

UNIVERSITY OF FORT HARE

INTRODUCTION TO FINANCIAL MANAGEMENT
BEC225 AND BEC225E

DEGREE EXAMINATIONS

NOVEMBER MAIN 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. Which of the following statements regarding the role of the financial manager is correct?
 - a. The financial manager is responsible for providing consistently processed and easily interpreted data on the firm's past, present and future operations.
 - b. 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.
 - c. The financial manager must only use raw data provided from the firm's accountants to make financial decisions that are as accurate as possible.
 - d. The financial manager uses the data concerning the firm's past, present and future operations provided by accountants to make sound financial decisions.

2. 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

3. Alec's transport company replaced several of their vehicles on 2nd of January 2017 in the financial period spanning March 2016–March 2017. 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?
 - a. Equity
 - b. An obligation
 - c. An asset
 - d. A liability

4. 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:
 - a. R50 042,00 p.a.
 - b. R147 605,00 p.a.
 - c. R22 500,00 p.a.
 - d. R141 042,00 p.a.

5. 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
6. 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

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

RETAINED EARNINGS STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019			
	Notes	2019	
Retained earnings balance (1 March 2018)		4 565 500	00
Net income for 2018/19		1 434 900	00
Cash dividends paid (during 2018/19)		(412 000	00)
Dividends on preference shares		50 000	00
Dividends on ordinary shares		362 000	00
RETAINED EARNINGS BALANCE (28 FEBRUARY 2019)			00

What was the retained earnings balance as of 28 February 2019?

- R5 576 000,00
 - R6 400 000,00
 - R3 130 600,00
 - R5 588 400,00
8. 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.

9. 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
10. ABC Stationers are trying to calculate the return on owners' investment for the period March 2016–March 2017. 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%
11. 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
12. Is the value calculated in Question 11 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.

13. 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
14. 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?
- R5 324,44
 - R6 000,00
 - R2 413,63
 - R2 100,00
15. What is the future-value interest factor for an interest rate of 18% over 15 periods?
- 6,747
 - 0,536
 - 11,974
 - 12,375
16. 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.?
- R 4 800,00
 - R 6 168,62
 - R 6 878,45
 - R 4 744,00
17. What is the present value interest factor for a 4-year R1 300 annuity, assuming a 14% opportunity cost?
- 2,3549
 - 2,7432
 - 2,7545
 - 2,4623

18. 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?
- R10 814,00
 - R11 646,00
 - R13 453,00
 - R12 241,00
19. 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?
- R4 566 980,30
 - R1 150 281,25
 - R4 825 619,36
 - R2 349 876,67
20. 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

- 0,47296
 - 0,49245
 - 0,63452
 - 0,69784
21. 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:
- Book value
 - Market value added
 - Economic value
 - Par value

22. The book value of a non-current asset is defined as:
- The value of the non-current asset multiplied by the depreciation of that asset
 - The arbitrarily assigned value of that asset
 - The cost of buying and installing the asset minus accumulated depreciation
 - The sum of the present value and/or the increase in market value
23. Which of the following statements is true concerning the risk-return relationship of an asset?
- The lower the monthly cash flow generated by an asset, the higher the risk.
 - The lower the risk, the higher the value of an asset.
 - The more certain the cash flow, the higher the risk.
 - The lower the risk, the higher the discount rate one has to use in calculating the present value.
24. 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?
- $V_0 = R437,86$
 - $V_0 = R453,60$
 - $V_0 = R443,36$
 - $V_0 = R445,81$
25. 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?
- R999,99
 - R1 023,53
 - R1 453,00
 - R1 000,45

SECTION B ANSWER ANY TWO QUESTIONS

QUESTION 2 [25 Marks]

- 2.1 Discuss the primary and secondary goals of a firm. [10 marks]
2.2 Define financial markets and their purpose. [5 marks]
2.3 Differentiate between primary and secondary markets. [5 marks]
2.4 Explain the fundamental principles of financial management [5 marks]

QUESTION 3 [25 Marks]

Green Fingers are a chain of nurseries selling a variety of plants, trees and flowers to the public. Although they do provide basic services such as gardening advice and free local delivery, they are looking to expand their services, and to increase the range of products they have on offer. They consider opening a coffee shop with a play park for children at each of their branches, to encourage people to extend their visits at the nursery. Currently, Green Fingers are investigating several investment alternatives that were deemed viable during a first round of screening. However, their available capital funds are quite limited, and they will only be able to choose one of the project alternatives. Therefore, they must determine which project will add the most value – both at present, and in the future. Information about two of these alternatives are shown in the table below. Use this information to answer the questions that follow.

Net cash flow		
Initial investment	-R73 500	-R77 000
Year	Project D	Project E
1	R30 000	R45 000
2	R30 000	R30 000
3	R30 000	R25 000
4	R30 000	R15 000
	R120 000	R115 000

The initial investment includes all the initial costs, that is, the purchasing and installation costs of the assets required. The depreciation on the two projects can be calculated using straight-line depreciation. The firm has a 16% cost of capital.

- i) For each of the two projects determine:
- The payback period [4 marks]
 - The NPV [8 marks]
 - The PI [4 marks]
 - The IRR (to the nearest 1%) [5 marks]
- ii) Which of these options should Green Fingers decide on and why? [4 marks]

QUESTION 4 [25 Marks]

Mulch Ltd is a large gardening supplies wholesaler. The CEO would like to know whether it would be prudent to expand business given the predicted economic slow-down of growth forecast for his country, and so he asks the CFO to test the firm's financial ratios against the industry averages. The condensed statement of financial performance and the statement of financial position are as follows:

CONDENSED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 28 FEBRUARY 2024		
Sales		45 633 284
Less cost of goods sold:		15 654 500
Beginning inventory	1 455 647	
Plus purchases	19 550 257	
	21 005 904	
Minus ending inventory	1 348 675	
Gross profit		29 978 784
Less operating expenses		8 661 457
Earnings before interest and taxes		21 317 327
Less interest expense		100 323
Earnings before tax		21 217 004
Less tax (28%)		5 940 761
Earnings after tax		15 276 243
Net profit distributed as follows:		
Dividends to ordinary shareholders		4 526 852
Retained earnings		10 749 391
		15 276 243

STATEMENT OF FINANCIAL POSITION AT 28 FEBRUARY 2024			
Non-current assets	56 050 000	Shareholders' interest	
		Ordinary shares	49 000 000
Current assets		Retained earnings	6 867 414
Cash	450 000	Long-term debt	1 034 520
Accounts receivable	1 000 000	Current liabilities	
Inventory	1 348 675	Accounts payable	1 046 741
Total assets	57 948 675	Equity and liability	57 948 675

*Number of ordinary shares issued = 49 000 000 at 1 000 cents each

*Current market price per share = 2 540 cents

RATIO	INDUSTRY AVERAGE
Gross profit margin	45%
Net profit margin	25%
ROI	10%
ROE	8%
EPS	160 cents
DPS	25 cents
P/E	6
Net working capital	1 951 934
Current ratio	2,2
Quick ratio	1,0
Inventory turnover	13,5 times
Average collection period	30 days
Debt ratio	11%
Debt–equity ratio	16%
Times interest earned ratio	23

- a) Calculate the basic profitability, liquidity, debt and securities market ratios of the firm based on the figures above. **[15 Marks]**
- b) Use the figures you have calculated to discern whether or not Mulch Ltd are well-positioned for the coming economic changes. (Hint: tabulating the results against the industry averages will assist you in comparing the figures.) **[10 Marks]**