



UNIVERSITY
OF
JOHANNESBURG

Department of Commercial Accounting

Advanced Marketing Finance 4B

BGF44B4

Last Assessment Opportunity
November 2014

Time: 3 hours

Marks: 100

Assessors: Ms M van Rensburg
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Internal moderator: Mr R Boersma

External moderator: Mr HJ Dixon (Tshwane University of Technology)

INSTRUCTIONS:

- This paper consists of 13 pages (including the cover page).
- Answer all questions. Show all calculations and workings clearly.
- Start each question on a new page.
- Silent, non-programmable calculators may be used.
- Round all calculations to four decimal places, unless stipulated otherwise.

This question paper must be submitted inside your script

| Question | Topic | Marks | Time |
|----------|----------------------------------|------------|--------------------|
| 1 | Standard costing | 14 | 25 minutes |
| 2 | Capital budgeting | 35 | 63 minutes |
| 3 | Analysis of financial statements | 30 | 54 minutes |
| 4 | Financial planning | 21 | 38 minutes |
| | | 100 | 180 minutes |

QUESTION 1**(14 marks)**

Budgeted production of product A is 2 500 units during each reporting period. The budgeted sales price of product A is R200 each. Variable and fixed production overheads are allocated based on direct labour hours. The standard cost card for product A contains the following information:

| Cost per product A | | |
|-------------------------------|-------------------------|--------|
| Direct material | 8 liters @ R5 per liter | R40.00 |
| Direct labour | 3 hours @ R20 per hour | R60.00 |
| Variable production overheads | 3 hours @ R12 per hour | R36.00 |
| Fixed production overheads | 3 hours @ R10 per hour | R30.00 |

During the latest reporting period, 2 270 units of product A were produced and sold at R210 each. The actual results recorded were as follows:

| Total cost | | |
|------------------------------------|---------------|----------|
| Direct material purchased and used | 18 000 liters | R94 500 |
| Direct labour | 6 750 hours | R131 625 |
| Variable production overheads | | R81 675 |
| Fixed production overheads | | R77 500 |

Required:

- 1.1 Calculate the following variances (indicate the formula in each case):
- 1.1.1 Material price variances **(2)**
- 1.1.2 Material usage variance **(2)**
- 1.1.3 Labour rate variance **(2)**
- 1.1.4 Labour efficiency variance **(2)**
- 1.1.5 Variable production overhead expenditure variance **(2)**
- 1.1.6 Variable production overhead efficiency variance **(2)**
- 1.1.7 Fixed production overhead expenditure variance **(2)**

QUESTION 2**(35 marks)**

Jay Limited is a manufacturing company that produces various products for the automotive industry. Jay Limited is in the process of acquiring new manufacturing equipment. The following estimated information is available:

| | |
|--------------------------------------|----------------------|
| Economic life | 4 years |
| Purchase cost of equipment | R14 000 000 |
| Annual profit: | |
| Year 1 | R1 700 000 |
| Year 2 | R1 800 000 |
| Year 3 | R1 900 000 |
| Year 4 | R2 290 000 |
| Residual value at the end of 4 years | 10% of purchase cost |

Additional information:

- Assume that the equipment will be sold for R660 000 at the end of the 4 years. The profit/loss of the proposed sale has not yet been included in the profit of Year 4.
- Depreciation of 25% per annum, using the straight line method, is included in the estimated profit calculation.
- The cost of capital is 12%.
- The target Accounting Rate of Return is 40% and the target payback period is 3 years.
- Ignore tax and inflation.

Required:

***All formulas are attached at the end of the question paper.
Show all calculations!***

- 2.1 Calculate the accounting rate of return. **(5)**
- 2.2 Calculate the payback period. **(10)**

Use the format below to show your calculations:

| Year | Cash flow in year | Outstanding balance end of year |
|------|-------------------|---------------------------------|
|------|-------------------|---------------------------------|

- 2.3 Calculate the net present value of the equipment. **(14)**

Use the format below to show your calculations:

| Description | Total | Y0 | Y1 | Y2 | Y3 | Y4 |
|-------------|-------|----|----|----|----|----|
|-------------|-------|----|----|----|----|----|

- 2.4 Comment on the suitability of the methods used in 2.1 – 2.3 in terms of the evaluation of capital projects. Should the equipment be purchased? **(6)**

QUESTION 3**(30 marks)**

The following financial statements of Shoes Limited are available:

Statement of financial position at 28 February

| | 2011 | 2012 | 2013 |
|-------------------------------------|----------------|----------------|----------------|
| | R'000 | R'000 | R'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Land and buildings | 176 664 | 194 994 | 263 448 |
| Machinery and equipment | 72 192 | 71 286 | 48 612 |
| Current assets | | | |
| Inventory | 22 842 | 72 084 | 90 444 |
| Trade receivables | 49 098 | 33 684 | 53 634 |
| Cash | 37 356 | 13 596 | 4 398 |
| TOTAL ASSETS | 358 152 | 385 644 | 460 536 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Ordinary shares | 180 000 | 180 000 | 180 000 |
| Retained earnings | 94 470 | 87 906 | 115 350 |
| Non-current liabilities | | | |
| Long-term loan | 40 314 | 67 122 | 85 884 |
| Current liabilities | | | |
| Trade payables | 25 476 | 28 962 | 53 916 |
| Other | 17 892 | 21 654 | 25 386 |
| TOTAL EQUITY AND LIABILITIES | 358 152 | 385 644 | 460 536 |

Statement of comprehensive income for the year ended 28 February

| | 2011 | 2012 | 2013 |
|-----------------------|--------------|--------------|--------------|
| | R'000 | R'000 | R'000 |
| Sales revenue | 963 114 | 1 061 115 | 1 462 620 |
| Cost of goods sold | 639 804 | 753 630 | 974 298 |
| Gross profit | 323 310 | 307 485 | 488 322 |
| Other income | 9 000 | 9 300 | 8 700 |
| | 332 310 | 316 785 | 497 022 |
| Expenses | 73 812 | 83 604 | 101 634 |
| Operating profit | 258 498 | 233 181 | 395 388 |
| Interest paid | 4 896 | 8 724 | 13 740 |
| Net profit before tax | 253 602 | 224 457 | 381 648 |
| Tax | 69 948 | 62 190 | 106 800 |
| Net profit after tax | 183 654 | 162 267 | 274 848 |

Additional information:

- All interest and tax owed has been paid during the reporting periods.
- Number of employees for the three years are 3 500, 3 850 and 4 050 respectively.
- All sales and purchases were on credit
- Issued capital comprises 30 million shares. The market price of the company's on 28 February 2011, 2012 and 2013 was R6.80, R5.62 and R6.09 for the three years respectively.

Required:

Calculate the following ratios for the reporting periods ending 28 February 2012 and 28 February 2013 (the formulas are attached at the end of the question paper):

- | | | |
|-----|----------------------------|-----|
| 3.1 | Return on equity | (6) |
| 3.2 | Return on capital employed | (7) |
| 3.3 | Operating profit margin | (4) |
| 3.4 | Gross profit margin | (4) |
| 3.5 | Current ratio | (6) |
| 3.6 | Interest cover ratio | (3) |

QUESTION 4**(21 marks)**

Choose the correct alternative for each of the questions below. Where applicable, show all calculations clearly:

- 4.1 Which one of the following is usually regarded as a long-term source of internal funds? **(1)**
- a. Reducing trade receivables
 - b. Reducing inventories
 - c. Increasing trade payables
 - d. Retained earnings
- 4.2 Consider the following statements concerning preference shares:
- 1. Preference shares normally offer investors a lower level of risk than loan capital.
 - 2. Ordinary shares normally offer investors a higher level of risk than preference shares.
- Which of these statements is/are correct? **(1)**
- a. 1 only
 - b. 2 only
 - c. 1 and 2
 - d. Neither 1 nor 2
- 4.3 Accounting primarily exists to help user _____. **(1)**
- a. Understanding
 - b. Analysis
 - c. decision making
 - d. evaluation
- 4.4 Which one of the following is a reasonable description of an operating lease? **(1)**
- a. The rewards and risks of ownership stay with the owner and the lease is long-term
 - b. The rewards and risks of ownership stay with the owner and the lease is short-term
 - c. The rewards and risks of ownership are transferred to the user and the lease is long-term
 - d. The rewards and risks of ownership are transferred to the user and the lease is short-term
- 4.5 In recent decades, which one of the following has not resulted in the business environment becoming more turbulent and competitive? **(1)**
- a. Rapid changes in technology
 - b. Increasing regulation of domestic markets
 - c. Increasing sophistication of customers
 - d. Increasing pressure from owners for economic returns

- 4.6 Consider the following statements concerning invoice discounting:
1. The invoice discounter undertakes to collect the outstanding trade receivables.
2. Invoice discounting is a much more important source of funds to businesses than factoring.
Which of these statements is/are correct? **(1)**
- a. 1 only
 - b. 2 only
 - c. 1 and 2
 - d. Neither 1 nor 2
- 4.7 Which one of the following describes long-term capital which is invested by certain institutions into usually new, small, businesses to exploit profitable opportunities? **(1)**
- a. Venture capital
 - b. Opportunity capital
 - c. Investment capital
 - d. High Yield capital
- 4.8 Which one of the following types of loans can be used by an investor as a hedge against risk? **(1)**
- a. Eurobond
 - b. Convertible loan notes
 - c. Term loans
 - d. Mortgage
- 4.9 Ordinary shares represent the _____ capital of a business. **(1)**
- a. Fixed
 - b. Variable
 - c. Risk
 - d. working
- 4.10 Security on a loan may take the form of assets pledged either by a fixed charge or a _____ charge. **(1)**
- a. floating
 - b. variable
 - c. fluctuating
 - d. moveable
- 4.11 From the investors' point of view, ordinary shares offer the prospect of _____ returns. **(1)**
- a. Fixed
 - b. High
 - c. risk-free
 - d. tax-free

- 4.12 According to research discussed in the chapter on the financing of small businesses for the period 2002 – 2004, what is the most important source of external finance for small businesses? **(1)**
- a. Venture capital
 - b. Asset-based financing
 - c. Banks
 - d. Partners and shareholders
- 4.13 Which one of the following is not regarded as a reason for the popularity of finance leases? **(1)**
- a. They can help smooth the cash flows of a business
 - b. They can help businesses avoid the risk of holding obsolete assets by including an option to cancel
 - c. They may be arranged more easily than other forms of long-term finance
 - d. They do not have to be reported in the statement of financial position
- 4.14 Which one of the following forms of long-term finance is most closely associated with setting up a special-purpose vehicle to effect the financing arrangements? **(1)**
- a. Securitisation
 - b. Sale and leaseback
 - c. Eurobonds
 - d. Finance leases
- 4.15 Which one of the following is not a general characteristic of bank overdrafts? **(1)**
- a. Repayable on demand
 - b. No security required
 - c. Easy to arrange
 - d. Competitive rates of interest
- 4.16 What should be the main objective of the financing policy of a business? **(1)**
- a. To minimise the overall cost of finance
 - b. To maintain the optimum balance between equity finance and finance from outside parties
 - c. To minimise financing risks
 - d. To maintain the optimum balance between short-term and long-term finance
- 4.17 Which one of the following reflects the traditional view of dividend policy? **(1)**
- a. Dividend payments to shareholders should be maximised
 - b. Dividend payments to shareholders should be minimised
 - c. Dividend payments should reflect a fair balance between the needs of shareholders for cash and the needs of the business for investment finance
 - d. Dividend payments have no effect on shareholder wealth and so are unimportant

- 4.18 Which one of the following reflects the modern view of dividend policy? **(1)**
- a. Dividend payments should be maximised in order to maximise the wealth of shareholders
 - b. Dividend payments should be minimised in order to maximise the finance available to the business
 - c. Dividend payments should represent amounts that cannot be reinvested to produce better returns than shareholders could achieve by reinvesting any dividends received
 - d. Dividend payments should reflect a fair balance between the needs of shareholders for cash and the needs of the business for finance
- 4.19 Tee Ltd, a geared company, will make a 1-for-1 bonus issue. Assuming no other changes, which one of the following will occur as a result? **(1)**
- a. Reduction in the level of gearing
 - b. Increase in liquidity
 - c. Increase in total equity
 - d. Reduction in earnings per share
- 4.20 Businesses raise new funds in the _____ capital market. **(1)**
- a. new issues
 - b. Primary
 - c. Secondary
 - d. Tertiary
- 4.21 Which one of the following types of share issue involves a direct appeal to the public? **(1)**
- a. Placing
 - b. Bonus issue
 - c. Offer for sale
 - d. Rights issue

TOTAL PAPER MARK [100]