

UNIVERSITY OF FORT HARE

INTRODUCTION TO FINANCIAL MANAGEMENT
BEC225 AND BEC225E

DEGREE EXAMINATIONS

NOVEMBER MAIN EXAMINATION 2019

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Time: 3 Hours
Subject: BEC225 AND BEC225E

Marks: 75

This paper consists of 9 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. 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 646,00
 - 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 566 980,30
 - b. R1 150 281,25
 - c. R4 825 619,36
 - d. R2 349 876,67
8. What is the PVIF of the following streams of cash flows?

2018	1 433	4
2017	1 300	3
2016	1 200	2
2015	1 022	1
2014	1 000	0

- a. 0,47296
 - b. 0,49245
 - c. 0,63452
 - d. 0,69784
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% ($i=R150$), and the initial maturity is equal to 10 years?

a. R999,99

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.

My Small Company

	R		R
Sales	12 500 000	Depreciation	600 000
Postage and courier expenses	5 600	Maintenance	180 000
Rent paid	42 000	Fuel	142 000
Telephones	104 000	Fixed assets	9 800 000
Cost of sales	4 900 000	Account Payable	1 200 000
Advertising	360 000	Printing	110 000
Water & electricity	196 000	Inventory	1 200 000
Account receivable	1 600 000	Long term liabilities	1 200 000
Cash	248 000	Interest expense	18 000
Salaries	1 805 000	Tax rate is at 30%	
Insurance	125 000	Capital	7 891 880

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:

Particular	Rs.	Particular	Rs.
Equity Share	40,000	Plant and	24,000
Capital Capital	8,000	Machinery	40,000
Reserve	32,000	Land and	16,000
8% Loan on	16,000	Buildings	12,000
Mortgage Creditors	4,000	Furniture &	12,000
Bank		Fixtures	4,000
overdraft	4,000	Stock	12,000
Taxation:	4,000	Debtors	
Current	12,000	Investments	
Future	1,20,000	(Short-term)	
Profit and Loss A/c		Cash in hand	1,20,000

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]