

**UNIVERSITY OF FORT HARE**

**INTRODUCTION TO FINANCIAL MANAGEMENT  
BEC225/BEC225E  
NOVEMBER SUPPLEMENTARY EXAMINATION**

**DEGREE EXAMINATIONS**

**NOVEMBER SUPPLEMENTARY EXAMINATION 2018**

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**Time: 2 Hours**

**Subject: BEC225/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. A wholesaler supplying stationery to large stationers country-wide makes the decision to begin supplying stationery directly to large businesses. This is an example of:
  - a. Market penetration
  - b. Market expansion
  - c. Diversification
  - d. Product expansion
  
2. Which of the following sectors would new marketable securities fall under?
  - a. The primary sector of the money market
  - b. The secondary sector of the capital market
  - c. The secondary sector of the money market
  - d. The primary sector of the capital market
  
3. Aidan has just been appointed as a non-executive director to his firm's board of directors. It is now Aidan's responsibility to:
  - a. Ensure compliance on the part of the CFO
  - b. Be involved in the day-to-day management of the firm at an operational level
  - c. Contribute specialised knowledge in an advisory role to middle-level members of the firm
  - d. Assist top management to formulate the development strategy of the firm
  
4. The owners and managers of a large firm who charge per hour for their services disagree about the number of hours it should take for the firm to carry out a particular service. Such conflict of interest would be classified as:
  - a. A profit return problem
  - b. A management problem
  - c. An agency problem
  - d. A liquidity problem

5. Tshebo's health foods firm has finance available for investment opportunities. The firm is outgrowing its current production space and equipment. Which of the following broad steps would Tshebo's firm be likely to take?
  - a. Obtain financing from capital markets
  - b. Invest in fixed assets
  - c. Invest in financial assets
  - d. Obtain financing from money markets
  
6. Damien is a foreign national contributing to the South African economy. His contribution over the course of a year would be counted as part of the:
  - a. Real GNP
  - b. Nominal GNP and the nominal GDP
  - c. Real GDP
  - d. Nominal GNP
  
7. If the South African government were to increase the tax rates to combat inflation, they could be said to be employing:
  - a. A restrictive fiscal policy
  - b. An expansionary fiscal policy
  - c. A counter-cyclical fiscal policy
  - d. An aggressive fiscal policy
  
8. What effect would you expect an increase in the real interest rate of a country relative to its foreign trading partners to have on the domestic and foreign currency?
  - a. The domestic currency would appreciate.
  - b. The foreign currency would appreciate alongside the domestic currency.
  - c. Both the foreign and domestic currency would depreciate.
  - d. The domestic currency would depreciate.
  
9. Which of the following outcomes might you expect from a short-term restrictive fiscal policy?
  - a. Increasing real interest rates
  - b. Depreciation of domestic currency
  - c. Decreased inflation
  - d. Appreciation of domestic currency

10. 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?

- a. Total equity
- b. A current asset
- c. A non-current asset
- d. A current liability

11. Which of the following documents would disclose the cash receipts and payments between two consecutive statements of financial position?

- a. Statement of retained earnings
- b. Cash flow statement
- c. Statement of financial position
- d. Financial performance statement

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

RETAINED EARNINGS STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2016			
	Notes	2016	
Retained earnings balance (1 March 2015)		4 565 500	00
Net income for 2015/16		1 434 900	00
Cash dividends paid (during 2015/16)		(412 000	00)
Dividends on preference shares		50 000	00
Dividends on ordinary shares		362 000	00
<b>RETAINED EARNINGS BALANCE (28 FEBRUARY 2016)</b>			<b>00</b>

What was the retained earnings balance as of 28 February 2016?

- a. R5 576 000,00
- b. R6 400 000,00
- c. R3 130 600,00
- d. R5 588 400,00

13. 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:

- a. R1 300 00,00
- b. R1 563 692,00
- c. R2 363 692,00
- d. R2 400 655,00

14. 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.
15. 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?
- a. R4 988 368,00
  - b. R41 900 986,00
  - c. R18 456 309,00
  - d. R1 172 238,00
16. 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
17. 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?
- a. Increase purchases of goods on credit from suppliers
  - b. Issue new ordinary shares
  - c. Buy back some of its shares by selling bonds/debentures
  - d. Increase current assets by selling more vehicles on credit

18. 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 \_\_\_\_\_.
- a. 4 cents per share; acceptable
  - b. 9 cents per share; unacceptable
  - c. 6 cents per share; unacceptable
  - d. 8 cents per share; acceptable
19. 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?
- a. 19,7 years
  - b. 3 years
  - c. 7,5 years
  - d. 3,4 years
20. What is the dividend yield for the firm in Question 9 above?
- a. 19%
  - b. 3,4%
  - c. 4,6%
  - d. 21,7%
21. 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
22. 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

23. 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

24. Why is it not advisable for a firm to rely solely on financial ratios as a means of financial planning for the future?

- a. Financial ratios are only an indicator of financial performance for the year past.
- b. Financial ratios are only indicative of the performance of a firm in isolation from other firms.
- c. Financial ratios provide a limited picture of the current health of a business.
- d. Financial ratios only indicate the current financial position of a firm, not its past financial performance.

25. Altus runs a hardware store in a small town. He has one or two other competitors, but they understock to cope with rising costs and frequently run out of common stock, such as cable ties and duct tape. If you were to conduct a SWOT analysis for Altus's hardware, this occurrence would be classified as a/an:

- a. Strength
- b. Weakness
- c. Opportunity
- d. Threat

## **SECTION B ANSWER ANY TWO QUESTIONS**

### **QUESTION 2 [ 25 Marks]**

David, Ishaan and Riaan are three friends living in the same neighbourhood. David is retired, and Riaan and Ishaan are both currently employed but unhappy with working for other people. The three decide to open a small catering business to supply working professionals with multivariate dietary requirements in their suburb and the three smaller neighbourhoods that surround it. There are, as yet, no catering companies in the area that supply to this particular demographic. David is a retired former employee of a large business that sells catering equipment. He worked as a salesperson in the Cape Town Sales branch of the business. Ishaan currently works as the stock manager for a specialist catering company in Cape Town's CBD. He has numerous contacts with catering suppliers in Cape Town. Riaan is a technical writer for a bakery company that manufactures baking goods and materials for smaller retailers. He is regularly in contact with other suppliers. Riaan also owns a large house that he has just renovated to include a new granny flat. All three men have agreed to contribute a fixed monetary amount to the start-up capital of the business. However, they are struggling to work out a best-fit business strategy for their new venture.

Describe the form that this potential business organisation would take, and discuss its advantages and disadvantages in this context. Next, list each member's potential contribution to the business, and explain which kind of business strategy would be most appropriate for this new venture.

**[25 Marks]**

**Question 3 [25 marks]**

Mini Fizzer Pty Ltd. has decided to purchase one of two new machines which they want your input on. They have detailed the information in the table below:-

Cost of Capital	= 12 %	Machine A		Machine B
Cost		R -52 000		R -244 000
Cash flow year 1		R 30 000		R 48 000
Cash flow year 2		R 20 000		R 82 000
Cash flow year 3		R 10 000		R 122 000
Cash flow year 4		R 8 000		R 80 000
Cash flow year 5				R 90 000

- a) Calculate the Payback period for each machine; **[10 Marks]**  
 b) Calculate the Net Present Value for each machine. **[10 Marks]**  
 c) Advise on which machine would produce the best financial results **[3 Marks]**  
 d) Which machine would be the least risky? **[2 Marks]**

**QUESTION 4 [ 25 Marks]**

The accounting clerk has extracted the following information for you of a small company you are interested in buying.

**My Small Company financial information 31 December 2017**

	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 statement of financial position from the relevant information supplied above.

**[25 Marks]**