

Accounting and Financial Management (Core Module)

EXAMINATION

MODULE CODE: AFM9X01

EXAMINATION PERIOD: SECOND QUARTER 2021

Date:	Saturday, 12 June 2021
Time:	08:00 - 08h30: reading time 08h30 – 11h30: write examination Submit completed exam script before 11:45
Total Marks:	100 (Weighting: 50% of the total course mark)
Internal Moderator:	Wayne Moodaley
External Moderator:	Sakhile Masango
Please read these instructions carefully	<ul style="list-style-type: none"> - This is an online assessment – you must submit your answers electronically via Blackboard - This examination is an open-book assessment i.e. you may access the course content on Blackboard and the course textbook - This question paper consists of 10 pages including the cover page - Please answer all components of the instructions below - You must submit your answers in the answer book provided, and include your name and a word count on the cover page - Show your calculations clearly - Section A counts 50 marks - Section B counts 50 marks - You must answer both Section A and Section B.

Students must use the naming convention given for their answer book as follows.

- Last Name_Initial_Student Number_MBA Exam Module Title _Date (dd_mm_yy)
- Example: Nkosi_M_201036829_ MBA Innovative Marketing _01_ 09_ 20)
- Please make sure that your **laptops are fully charged** before the exam window period.
- We advise students to be at a location that has **reliable internet access**.

Plagiarism

Please note that all exam answers will be submitted through the Turnitin similarity index to establish if there is a similarity. As this is an open book exam, you are required to use the APA academic referencing style. Where you quote verbatim from any source, the quotation must be in double inverted commas and the page number given as part of the reference.

Section A (50 marks)

Mrs Janet Smith, CFO of Yummy Foods, stared out the window of the company headquarters in Sandton. Yummy Foods was a packaged goods company - it manufactured and distributed its own products and was South Africa's largest food company. The company's financial statements for the current year ended 30 September 2018 had just been finalised, a grueling process involving a large finance function and the group auditors. It had been a challenging year for Yummy Foods.

In March of 2018, a listeriosis outbreak started in Polokwane, resulting in the company suspending operations of its Meat Products division in the second half of the financial year. There had been significant poor publicity relating to the outbreak. At the same time, South Africa entered a technical recession during the second quarter of 2018, while the Rand weakened significantly against major currencies. Yummy Foods, as a manufacturer and packager of foodstuffs, was, like its competitors, affected by input costs required for manufacture and packaging of goods.

Now that the financial statements had been finalised, the next step was for Smith to make sense of the information for users of the financial statements, including shareholders. Mostly, Smith was looking to make sense of the numbers for herself. She wanted to better understand the company's financial health, particularly its profitability, efficiency and liquidity, given the significant events that had happened. Despite those events, she believed that Yummy Foods was still a financially sound company. But she needed more analysis to understand if this was still the case.

You had recently been employed within the finance function of Yummy Foods as a strategic financial analyst. Smith has heard of your ability to not just read the numbers, but interpret them and communicate their message. She has also heard that you recently completed your MBA at the JBS, where you had successfully completed an accounting & financial management module which emphasised the language of accounting.

Mrs Smith has asked you to draft a report to her, to address her areas of interest and concern, and to analyse the financial health of Yummy Foods. She has provided you with the following summarised financial statement information for Yummy Foods for the past two financial years ended 30 September 2018 and 30 September 2017, respectively:

Income Statement	Yummy Foods	
	FY18	FY17
R'm		
Revenue	28,400	31,298
Cost of Sales	19,210	20,856
Gross profit	9,190	10,442
Operating Expenses	6,090	5,952
Operating profit	3,100	4,490
Finance cost	30	200
Net profit before tax	3,070	4,290
Taxation	837	1,234
Net profit after tax	2,233	3,056

	Yummy Foods	
Balance Sheet as at 30 September 2018 and 2017		
R'm	FY18	FY17
Non-current assets	4,600	4,588
Property, plant and equipment	4,600	4,588
Current assets	10,881	10,638
Inventory	5,100	4,812
Trade receivables	4,200	4,605
Cash	1,581	1,221
Total assets	15,481	15,227
Non-current liabilities	991	791
Long-term borrowings	991	791
Current liabilities	3,800	4,300
Trade payables	3,800	4,300
Total liabilities	4,791	5,091
Total Equity (consisting of ordinary share capital and reserves)	10,690	10,136

1) Instructions for Section A

Draft a report to Mrs Smith which assesses the financial health of Yummy Foods, for its 2018 financial year, based on the information provided. Make sure to pay close attention to the areas of interest or concern identified by Mrs Smith. You may make use of comparative period amounts.

Note:

- Your analysis must, at a minimum, include financial ratio analysis using profitability, efficiency, and liquidity ratios

- It is strongly recommended that you also include other principles and tools covered in the JBS Accounting & Financial Management module in your analysis
- Assume that all “Revenue” disclosed in the information above, consists of sales on credit
- Show all your calculations, including formulas used
- Where you do not have a prior period amount to calculate an average, assume the current period amount or closing balance is the average figure for the period. You must state where you have done so.
- State any assumptions that you make
- Your report should be in Microsoft Word format, and may not exceed 2 100 words (excluding index, reference, and ratio formula/calculation pages)
 - The main body of the report may contain the results of your calculations, but detailed calculations should be shown in an appendix rather than in the main body of the report.
 - Provide a word count and your name on the cover page of your report

2) Mark allocation for Section A:

Criterion with Mark Allocation	
Calculations (accurate calculations, including using correct formulae where applicable)	10
Financial analysis (structured critical analysis identifying key issues and providing insights relevant to financial decision-making)	30
Application of other course learnings and tools to the fact pattern	5
Quality of writing, explanations, and coherence of submission	5
TOTAL	50

Section B (50 marks)

RapidCo (Pty) Ltd (“RapidCo”) is an SME, which provides courier services in Cape Town, South Africa. The company has been in existence since 2014, when its co-founders invested R200 000 each. Those co-founders each own 50% of the share capital of the business, and the company in 2019 has no other shareholders.

The company also has long-term loans – its total debt to total shareholder’s equity (debt/equity ratio) is 1.2. The company has been growing steadily since inception, and for its most recent financial year ended 30 March 2019, it earned revenues of R20.5m, and net profit after tax of R2.4m. RapidCo’s current ratio is 2, and it has cash on hand of R700 000.

RapidCo wants to expand its services along the garden route. Doing so would require 2 delivery vehicles (once-off approximate cost of R350 000 in total for both vehicles), and hiring 2 additional staff members (approximate annual cost of R150 000 each).

The co-founders are having trouble deciding how to fund the expansion. Co-founder A believes that RapidCo should issue additional share capital to fund the expansion. Co-founder B believes the company is in a positive cash position and should use R500 000 of its cash on hand, and the remainder of the expansion should be funded by a combination of bank overdrafts, and renegotiating its payment terms with creditors.

RapidCo also has three other long-term capital investment projects that it could choose to undertake, and wants to ascertain which one of those three projects would provide it with the best return on investment. The investment for these projects would be funded by a government grant, which RapidCo qualifies for, and is not repayable to the government. RapidCo currently has a weighted average cost of capital of 10%, which it uses as a hurdle rate for evaluating capital investments. The expected cash flows for the three projects (projects A, B, and C) are summarised in the table below:

Year	Project Cash Flows		
	A	B	C
0 (i.e. now)	(100,000.00)	(100,000.00)	(100,000.00)
1	100,000.00	90,000.00	30,000.00
2	20,000.00	70,000.00	80,000.00
3	60,000.00	30,000.00	30,000.00
4	50,000.00	30,000.00	140,000.00
5	50,000.00	40,000.00	20,000.00

Assume that cash flows are earned evenly during the year, which is 365 days long.

The co-founders have heard that you completed a course on accounting and financial management at the JBS as part of your MBA, and have asked you to advise them on:

- the funding decision for RapidCo's garden route expansion ("Decision A"); and
- deciding which of the three projects (A,B,C) above Rapidco should invest in, as well as advice on the advantages and disadvantages of a government grant. ("Decision B");

3) Instructions for Section B

Draft a report to the co-founders which assists them to make Decision A and Decision B for RapidCo. Your report should include the following relating to each decision:

Decision A

- 1) Analysis of the suitability, advantages, and disadvantages to RapidCo of Co-founder A's suggested approach to fund the expansion
- 2) Analysis of the suitability, advantages, and disadvantages to RapidCo of Co-founder B's suggested approach to fund the expansion
- 3) Comment on any other sources of finance that may be suitable to fund the expansion, and the advantages and disadvantages of each to RapidCo

- 4) Comment on any additional factors that RapidCo should consider when assessing the impact of the respective funding decisions on RapidCo's financial management and financial health

Decision B

- 1) Perform the following:
 - a. Calculate the NPV for each project. Show your calculations.
 - b. Make a recommendation to RapidCo, based on your NPV calculations, regarding which project RapidCo should choose to invest in. Provide reasons for your recommendation
 - c. Analyse the advantages and disadvantages to RapidCo of accepting government grant funding

Note:

- State any assumptions that you make
- Assume that Decision A and Decision B are mutually exclusive i.e. that Decision A and Decision B are independent of each other
- Your report should be in **Microsoft Word format**:
 - The main body of the report may contain the results of your calculations, but detailed calculations should be shown in an appendix rather than in the main body of the report.
 - You do not need to provide an index page
 - The report **may not exceed 1500 words** (excluding reference and formula/calculation pages).
- Show all your calculations, including formulas used
- Provide a word count for the report (Section A) at the end of your report

4) Mark allocation:

Decision A

Criterion with Mark Allocation	
Analysis of Co-founder A's plan - structured, critical analysis of the suitability, advantages, and disadvantages to RapidCo of Co-founder A's suggested approach to fund the expansion.	5
Analysis of Co-founder B's plan - structured, critical analysis of the suitability, advantages, and disadvantages to RapidCo of Co-founder B's suggested approach to fund the expansion.	5
Commentary on any other suitable sources of finance - clarity of logic, reasoning, and explanations in relation to the fact pattern.	10
Commentary on additional factors when assessing the impact of the respective funding decisions - application of other course learnings and tools to the fact pattern.	5
TOTAL	25

Decision B

Criterion with Mark Allocation	
Calculations - accurate calculations, including using correct formulae where applicable	10
Recommendations relating to NPV calculations - quality of recommendations for each metric based on appropriate course principles and tools	5
Analysis relating to government grant - structured, critical analysis of the advantages and disadvantages to RapidCo of accepting government grant funding	5
TOTAL	20

Decision A & Decision B

Criterion with Mark Allocation	
Quality of writing, explanations, and coherence of submission	5
TOTAL	5

Total marks for Section B: 50 marks

*****END OF ASSESSMENT*****