



COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF BUSINESS MANAGEMENT
SUPPLEMENTARY ASSESSMENT OPPORTUNITY

MODULE: Financial Management
CODE: HC1FINM
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TIME ALLOWED: 180 Minutes
TOTAL MARKS: 100

EXAMINER(S): Dr M de Wet
MODERATOR: Mrs S van Zyl

Question 1: True or false (10)

A) The primary function of a financial planner is to ensure that enough funding is available at the right time to meet the needs of the business. And Financial management is about planning income and expenditure and making decisions that will enable you to survive financially.
B) A financial planner is primarily focussed on long term cash flows.
C) Service activities are not considered a business activity.
D) Manufacturing activities involve the production of goods using raw materials.
E) A close corporation is the most common form of business entity.
F) For a closed corporation, the interest of a member may be sold without terminating the existence of the business.
G) The money market is a common long-term funding option.
H) Retained profits are also known as dividends.
I) Bankers' acceptances are examples of capital market instruments.
J) The fundamental objective of financial management is to maximise shareholders' wealth.

Multiple choice (45)

Question 2 (1)

The primary job function of an executive director is to:

- A Make decisions relating to the long-term strategic directions of a firm
- B Do complex internal auditing work for a firm
- C Manage the assets of a firm
- D Manage the daily affairs of a company

Question 3 (1)

Interest rates refers to:

- A The price paid for the 'rental' of borrowed funds
- B The rate at which general prices for goods and services increase.
- C The rate of return on a company stock
- D None of the above

Question 4 (1)

Capital markets are markets in which money is lent for periods:

- A Shorter than a year
- B Longer than a year
- C The market is time insensitive
- D Longer than a year, but shorter than 5 years

Question 5 (1)

An advantage of a sole proprietor is:

- A) The continued existence of the business depends on one person, the owner;
- B) Limited funds of one person = limited growth and inability to raise further finance
- C) If business fails, owner's liability is not limited
- D) This form of ownership does not have to pay company or corporate income tax.

Question 6 (1)

A disadvantage of a partnership is:

- A) Partners are jointly and severally liable for debts of the partnership, therefore each partner responsible for the actions of all other partners.
- B) Pooling of the resources that each individual partner may be able to contribute
Includes contributions such as financial resources, technical skill, and management expertise.
- C) Limited funds of one person
- D) None of the above

Question 7 (1)

Companies listed on the JSE are:

- A) Private companies
- B) Public companies
- C) Partnerships
- D) Sole proprietaries

Question 8 (1)

The process by which a company enters the equity market for the first time and sells its shares to the public is called:

- A A first share offer
- B Initial public offering
- C Initial share issuing
- D Primary equity listing

Question 9 (1)

The following questions are examples of one of the key elements of financial management:

- Are assets being used efficiently?
- Are the business' assets secure?
- Do management act in the best interest of shareholders and in accordance with business rules?

Which one of the key elements of financial management does these questions represent?

- A Financial decision-making.
- B Financial control.
- C Financial planning.
- D Financial forecasting.

Question 10 (1)

Which ONE, or more, of the following may not be regarded as a subsidiary function of a financial manager?

- A Ensuring high market prices
- B Pursue targets for expansion
- C Use diversification to increase risk
- D Ensure effective financial gearing

Question 11 (1)

Firms that require funds from external sources can obtain such funds ...

- (i) from the capital market.
- (ii) from retained earnings.
- (iii) from suppliers' credit.

(iv) from the money market.

Which of the above statements are correct?

- A (i) and (ii)
- B (i) and (iii)
- C (i), (iii) and (iv)
- D (i), (ii), (iii) and (iv)

Question 12 (1)

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 13 (1)

Which of the following is not a typical reason for listing a company on a stock market:

- A Company requiring additional capital
- B Company may want to use the shares to pay for the purchase of another company or to compensate employees.
- C To increase the liquidity of the shares held by individuals (thereby increasing their ability to sell their shares for cash)
- D To invest with the hope of generating a positive return.

Question 14 (1)

The secondary market is the market in which ... are traded.

- A new issues of securities
- B previously issued securities
- C short-term debt instruments
- D long-term debt instruments

Question 15 (1)

Which of the following comments about a secondary market are most accurate:

- A Existing securities (or shares) are sold and bought from one investor to another
- B Undervalued stocks are traded on this market.
- C Trading stocks listed on a secondary market only occurs at a physical place.
- D New shares and bonds issues are sold to investors on this market

Question 16 (1)

Being able to demonstrate to stakeholders where money was spent is referred to as ...

- A financial analysis.
- B financial responsibility.
- C financial accountability.
- D None of the above.

Question 17 (2)

Assume that you bought a share in ABC Ltd. at R 10.80 per share exactly one year ago. Further assume that the share paid out a dividend of R 3.32 per share and the current market price of the share is R 11.20, what is the rate of return?

- A 34.44%
- B -34.44%
- C 10.588%
- D You cannot calculate return based on the given information.

Question 18 (2)

Assume that you bought a share in TTT Ltd. at R 1.35 per share exactly one year ago. The company did pay a dividend, but the dividend amount is not disclosed to you. Assume the current market price of the share is R2.47 what is the rate of return on this share?

- A 4.44%
- B -82.96%
- C 82.96%
- D You cannot calculate return based on the given information.

Question 19 (1)

As an investor, the more risk I take, the...

- A larger my expected return should be
- B less money I will make
- C smaller my expected return should be
- D none of the above

Question 20 (1)

You are given the choice to invest in one of two shares. Share A is a high risk share and the expected return on the share is 15%. Share B is a low risk share and the expected return on the share is also 15%. In which share should you rather invest?

- A Share A
- B Share B
- C It would be beneficial to have both shares in your portfolio
- D I would not invest in any one of these two shares

Question 21 (1)

The following is not an example of a long-term Liability:

- A) Bank overdrafts
- B) Bonds debentures
- C) Long term loans,
- D) Leasing

Question 22 (1)

Which of the following is not a Disadvantages of ordinary Share Capital?

- A) It is not considered attractive if it waters down shareholders return, i.e. if more shares are issued to outside shareholders, existing shareholders returns can diminish.
- B) It is the most expensive of all capital especially now with STC (Secondary Tax on Companies) charged at 25%. Thus, the cost of paying out a net dividend is 25 % for which there is no tax shield.
- C) It is not readily available unless the company is quoted.
- D) It reduces the company vulnerability in times of economic downturn.

Question 23 (1)

Which of the following statements about return is least accurate?

- A Return is compensation for taking on a certain degree of risk.
- B Return is made up of the dividends earned by owning a share.

- C Return consists of dividends paid to share holders as well as capital gains on a share.
- D The return can be negative.

Question 24 (1)

Which of the following is true about a rational investor:

- A A rational investor will maximize return at all cost
- B A rational investor will aim to minimize risk for a given level of return
- C A rational investor will aim to maximize risk for a given level of return
- D A rational investor will aim to minimize return for a given level of risk

Question 25 (1)

Which of the following statements of the coefficient of variation is the most accurate?

- A It measures the risk of an asset relative to the total return of an asset
- B It measures the risk of an asset per unit of return
- C It is also known as the standard deviation of an asset's return
- D Both B and C are correct

Question 26 (2)

You buy one share of ABC limited today at R10.50 per share. ABC limited did not pay any dividends. One year later you sell the share at R16.22. What is your return on the ABC limited share?

- A) 54.76%
- B) -35.27%
- C) 54.76
- D) none of the above

Question 27 (2)

You buy one share of ZZZ limited today at R 8.70 per share. ZZZ limited payed a dividend of R1.2 per share. One year later you sell the share at R10.22. What is your return on the ZZZ limited share?

- A) 17.47%
- B) 31.26%
- C) R10.22
- D) none of the above

Question 28 (2)

You buy one share of DDD limited today at R10.50 per share. DDD limited did not pay any dividends. One year later you sell the share at R3.34. What is your return on the DDD limited share?

- A) 68.19%
- B) -68.19%
- C) 54.76
- D) none of the above

Question 29 (2)

Interest is stated at 12% per annum but is actually added monthly to accounts. Assuming the 12% to be a nominal rate, if a deposit of R500 is made on 1 January, how much interest will have been paid by 1 July of the same year?

- A R30,76
- B R60,00
- C R30,00
- D R29,15

Question 30 (2)

An asset which originally cost R100 000 depreciates at 20% per year using a diminishing balance method. Its value after 5 years (to the nearest Rand) is ...

- A R40 200
- B R20 000
- C R32 000
- D R32 768

Question 31 (2)

House prices rise at 2% per calendar month. The annual rate of increase correct to one decimal place is ...

- A 24,0%
- B 26,8%
- C 12,7%
- D 12,2%

Question 32 (2)

Consider an annuity consisting of three annual cash flows of R2 000 each. Assume a 4% interest rate. What is the present value of the annuity if is an annuity due?

- A R5 772

- B R11 426
- C R16 821
- D R25 515

Question 33 (2)

An annual rent of R17 500 is to be received for 10 successive years. The first payment is due tomorrow. Assuming the relevant interest rate to be 8%, the present value of this stream of cash flows is closest to ...

- A R273 796
- B R117 426
- C R126 821
- D R253 515

Question 34 (2)

A company requires a sinking fund of R500 000 in four years' time. They can invest Rx at the end of every six months at 8% p.a. compounded semi-annually. The value of x (to the nearest R'000) is ...

- A R111 000
- B R110 961
- C R54 264
- D R54 000

Question 35 (1)

The financial manager of a small company made the following calculations:

	Asset A	Asset B	Asset C
Variance	4,5%	32%	17,7%
Standard deviation	2,12%	5,66%	4,21%
Expected return	18%	18%	16%

Which ONE, or more, of the following conclusions by the financial manager is not correct?

- A Asset A has the lower risk because Assets B and C have higher variances.
- B The company should not invest in any of these assets as the expected return of the assets are not identical.
- C The company should not make any investment decisions yet as the coefficient of variation for each asset needs to be calculated because of the unequal expected return on the assets.
- D None of the above.

The following information refers to questions 36 to 38:

Mrs Ndlovu, a very savvy business woman, know that if she wants to buy a new vehicle one day, she would have to save for it. It has always been her dream to own a new BMW and six years ago she found a model that would fit her social status costing R340 000. She has asked around and realised that the cost of this vehicle is expected to rise by 12% p.a.

She therefore started contributing an amount into a savings account every quarter she has set up to pay for the new vehicle. The account pays 8,2% p.a. compounded quarterly.

Depreciation on the vehicle will be calculated at 20% p.a. on a reducing balance but this is not a problem for her as she only wants to drive it for 3 years.

Question 36 (2)

Calculate the expected cost of the BMW in today's terms.

Question 37 (2)

Calculate the expected value of the BMW after she has driven it for 3 years.

Question 38 (2)

Calculate the quarterly payments she has to make into this savings account if she started payment immediately and finished when she purchased the new car.

The following information refers to questions 39 & 40:

Mr and Mrs Ndlovu (newlyweds and still very much in love) has decided to buy a house and a new car that fits the social status of this house. They have decided that Mr Ndlovu will be responsible for the purchase of the house and Mrs Ndlovu for the purchase of the vehicle (*see questions 36 – 38*).

Mr Ndlovu has found the property he wishes to buy for his lovely bride advertised at a price of R2 400 000.

When someone buys property, banks will typically only grant a bond with monthly repayments to a maximum of 30% of that person's monthly salary.

Question 39 (2)

Calculate the monthly repayments of this property if Mr Ndlovu gets a bond from BNF Bank at a rate of 11,5% p.a. compounded monthly over 25 years.

Question 40 (2)

What minimum amount must Mr Ndlovu earn monthly to qualify to be granted a bond from BNF Bank?

Question 41 (2)

How much will be in an account at the end of five years if the amount deposited today is R10,000 and interest is 8% per year, compounded semi-annually?

Question 42 (2)

Suppose you deposit R100000 in an account today that pays 6% interest compounded annually. How long does it take before the balance in your account is R 500000

Question 43 (2)

Suppose you want to have R0.5 million saved by the time you reach age 30 and suppose that you are 20 years old today. If you can earn 5% on your funds, how much would you have to invest today to reach your goal?

Question 44 (2)

How much would I have to deposit in an account today that pays 12% interest, compounded quarterly, so that I have a balance of R20,000 in the account at the end of 10 years?

Question 45 (2)

How long does it take for your money to grow to ten times its original value if the interest rate of 5% per year?

Question 46 (2)

Assume a company in which the cost of debt capital (e.g. bonds) is 6 percent and the cost of equity capital (e.g., common stock) is 10 percent, and in which 30 percent of the total capital is debt and 70 percent is equity. What is the cost of capital? (Provide answers in decimals, for example 1% would be written as 0.01)

Question 47 (2)

Assume a company in which the cost of debt capital (e.g. bonds) is 20 percent and the cost of equity capital (e.g., common stock) is 34 percent, and in which 80 percent of the total capital is debt and 20 percent is equity. What is the cost of capital?

Question 48 (2)

Assume a company in which the cost of debt capital (e.g. bonds) is 8 percent. Furthermore, assume that 60 percent of the total capital is debt and 40 percent is equity and the weighted average cost of capital is 9.6%. What is the cost of equity capital?

Question 49 (20)

Mr. Zulu is an asset manager at one of South Africa's largest asset management firms. Mr. Zulu receives R100 000 from a client whom wants to invest the funds in an asset that provides an optimal risk/return profile. There are three possible investment options, asset A, B or C. The following three tables depicts the possible returns and the probability associated with each return for each of the three assets. Help Mr. Zulu determine the optimal asset to invest in by calculating the expected return for each asset, the risk (variance) of each asset, and the coefficient of variation of each asset.

Return profile for asset A:

Possible return (R_i)	Probability of return (P_i)
8%	55%
12%	21%
-10%	16%
18%	8%
Expected return: (A)	
Risk: (B)	
Coefficient of variation (C)	

Return profile for asset B:

Possible return (R_i)	Probability of return (P_i)
1%	21%
19%	40%
41%	8%
-21%	11%
Expected return: (D)	
Risk: (E)	
Coefficient of variation (F)	

Return profile for asset C:

Possible return (R _i)	Probability of return (P _i)
3%	55%
19%	21%
-8%	16%
0%	8%
Expected return: (G)	
Risk: (H)	
Coefficient of variation (I)	

Based on your results, advise Mr. Zulu on which asset will be optimal to invest in and state why (J).