should the firm take?
- Increase purchases of goods on credit from suppliers
  - Issue new ordinary shares
  - Buy back some of its shares by selling bonds/debentures
  - Increase current assets by selling more vehicles on credit
23. Bright Spark Online Education invest in ordinary shares in their sister company, Bright Minds, a smaller, corporate-focused e-learning company. The investment analyst at Bright Spark would like to determine whether the DPS is at an acceptable rate of 6 cents as per the increase seen in similar companies. Given that the dividends for ordinary shareholders amounts to R345 690,00, and the number of ordinary shares issued is equal to 4 540 544, the DPS is equal to \_\_\_\_\_ and is \_\_\_\_\_.
- 4 cents per share; acceptable
  - 9 cents per share; unacceptable
  - 6 cents per share; unacceptable
  - 8 cents per share; acceptable
24. If the current market price per ordinary share of a firm is equal to 65 cents, and the earnings per share is equal to 19 cents, how many years will it take for the earnings per share to equal the current market price?
- 19,7 years
  - 3 years
  - 7,5 years
  - 3,4 years
- 
25. Based on the information in question 24, What is the dividend yield?
- 19%
  - 3,4%
  - 4,6%
  - 21,7%

## SECTION B ANSWER ANY TWO QUESTIONS

### QUESTION 2 [ 25 Marks]

- a. Your brother wants to invest R6000 in your farm with you paying 6% interest compounded annually. How much will you owe in 6 years if your return his R6000 plus interest. **[5 marks]**
- b. Suppose you want to have R500 000 saved by the time you reach age 30 and suppose that you are 20 years old today. If you can earn 5 % on your funds how much would have to invest today to reach your goal. **[ 5marks]**
- c. Excise Moving Company Ltd is looking to expand their service offering by introducing a new courier line specifically targeted at medium-sized removals. The owners of the firm need to invest in a new fleet of smaller removal vehicles. A dealer draws up a quote for the firm for two different types of small lorry; a more expensive, reputable model manufactured domestically, and a cheaper, imported model. The owners decide to buy a fleet of the more expensive model despite the higher capital cost. Explain why this is or is not a good financial decision in terms of cost-benefit as well as solvency. **[15 Marks]**

### QUESTION 3 [25 Marks]

You are provided with the financial statement below:

#### Software computer Ltd Income statement for the year ended 28 February 2024

	R
Sales	1 607 500
Less Cost of sales	<u>1 353 000</u>
Gross profit	254 500
Less operating expenses	<u>184 500</u>
EBIT	70 000
Interest expense	<u>24 500</u>
Earnings before tax	45 500
Less tax@28%	<u>12 740</u>
Earning after tax (EAT)	<u>32 760</u>

#### Software Computer statement of financial position as at 28 February 2024

<b>Assets</b>	R
Non-current assets	272 500
<b>Current assets</b>	
Inventories	241 500
Account receivables	336 000
Cash & cash equivalent	97 500
<b>Total Assets</b>	<b>947 500</b>
<b>Equities and Liabilities</b>	
Ordinary share capital	<u>361 000</u>
Non-current liabilities	
Loan: Standard bank	256 500

**Current liabilities**

Accounts payable

213 000

Bank overdraft

117 000

**Total Equities and Liabilities****947 500**

The industry averages indicate the following:

<b>Ratio</b>	<b>Industry average</b>
Current ratio	2
Quick ratio	1
Average collection period	35 days
Average payment period	40 days
Inventory turnover	5.6x
Net profit margin	1.2
ROI	10.0%
ROE	9.0%
Debt ratio	60.0%
Time interest earned ratio	5

## Required

3.1 Calculate and interpret the basic liquidity, activity, profitability, debt ratios of the firm (assume a 360-day year where applicable). **[20 Marks]**

3.2 Comment on the sustainability of the financial performance of the firm, and indicate if the firm should expand capacity or not. **[5 Marks]**

## QUESTION 4 [25 Marks]

4.1 Diamine Ltd is a platinum mining company situated near Kimberley in South Africa. They are not as large as some of their competitors, but because of their prime location on a large placer deposit containing platinum in the earth's crust, they are able to cope well with the demands of production and competition from other, larger mining corporations. Lately, several incidents resulting from labour disputes between mine management and the miners themselves have resulted in prolonged strikes. These strikes disrupt production and result in a drop in output that causes significant financial turmoil within the firm. Diamine Ltd are forced to sell off several prime acres above the rich deposit in order to ensure that they remain solvent. The CFO for Diamine Ltd calls an urgent meeting of the executive board. Several of Diamine's newer shareholders have expressed their dismay at the drop in their equity and want to know why their share value is not as it was when they originally invested. The CEO tasks the CFO with explaining to the shareholders why their equity has dropped and why their claims are being labelled as 'residual' by the company.

Clarify some of the reasons that the CFO might choose to explain the drop in shareholder equity to their shareholders. **[15 marks]**

4.2 Darren and Lyle are both business owners who run well-established and sizeable plumbing and water systems firms in East London and Alice. A recent drought has left the two towns water supply extremely depleted, and Darren and Lyle decide that they want to buy 5 000 desalination units and sell them at a high profit. They decide that they could merge their businesses to shoulder this new venture together. Lyle is convinced that debentures are the way to finance this endeavour. Is he correct? Explain your reasons for or against the use of debentures to fund young business ventures such as this. **[10 marks]**

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