



NOVEMBER EXAMINATION

PROGRAM : SPORT MANAGEMENT HONS.

MODULE NAME : SPORT FINANCE

MODULE CODE : HMS 8X15 / SPB 11X7

DATE : 20 NOVEMBER 2017

DURATION : 180 MINUTES (3 hours)

TOTAL MARKS : 150 MARKS

EXAMINER : MRS R VAN GAALEN

MRS J BOLTON

MODERATOR : MR K THOMAS

NUMBER OF PAGES : FIFTEEN (15) PAGES

INSTRUCTIONS TO CANDIDATES:

MAKE SURE THAT YOU HAVE THE COMPLETE PAPER.

ANSWER ALL THE QUESTIONS.

QUESTION 1 [50 MARKS]

REQUIRED:

Answer the following questions by choosing the correct answer. Write the letter you have chosen as your answer next to the question number on your answer sheet.

1.1 The main goal of a financial manager is to maximise shareholders' wealth. Identify which of the following aspects a manager would need to take into account when deciding whether or not to invest in a project:

- (i) Future cash flows of the project
- (ii) The timing of the cash flows of the project
- (iii) The risk associated with this project
- (iv) Past profits generated

- A. (i) and (iv) only
- B. (ii) and (iii) only
- C. (i), (ii) and (iii) only
- D. All of the above

(2)

1.2 You and your brother want to start a tennis academy. You will be responsible for all the administrative duties and your brother will be responsible for all the coaching. The capital required is not much but will be limited to the funds that both of you have available. If you want to share profits and liabilities of the tennis academy but do not want to be exposed to any risk, it would be best if this business were structured as a...

- A Sole proprietorship
- B Company
- C Partnership
- D Franchise

(2)

1.3 Identify how many of the following statements are correct?

- There are no legal requirements in the preparation of management accounts.
- The management accounts of various companies can easily be compared.
- Within Financial Management risk is fundamental.

- Within Financial Accounting information is generally expressed in quantitative terms.

- A. One
- B. Two
- C. Three
- D. All of the above statements are correct (2)

1.4 Sporty Kits has an average age of inventory of 50 days, an average collection period of 37 days and an average payments period of 40 days. Determine which ONE of the following will increase the cash conversion cycle of Sporty Kits.

- A. Decrease the average age of inventory
- B. Decrease the average payment period
- C. Decrease the average collections period
- D. Increase the average payment period (2)

1.5 Working capital management refers to:

- I. Short term assets and liabilities
- II. Medium term assets and liabilities
- III. Inventory
- IV. Long term loans

Which ONE of the following statements is correct?

- A. statement I
- B. statement II and III
- C. statement I and III
- D. statement II, III and IV (2)

1.6 Identify which ONE of the following is a risk of having a high investment in working capital:

- A. Risk that inventory becomes technically obsolete or outdated
- B. Risk of not being able to meet orders for products
- C. Risk that suppliers do not deliver on time
- D. Risk of not manufacturing due to insufficient inventory available

1.7 The Operating cycle may be described as ...

- A. The period of time between building up inventory and collecting the cash from the sale of that inventory
- B. The period of time of converting debtors into cash and the time to pay cash to the creditors
- C. A rough measure of the average length of time it takes a firm's customers to pay what they owe.
- D. The period of time that lapses between the outflow of funds when inventory is purchased and the inflow of funds when debtors pay their accounts. (2)

1.8 A friend of yours has paid to participate in a show jumping event with her horse. She has managed to save and pay for the event as well as all the additional costs, such as horse trailer rental, petrol and groom. Unfortunately a week before the event she broke her foot and cannot participate in the event. The costs she has incurred would be classified as a(n) _____.

- A. Opportunity cost
- B. Sunk cost
- C. Relevant cost
- D. Variable cost (2)

1.9 A junior financial manager is trying to calculate the raw materials used in the production of a sports drink. He has been able to find the following balances (raw material at the beginning and end of the year and the total purchases of raw materials during the year):

Raw materials inventory at the beginning of the year	R7 500	
Purchases of raw materials	R30 000	
Raw materials inventory at the end of the year	R12 500	
Raw materials used in production	?	

What should the total raw materials used in production amount be?

- A. R30 000
 - B. R50 000
 - C. R42 500
 - D. R25 000
- (2)

1.10 A static budget

- A. sets the initial figures for each activity to zero
 - B. is prepared for one level of activity, usually around the forecasts made for sales
 - C. is developed for a specific period of time
 - D. is set to different levels of sales activity
- (2)

1.11 The capital structure weights used in computing the weighted average cost of capital (WACC):

- I. are based on the book values of total debt and total equity.
- II. are based on the market value of the entity's debt and equity securities.
- III. remain constant over time unless the entity issues new securities.
- IV. are restricted to the entity's debt and ordinary shares.

- A. I, III, IV
 - B. I
 - C. I, II
 - D. All of the above
- (2)

1.12 The main objective of financial statements is to:

- A. Provide information that is useful in making economic decisions
 - B. Only provide information for accountants
 - C. Just capture the transactions of a company for internal use
 - D. Calculate how much profit the company is making
- (2)

1.13 One of the most important ratios is return on equity (ROE). What does ROE tell investors?

- A. It measures the return earned on their investment
- B. It shows how good the company is at converting revenue into profits
- C. Its measures the proportion of total assets to total debt used to finance the company

- D. It tells us how much investors are willing to pay for R1 of revenue the company generates (2)

1.14 Which of the following will NOT appear in a cash budget?

- A. Depreciation of machinery
- B. Sales revenue
- C. Wages
- D. Machinery bought on hire purchase (2)

1.15 Budgets have some disadvantages, one of them being:

- A. Controls activities
- B. They provide a tool for corrective action through reallocations
- C. All of the above are disadvantages
- D. They need to be amended if circumstances change (2)

1.16 Which of the following will NOT appear in a cash budget?

- A. Depreciation of machinery
- B. Sales revenue
- C. Wages
- D. Machinery bought on hire purchase (2)

1.17 What is the difference between a static budget and a flexible budget?

- A. Static: the budget is fixed for the period, Flexible: the budget is flexible and changes continuously
- B. Static: developed for a specific period, Flexible: is continually updated by periodically adding a new time period
- C. Static: sets all initial figures of each activity to zero, Flexible: uses the initial figures and builds upon them.
- D. Static: prepared for one level of activity, Flexible: a series of fixed budgets set to different levels of sales activity (2)

1.18 What is the basic principle of cost behavior?

- A. Costs will not change based on a decision between alternatives

- B. As the level of activity rises, costs will usually rise too.
 - C. Costs depend on the time period involved
 - D. All of the above
- (2)

1.19 Which of the following are FALSE with regards to the effect taxation has on the company?

- I. Interest paid by a company on a debt instrument can be added to taxable income
 - II. Results in a tax saving for the company
 - III. Preference and ordinary dividend are deductible for tax purposes
 - IV. Results in a tax liability for a company
 - V. Interest paid by a company on a debt instrument can be is exempt from taxable income
- A. I, III, IV, V
 - B. II
 - C. II, III, V
 - D. All of the above are false
- (2)

1.20 Ratio analysis can consist of two components:

- A. Calculating profit and then calculating ratios
 - B. Valuing assets on a relative basis and finding similar assets
 - C. Measuring debt and equity and then interpreting this
 - D. Comparing the company to other companies past performance and other companies in general
- (2)

1.21 Which of the following statements are INCORRECT regarding the difference between financial accounting and financial management?

- A. Financial accounting is considered to be uncertain as it is set on the accrual basis whereas financial management is seen to be more certain as it focuses on cash flows
- B. Financial management focuses on recording and planning for the future whereas financial accounting only reports on the performance and financial position
- C. Financial accounting is can focus on a specific area within the business whereas financial management looks at the business as a whole

- D. Financial management focuses on future planning whereas financial accounting looks at the past

1.22 Which of the following is NOT an external stakeholder of the Bronco's football club

- A. The Bronco's management team
- B. The football regulatory body
- C. The Bronco's football club's bank
- D. The suppliers to the football team

1.23 Maximus Football Association is hosting a new football championships among all their clubs. They plan to open the championship with a big opening ceremony. Which ONE of the following costs can be classified as an indirect cost of the event.

- A. Printing of tickets
- B. Stadium lights
- C. Costs of food and beverages
- D. Wages for the opening ceremony performers

1.24 The current Minister of Finance of South Africa is:

- A. Trevor Manuel
- B. Malusi Gigaba
- C. Pravin Gordhan
- D. Gill Marcus

(2)

1.25 Who is the governor of the Reserve Bank?

- A. Lesetja Kganyago
- B. Gill Marcus
- C. Pravin Gordhan
- D. None of the above, there is no finance minister

(2)

QUESTION 2 [20 MARKS]

BigBasket is a cricket bat manufacturing company based in KZN, South Africa. Its main client has been the annual T20 games in the country that take place every September. The company has been doing well financially and has the potential to grow their profits even more as the Global T20 competition is set to begin next year in March.

The following is an extract from their financial statements:

Balance sheet for the financial year ended 31 March 2017	
ASSETS	R
Land	312 000
Investments	41 000
Cash	12 200
Accounts receivable	42 000
Inventory	31 000
Other long term assets	6 800
Total Assets	445 000
LIABILITIES & EQUITY	
Accounts payable	40 900
Wages payable	8 500
Interest payable	2 900
Taxes Payable	6 100
Other short term liabilities	2 600
Long term liabilities	95 000
Equity	289 000
Total liability and equity	445 000

Income statement for the financial year ended 31 March 2017	
	R
Sales (60% on credit)	840 000
Cost of sales	(380 000)
Gross Profit	460 000
Other income	25 000
Operating Income	485 000
Interest Expense	(12 000)
Income before tax	473 000
Income tax	(5 000)
Net Income after tax	468 000

Additional information:

Assuming 365 days in a year.

Inventory with a value of R51 000 was left in the storeroom from the previous year end.

REQUIRED:

- 2.1** Explain to the management of BigBasket what is meant by a cash conversion cycle. **(2)**
- 2.2** Calculate the average collection period (ACP) for BigBasket. **(2)**
- 2.3** Calculate the average payment period (APP) for BigBasket. **(4)**
- 2.4** Calculate the average age of inventory (AAI) for BigBasket. **(2)**
- 2.5** Determine the operating cycle of BigBasket. **(2)**

BigBasket has entered into a three-year contract with the organizers of the Global T20 competition to be held in South Africa and thus managing their working capital has become more important than ever.

- 2.6** Explain to the management of BigBasket what is meant by working capital management. **(1)**
 - 2.7** Explain 3 strategies of managing BigBasket's cash conversion cycle to keep it at the lowest possible level. **(3)**
 - 2.8** Explain to management what an aggressive financing policy and moderate financing policy is? **(4)**
-

QUESTION 3 [20 Marks]

Impi's football club and stadium is currently reviewing its financial budget for November and December. They would like to determine if they should request an overdraft facility. At present it has an agreement with Titan Bank to obtain financing so that it can maintain its minimum cash balance of R25 000 in all circumstances.

They have noted the following from its financial records:

- At the beginning of November Impi had a balance of R155 000 in cash.
- Purchases of food and drink items, and other various materials are estimated at being R370 000 in November and R480 000 in December.
- Selling and administrative costs amount to R300 000 per month.

Match tickets sell for R250 and it has been forecasted that ticket sales are likely to be 4500 in November and 3200 in December.

Cash sales account for 60% of total sales, while the remainder is on credit. 20% of credit sales are collected in the month in which they occur and 60% in the next month, and 20% in the month after that.

REQUIRED:

- 3.1** Prepare a cash budget for the two months together with a schedule indicating the cash collections. **(12)**
- 3.2** Briefly explain what a continuous/ rolling budget is. **(2)**
- 3.3** Explain the purpose of a cash budget? **(2)**
- 3.4** Name **two** advantages and **two** disadvantages of using Budgets **(4)**

QUESTION 4 [20 MARKS]

Green Inc., owns a number of golf estates around the country. They have 530 000 ordinary shares in issue at a market price of R32 per share. Green also has 10 000 bonds outstanding with a face value of R1 000 per bond. The bonds carry a 12.5% interest rate which is paid annually. The bonds are selling at 108 percent of their face value. The company's tax rate is 35%. The return on government bonds is 5.5% and the market risk premium is 8%.

REQUIRED:

- 4.1** Calculate the WACC (6)
- 4.2** If the return on the government bond increased to 6%, and the tax rate changes to 40%, calculate the new WACC. (4)
- 4.3** The capital structure weightings used to calculate the weighted average cost of capital (WACC) can be calculated in two ways. List the two ways of determining these capital structure weightings. (2)
- 4.4** Define cost of capital. (3)
- 4.5** Explain what the risk premium is in relation to cost of capital? (2)
- 4.6** What does the capital structure refer to and how does it change over time? (3)

QUESTION 5 [24 MARKS]

You have begun working as an intern at Sparta Ltd. The company, which manufactures heart rate monitors and other fitness accessories, has been very profitable since its inception several years ago. It has begun, however, to experience difficulty in paying their accounts as they become due. They are concerned and have asked you to conduct a financial analysis of the company's financial statements.

Your research into the company's financial statements revealed the following:

- Sales for 2016 and 2017 was R5 170 000 and R6 330 000, respectively.

Comparable information for last year and the industry was:

	2016	Industry
Current ratio	2.4	2
Acid test (quick) ratio	1.2	1
Debt ratio	27.36%	40%

Extract from Statement of financial position:

	2016	2017
<i>Non-Current Assets</i>	4 180 000	3 180 000
<i>Current assets</i>		
Cash	400 000	200 000
Accounts receivable	800 000	1 500 000
Inventory	1 200 000	3 000 000
<i>Non-current liabilities</i>	800 000	1 000 000
<i>Current Liabilities</i>		
Accounts payable	1 000 000	2 430 000

REQUIRED:

- 5.1** Calculate the following ratios for 2016 and 2017: **(12)**
- a) The current ratio
 - b) The acid test (quick) ratio
 - c) The debt ratio
- 5.2** Interpret the results of your analysis above **(6)**
- 5.3** Caution should be exercised when using ratios. List 3 things one should be aware of when using ratios. **(3)**

- 5.4** The use of debt in a company can be a concern for those that analyse financial statements. Explain why would one be concerned regarding debt? **(3)**

QUESTION 6 [16 marks]

State whether the following statements are TRUE or FALSE. **Motivate** your answer in **each** case.

- 6.1 A conservative financing policy mainly uses short term financing as it is cheaper than long term financing. **(2)**
 - 6.2 Maximising profits is a company's top financial objective **(2)**
 - 6.3 When compounding interest is used to calculate the future value of a lump sum, the future value will be higher than when simple interest is used. **(2)**
 - 6.4 Opportunity costs is when the benefit of one alternative is sacrificed for another alternative. **(2)**
 - 6.5 The statement of comprehensive income shows the flow of cash in and out of the business. **(2)**
 - 6.6 The definition of 'inventory' is: Goods that are not finished or ready for sale at the end of a month/year **(2)**
 - 6.7 Companies only use cost information to assist long term decision making **(2)**
 - 6.8 Manufacturing overheads is all the costs that are used in the process of production which are not directly associated with a cost object (product) **(2)**
-