



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	Johannesburg Business School
DEPARTMENT	Business Management
CAMPUS	APB, SWC & DFC
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SEMESTER	First
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ASSESSMENT DATE	January 2020	SESSION	
ASSESSORS	J Muofhe; Ms A Bosch; J Mbuya		
MODERATOR	Prof D Poee		
DURATION	150 minutes	TOTAL MARKS	125

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	13
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INFORMATION/INSTRUCTIONS:

- This is a closed-book assessment.
- Question papers must be handed in together with your answer books.
- Read the questions carefully and answer only what is asked.
- Answer all the questions:
 - Answer **Section A** on the multiple choice sheet provided. Indicate the correct answer as per the instructions on the multiple choice sheet.
 - Answer **Section B** in the answer book.
- Number your answers clearly.
- Write neatly and legibly on both sides of the paper in the answer book, starting on the first page.
- Structure your answers by using appropriate headings and subheadings.
- The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment.

SECTION A**[35 MARKS]****QUESTION 1**

A local airline decides to offer domestic flight ticket prices at a significantly cheaper rate than its larger counterpart. This is an example of:

- A A differentiation strategy
- B A cost leadership strategy
- C A focus strategy
- D A focus and cost leadership strategy

QUESTION 2

Abraham wants to start a venture to improve the prospects of several well-established street vendors in his town. Which of the following forms of business organisation should he establish?

- A A company
- B A partnership
- C A co-operative
- D A sole proprietorship

QUESTION 3

Vuyiswa is the joint owner of a large spaza shop that she runs out of her home. Which of the following would be an advantage of this form of business ownership for her?

- A She is not liable for debt incurred by the business.
- B She is not liable for tax incurred by the business.
- C She will have lower administrative costs than in other forms of business.
- D She has full control over the company.

QUESTION 4

Adam keeps just enough stock so as to ensure that his firm does not over-invest in inventory. Which of the following short-term financial goals would this contribute to?

- A Profitability
- B Liquidity
- C Solvency
- D Productivity

QUESTION 5

All firms need to ensure that they achieve all three financial goals of profitability, solvency and liquidity over a goal period of:

- A One to two years
- B Eighteen months
- C Three years
- D Up to twelve months

QUESTION 6

A cash surplus is invested by a small firm and begins to earn interest. Which of the following principles is at work?

- A Risk-return principle
- B Cost-benefit principle
- C Liquidity principle
- D Time value of money principle

QUESTION 7

Taylor is fourteen and working as a part-time waitress in a local restaurant. She would be regarded as:

- A Part of the economically active population
- B Discounted from the economically active population
- C Unemployed as she is only a part-time worker
- D Part of the civilian labour force

QUESTION 8

Which of the following statements regarding the money market is correct?

- A The main buyers in the money market are banks and insurance companies.
- B The stock exchange is the most important institution in this market.
- C Semi-public banks are regarded as indirect securities.
- D The money market brings long-term lenders into direct contact with one another.

QUESTION 9

Abe is a customer at Best Bank. He has successfully and timeously paid back two previous short-term loans to the bank. What kind of interest rate would Best Bank charge him?

- A The minimum lending rate
- B A fixed interest rate
- C The nominal interest rate
- D The prime interest rate

QUESTION 10

Which of the following statements is true with regards to ordinary shares?

- A Ordinary shares in a private company must carry equal voting rights.
- B Ordinary shares entitle the holders to some residual earnings before tax.
- C Ordinary shareholders receive dividends paid before preference shareholders have been paid dividends.
- D Ordinary shareholders don't receive any interest on the capital that they invest.

QUESTION 11

Why are preference shares referred to as a 'hybrid' form of financing?

- A The owner of preference shares is given the option to gain dividends at a fixed or fluctuating value of the share.
- B Preference shares may be redeemable or non-redeemable.
- C Preference shares give the owner claim on both the earnings and assets of a firm.
- D Preference shares have the characteristics of both debt and equity financing.

QUESTION 12

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 A total equity
- B A current asset
- C A non-current asset
- D A current liability

QUESTION 13

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

QUESTION 14

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.

QUESTION 15

Which of the following statements is true for a firm undertaking a time –series analysis?

- A The firm is interested in how well it performs in relation to its competitors at the same point in time.
- B The firm wants to compare its performance to industry leaders specifically.
- C The firm is interested in comparing its past performance to current performance to assess its performance.
- D The firm wants to compare its past performance with the current performance.

QUESTION 16

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:

- A Compare data that has been developed in the same way using the same accounting treatments.
- B Interpret large and positive deviations from the norms as indicative of good performance against the industry average.
- C 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.

QUESTION 17

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.

QUESTION 18

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

QUESTION 19

Daphne runs a chain of salons in a town with strong links to the film industry, meaning there are several salon chains similar to Daphne's. She decides to offer free gel nail removal to frequent acting clients who change wardrobe often. What would this business strategy be most accurately described as?

- A Focus strategy
- B Differentiation strategy
- C Cost leadership strategy
- D Financial management strategy

QUESTION 20

Sunet runs a TV repair shop in a small town. She specialises in the repair of older models of TV, rather than LED or plasma-screen types. Which of the following type of risks may Sunet be most vulnerable to?

- A Environmental risk
- B Technological risk
- C Economic risk
- D Competitive risk

QUESTION 21

Damien runs a baking supplies shop, and his warehouse re-package certain baking supplies such as icing sugar and coconut shavings. What would the cost of this specialised packaging be classified as?

- A Variable cost
- B Semi-variable cost
- C Semi-fixed cost
- D Fixed cost

QUESTION 22

In which of the following budgets would the impact of the operating plans of a business on future financial performance and position be considered?

- A Profit budget
- B Financial budget
- C Income budget
- D Cost budget

QUESTION 23

What is the mark-up percentage required if a firm wants a R40 profit from each sale of a unit that costs them R100 to manufacture?

- A 60%
- B 40%
- C 20%
- D 50%

QUESTION 24

Which of the following statements regarding prioritisation for expenditure reduction are true if a firm records a budgeted loss?

- A The firm must consider its two or three biggest expense items.
- B The firm should concentrate on reducing its biggest expense item.
- C The firm should reduce all of its expenditure items.
- D The firm should consider reducing its mark-up percentage.

QUESTION 25

Who is responsible for executing the budgets and plans drawn up for a firm?

- A Lower management
- B Middle and lower management
- C Lower management and top management
- D Top management

QUESTION 26

Risk may be defined as _____

- A the chance of financial loss
- B the variability of returns associated with a given asset
- C the uncertainty concerning a potential loss
- D all of the above

QUESTION 27

A tank container was purchased a year ago for R120 000 and currently has a market value of R145 000. During the year it as generated R4 800 in after-tax cash receipts. The container's rate of return is equal to _____.

- A 4, 0%
- B 13, 9%
- C 16, 8%
- D 24, 8%

QUESTION 28

If a financial manager's required return increases for an increase in risk, then he or she is a _____.

- A risk taking manager
- B risk indifferent manager
- C risk averse manager
- D risk control manager

QUESTION 29

The _____ determines what the taxpayers' money will be spent on, what will be taxed and at what rate, as well as the amounts the government will borrow.

- A monetary policy
- B economic policy
- C financial policy
- D fiscal policy

QUESTION 30

The failure of urban planning, food crises, large – scale involuntary migration, and the spread of infectious diseases are called _____.

- A environmental risks
- B geopolitical risks
- C societal risks
- D business risks

QUESTION 31

This risk can be defined as the risk arising from negative perception on the part of customers, counterparties, shareholders, investors or regulators.

- A Operational risk
- B Reputational risk
- C Credit risk
- D Market risk

QUESTION 32

Groups of securities that are combined in an attempt to maximise returns while spreading the risk are known as _____.

- A portfolios
- B investments
- C probability distributions
- D diversifiable risks

QUESTION 33

If you wish to accumulate R140, 000 in 13 years. How much must you deposit today in an account that pays an annual interest rate of 14%?

- A R52, 234.23
- B R 25, 984. 66
- C R25, 489.71
- D None of the above

QUESTION 34

What will R 247,000 grow to be in 9 years if it is invested today in an account with an annual interest rate of 11%?

- A R683, 125.17
- B R133, 243.16
- C R331, 835.12
- D R 631,835.12

QUESTION 35

A bank has granted you a loan of R20 000. An instalment has to be repaid at the end of each year over a period of 10 years. The bank charges interest at 14% p.a. on the loan. What is the amount payable at the end of each year in order to pay back the loan?

- A R2 280, 00
- B R3 834, 27
- C R4 847, 22
- D R7 414, 44

SECTION B**[90 MARKS]****QUESTION 1****[16 MARKS]**

- 1.1 Firms need to show growth in order to satisfy human needs and reward the shareholders. Identify and explain four strategies which managers can adopt to grow their firms. (8)
- 1.2 Agency problem can result in financial costs to a company. Explain the four costs which can result from an agency problem. (8)

QUESTION 2**[10 MARKS]**

Read the following case study and answer the question below it.

The Central Bank's Monetary Policy

Dr David Khumalo is the governor of the central bank in a rapidly developing country. He is head of the committee that decides what form the tools used to implement monetary policy should take. A collaborative economic report by the central bank's economists indicates the following:

- The consumer price index (CPI) and the producer price index (PPI) are decreasing.
- The country's exports of oil, platinum, maize and fresh produce are on the increase.
- Political upheaval in developed countries such as North America, Great Britain and France have resulted in a weakening of the US Dollar (\$), Pound Sterling (£) and the Euro (€).
- The employment rate is expected to increase.
- The gross domestic product (GDP) is expected to increase.

- 2.1 What type of monetary policy should be implemented by Dr Khumalo and the central bank's committee? Motivate your answer. (4)
- 2.2 How will this policy affect interest rates, and the consumption and spend of consumers and businesses across the country? Explain (6)

QUESTION 3**[18 MARKS]**

- 3.1 Before using some specific financial ratios, considerations are necessary regarding their use. Explain such five considerations which any user of financial ratios must be aware of. (5)

3.2 Londi Hair is a successful hair product wholesaler. The comparative performance against industry averages may be tabulated as follows:

RATIO	INDUSTRY AVERAGES	LONDI HAIR
Gross profit margin	35%	25%
Net profit margin	15%	10%
ROI	8%	7%
ROE	6%	5%
EPS	160 cents	140 cents
DPS	25 cents	20 cents
P/E	6	4
Networking capital	1 451 534	1 351 434
Current ratio	2,2	2,2
Quick ratio	1,0	0,8
Inventory turnover	12,5 times	12,6 times
Average collection period	30 days	35 days
Debt ratio	12%	2%
Debt-equity ratio	16%	18%
Times interest earned ratio	25	27

Requirement:

Identify the four most problematic/weakest ratios in the table and state what steps the management needs to take to improve each of them. (13)

QUESTION 4

[19 MARKS]

4.1 After arriving at a mission and vision, a firm must do SWOT analysis. Explain the following concepts: (6)

- Mission
- Vision
- Strength
- Weaknesses
- Opportunities
- Threats

4.2 Identify and explain the 4 Ts of risk management. (4)

4.3 What is price elasticity of demand? (2)

4.4 Discuss seven basic principles of budgeting in preparing budgeted statements of financial performance. (7)

QUESTION 5**[16 MARKS]**

Risks are those factors that may prevent the firm from achieving its objectives.

- 5.1 Discuss with examples, the five external sources of risks. (10)
- 5.2 Differentiate between financial and liquidity risks. (4)
- 5.3 What is business continuity? (2)

QUESTION 6**[11 MARKS]**

- 6.1 You have invested R10 000 in a savings account at 20% p.a. compound interest for 10 years. Calculate the end value of the investment. (3)
- 6.2 You invest R3 600 per year for 10 successive years (at the end of each year) in a savings account at 15% p.a. compound interest. What will the end value in the savings account be? (4)
- 6.3 You are to receive an amount of R1 700 eight years from now. However, if you could have received the amount right now and invest it you would have been able to earn 8% interest p.a. on the amount. What would the amount be worth if you could have received it now instead of waiting eight years? (4)

END OF ASSESSMENT