UNIVERSITY
OF
JOHANNESBURG

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS MANAGEMENT

FINAL SUMMATIVE ASSESSMENT

MODULE:	Financial Management
CODE:	HC1FINM
DATE:	November 2021
TIME ALLOWED:	180 Minutes
TOTAL MARKS:	100

EXAMINER(S):	Dr MC de Wet
MODERATOR:	Mr PJ Venter

Question 1: True or false (21)

A) Indicate whether the following statements are true or false: Retained profits are a source of funding
B) Indicate whether the following statements are true or false: Share capital is a form of a debt instrument
C) Indicate whether the following statements are true or false: Ordinary share holder's wealth is increased by the capital growth in the shares and the dividends they receive
D) Indicate whether the following statements are true or false: Ordinary shareholder typically has lower risk than bond investors
E) Indicate whether the following statements are true or false: The Johannesburg Stock Exchange (JSE) is a typical example of a money market
F) Indicate whether the following statements are true or false: Bonds are examples of money market instruments
G) Indicate whether the following statements are true or false: In economic theory, the required rate of return should be equal to the company's cost of capital, which is the cost of equity capital, weighted by the relative amount of each in the company's capital structure.
H) Indicate whether the following statements are true or false: Compounded interest is only paid on the initial principal amount.
I) Indicate whether the following statements are true or false: If the interest due at the end of an interest period is added to the principal, so that the interest computed for the next interest period is based on this new interest amount (old principal plus interest), then the interest is said to have been compounded.
J) The portion of the profit that's not paid out as dividends are known as lost profit
K) Secured debt should have a higher required rate of return than unsecured debt.
L) 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.
M) A financial planner is primarily focused on long term cash flows.
N) Service activities are not considered a business activity.
O) Manufacturing activities involve the production of goods using raw materials.

P) A close corporation is the most common form of business entity.
Q) For a closed corporation, the interest of a member may be sold without terminating the existence of the business.
R) The money market is a common long-term funding option.
S) Retained profits are also known as dividends.
T) Bankers' acceptances are examples of capital market instruments.
U) The fundamental objective of financial management is to maximise shareholders' wealth.

Multiple choice (39)

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 refer 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 a business fails, the owner's liability is not limited
D) This form of ownership does not have to pay a 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 skills, 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 do 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 <u>not</u> 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 issue 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 the return based on the given information.

QUESTION 18 (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 shareholders as well as capital gains on a share.
D The return can be negative.

QUESTION 19 (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 20 (1)

Which ONE of the following statements about 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 None of the above is correct.

QUESTION 21 (2)

African Limited has an expected return of 18% and a coefficient of variation (CV) of 0,08. The standard deviation (σ) is equal to …

A 1.44%
B 14.40%
C 17.92%
D 22.50%

QUESTION 22 (1)

Asset A has a variance of 3.37 whereas Asset B has a variance of 24. Asset A has an expected return of 12.75% whilst Asset B’s return is expected to be 15% higher than that of Asset A. Which asset will you choose to invest in?

A Asset B because Asset A has a higher risk attached to it.
B Asset B because Asset A has a lower risk attached to it.
C Asset B because it has a higher variance than Asset A.
D None of the above

QUESTION 23 (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 24 (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 25 (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 26 (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 27 (2)
An asset that 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 28 (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 29 (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 30 (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 31 (2)

A company requires a sinking fund of R500 000 in four years. They can invest R*x* 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 32 (8)

Complete the following table by solving the missing values **A** – **D**:

Present value	Interest rate	Number of years	Compounding method	Future value
R4 821	8%	12	Monthly	**A**
R9 182	**B**	4	Quarterly	R11928
R3 372	12%	**C**	Annually	R6884
D	21%	3	Monthly	R3029

Question 33 (2)

What is the balance in an account at the end of 10 years if 2500 is deposited today and the account earns 4% interest, compounded quarterly?

(please use full stops **(.)** *and* **not** *commas as a decimal divide)* ***(also, only provide numbers, don't provide any letters with your answer)***

Question 34 (2)

How much will be in an account at the end of five years if the amount deposited today is 10,000 and interest is 8% per year, compounded semi-annually?

(please use full stops **(.)** *and* **not** *commas as a decimal divide)* ***(also, only provide numbers, don't provide any letters with your answer)***

Question 35 (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 36 (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 37 (26)

The following table indicates the possible annual returns for two shares listed on the JSE Ltd.

Probability (P_i)	**SHARE G Possible Return (R_i)**	**SHARE H Possible Return (R_i)**
0.10	18	15
0.30	21	11
0.15	8	-7
0.45	17	12
0.00	40	56

REQUIRED:

Calculate the expected return (R_e) for each of the two shares (correct to 2 d.p.).

Share G		
P_i	**R_i**	**R_e**
0.10	18	(A)
0.30	21	(B)
0.15	8	(C)
0.45	17	(D)
0.00	40	(E)
	R_e =	**(F)**

Share H		
P_i	**R_i**	**R_e**
0.10	15	(G)
0.30	11	(H)
0.15	-7	(I)
0.45	12	(J)
0.00	56	(K)
	R_e =	**(L)**

M) if both these assets have a standard deviation of 4.2, in which asset should you invest?

Share G		
P_i	**R_i**	**R_e**
0.10	18	1.8
0.30	21	6.3
0.15	8	1.2

Share H		
P_i	**R_i**	**R_e**
0.10	15	1.50
0.30	11	3.30
0.15	-7	-1.05

0.45	17	7.65
0.00	40	0
	R_e =	**16.95**

0.45	12	5.40
0.00	40	0
	R_e =	**9.15**