FEEDBACK TUTORIAL LETTER

2ND SEMESTER 2019

Assignment 1&2

BUSINESS FINANCE
BBF612S
FEEDBACK TUTORIAL LETTER
SEMESTER 2/2019

BUSINESS FINANCE
BBF612S

Course Name: BUSINESS FINANCE
Course Code: BBF612S
Department: DEPARTMENT OF MANAGEMENT
Course Duration: ONE SEMESTER
NQF Level and Credit: LEVEL:7

Marker-tutor Details
Tel.: 081 411 2020
E-mail: bramwellk@gmail.com
Dear Students,

Thank you for completing both Assignment 1 and 2. I would like to congratulate those who managed marks that promoted them to write the examination. Most of you performed very well in both assignments. Those who did not do well it was quite evident that they did not go through their study guide. The study guide does not contain all the details of the subject, however if one goes thoroughly through the study guide, he or she will acquire the basic to ensure a passing mark. It is therefore underscored the need and importance of studying the study guide in its totality.

The narrative questions were done very well, and it was encouraging to note that most students acknowledged the sources of their answers and some referenced appropriately. Most students ten to shy away from computation and lost marks as either they did not attempt the questions, or they got the computations. When answering question students are required to show their workings including formulas. Students should avoid rounding up decimals to the nearest whole during the interim calculations. Rounding off should be done at the final answer level and should be done to two decimal places unless it stated otherwise.

Now that the assignments are out of the way, you should start preparing for the examinations if you had not done so. Your examination covers the entire syllabus and there is a question on each of the 8 units in your study guide. You are therefore warned against spot studying. I would like to take this opportunity to wish you well in your examination.

Cheers

Bramwell Kamudyariwa
QUESTION 1 (10 marks)

Multiple choice.

1. Which one is not a cost leadership strategy?
   a) Differentiation
   b) Use of new technology
   c) Cost leadership
   d) Focus strategy

2. What is the financial goal of a firm?
   a) Optimise liquidity
   b) Maximise return
   c) Maximise shareholder’s wealth
   d) a 헬 릭 스 트 루 지 스투 리에

3. Which one is not fundamental principle upon which financial management is based?
   a) Debt consolidation
   b) Cost benefit
   c) Risk return
   d) Time value

4. Which financial statement represents a firm’s assets and liabilities?
   a) Statement of financial position
   b) Statement of assets and liabilities
   c) Statement of financial performance
   d) Statement of Cashflow position
5. Gross Profit is:
   a) Sales less purchases
   b) **Sales less cost of goods sold**
   c) Purchases less sale
   d) Purchase less cost of goods sold

6. Which one is not a category of financial ratios?
   a) Liquidity
   b) Profitability
   c) Activity
   d) **Marketability**

7. Which one is not a security ratio?
   a) Debt Equity Ratio
   b) Dividend per share
   c) Earnings Yield
   d) Price Earnings

8. Which of the following is not a direct cost?
   a) Carpenter's wage in a factory
   b) **Administration office rent**
   c) Factory rent
   d) Wood use in the production of desks.

9. Working capital is
   a) Fixed assets less current assets
   b) **Current assets less current Liabilities**
   c) Current liabilities less current assets
   d) Fixed assets less total liabilities.
10. Which one is not a key GAAP concept?
   a) Materiality
   b) Historic Cost
   c) Accrual principle
   d) Management of assets

Question 2. (11 marks)

What tool can one use to evaluate how competitive an environment a business operates in. With the aid of a diagram list 5 components of the tool and explain each briefly?

The tool that is used to evaluate the competitiveness of the environment is Porter’s Competitive Forces

(1 marks)
5 marks  (1mark for each box)

i) Threat of new entrants - In any business there is a threat of new players or competitors coming in. (1)

ii) Bargaining Power of Suppliers  If there are few suppliers in an industry suppliers have an advantage of determining the prices of inventory. (1)

iii) Bargaining Power of buyers. If there are a few buyers, they can influence the price. (1)

iv) Threat of substitute products/services  If there are new substitute services or goods this lowers the prices of existing products. (1)

v) Rivalry among existing Competitors  When ever there is more than one supplier there is serious competition amongst the competitors that may result in lowering f prices and improvement in quality of products and services. (1)

Question 3. (15 marks)

Using the information provide below calculate the following ratios:
Using the information provided below calculate the following ratios:

a) Gross profit margin = \( \frac{\text{Gross Profit} \times 100}{\text{Sales}} \)
   
   \[
   \frac{80,000 \times 100}{200,000} = 40\% \]

b) Net profit margin = \( \frac{\text{Net Profit After Tax} \times 100}{\text{Sales}} \)
   
   \[
   \frac{(20,000 - 5,000) \times 100}{200,000} = 7.5\% \]

c) Return on Investment = \( \frac{\text{Net Profit After Tax} \times 100}{\text{Total Assets}} \)
   
   \[
   \frac{(20,000 - 5,000) \times 100}{200,000} = 7.5\% \]

d) Current Ratio = \( \frac{\text{Current Assets}}{\text{Current Liabilities}} \)
e) Quick Ratio = \frac{\text{Current Assets} - \text{Closing Inventory}}{\text{Current Liabilities}} = \frac{100,000 - 24,000}{40,000} = 2.5:1

f) Inventory Turnover = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}} = \frac{120,000}{(16,000 + 24,000)/2} = 6 \text{ times}

g) Debt Ratio = \frac{\text{Total Liabilities}}{\text{Total Assets}} = \frac{60,000 \times 100}{200,000} = 30\%

h) Earnings Per Share = \frac{\text{Net Profit After Tax} - \text{Pref Dividend}}{\text{Number of Ordinary Shares}} = \frac{(20,000 - 5,000)}{50,000} = $0.30 \text{ per share or 30 cents per share}

Question 4 (6 marks)

Advantage of Budgeting are:

i) Communicating management’s plans

ii) Encourages management to think proactively

iii) Allow for reallocation of resources to areas of the firm where they can be effectively utilised.
iv) Budgeting process prevents and resolves potential bottlenecks before they occur. 

v) Ensures that all employees are working towards the same goal.

vi) They work as benchmarks for future performance evaluation.

Question 5. (17 marks)

a) Break-even point is the level of production and sales volume where the revenue from the product sales equals total cost. At this point there is no profit or loss made. (1)

b)

(i) B.E.P in units = \( \frac{\text{Total Fixed Costs}}{\text{(Selling Price per Unit} - \text{Variable Cost Per Unit)}} \)

\[
\begin{align*}
= & \quad 1,000,000 \\
= & \quad (200 - 50) \\
= & \quad 6,666.67 \text{ units} \quad \checkmark \quad (2)
\end{align*}
\]

(ii) B.E.P in monetary value = BEP in units \( \times \) SPU

\[
\begin{align*}
= & \quad 6,666.67 \times 200 \\
= & \quad \text{N$1,333,334} \quad \checkmark \quad (1)
\end{align*}
\]

(iii) Margin of Safety \( = \frac{\text{(Expected Sales Vol} - \text{BEP in units}) \times 100}{\text{Expected Sales Volume}} \)

\[
\begin{align*}
= & \quad (40,000 - 6,666.67) \times 100 \\
= & \quad 33,333.33 \times 100 \\
= & \quad 83.33\% \quad \checkmark \quad (2)
\end{align*}
\]
iv) BEP in Units = \( \frac{TFC}{SPU - VCU} \)

= \( \frac{1,000,000}{200 - (50 + 20)} \)

= 7,692.31 units  

(3)
ASSIGNMENT 2 MEMO

QUESTION 1  (10 marks)

Multiple Choice

1. Time value is used to ………..
   a) Measure when the expenses are equal the revenues.
   b) Evaluate the investment opportunities, taking into account the difference in timing between cash outflows and cash inflows.
   c) Evaluate the investments in long term assets in order to make a decision whether to invest or not.
   d) Assess the financial performance of a firm.

2. Which one is not a basic discounting technique?
   a) Net present value
   b) Accept-reject approach
   c) Profitability Index
   d) Internal Rate of Return.

3. A firm finances 10% of its assets by means of debt at an interest rate of 13.54%. The firm is subject to a tax rate of 28%. The remainder (90%) of the assets are funded by equity. The required rate of return on equity is 18%. Calculate the cost of capital.
   a) 17.18%
   b) 18%
   c) 13.54%
   d) 16.20%

4. Which of the following is non discounted cashflow method?
   a) Net Present Value
   b) Profitability Index
c) Payback method
d) Internal Rate of Return.

5. Namclear is an example of which financial Institution:
   a) Merchant Bank
   b) Discount House
   c) Factoring house
   d) Commercial bank.

6. A company sells its products on credit. It takes the firm an average of 24 days from buying stocks to selling it. The firm takes an average of 70 days to collect the money from debtors. What is the operating cycle?
   a) 94 days
   b) 46 days
   c) 70 days
   d) 48 days

7. Which of the following long-term financing methods is interest free?
   a) Debentures
   b) Bonds
   c) Equity
   d) Mortgage.

8. Credit standards refer to:
   a) Terms required for all credit customers.
   b) Limit of credit granted to a customer.
   c) The different procedures that a firm uses to collect accounts receivable.
   d) The minimum requirements for extending credit to a customer.

9. What does initial outlay mean in time value of money investment decision?
a) Cash deposited for interest return
b) Cash outflow
c) Cash inflow
d) The number of years required to recover the initial investment.

10. The more financial leverage a firm has
   a) The higher the risk and possible return
   b) The higher the return on owners' equity
c) The greater the probability of shareholders financing assets without losing control of the firm.
d) All of the above

Question 2. (10)
   (i) Maturity  
      Maturity refers to debt falling due. Debt matures whereas equity does not mature. H
   (ii) Claims on income  
      Claims on income refers to the right to claim on profit. Creditors have no right to claim on income whereas equity holders have a claim on income in form of dividends. H
   (iii) Claim on Assets  
      Claim on assets refers to priority of claim on assets at the time of liquidation. Debt has priority over equity to assets at the time of liquidation. H
   (iv) Right to voice in management. H
      Right to voice in management refers to authority to tell management to properly manage the affairs of the organisation. Creditors have a say in management of the business whereas equity holders have a voice in the management of an organisation. H
   (v) Tax and benefit of paying interest. H
      Debt attract an interest whereas equity does not. Interest on debt is deducted first before being taxed that giving a benefit on tax. H  (2 marks on each of the 5 points as allocated)

Question 3
<table>
<thead>
<tr>
<th>Period (1)</th>
<th>Outflow (N$) (2)</th>
<th>Annual Inflows (N$) (3)</th>
<th>Discount Rate 12% (4)</th>
<th>Present Value (N$) (5)</th>
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<tbody>
<tr>
<td>Year 0</td>
<td>125,000.00</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Year 1</td>
<td>22,500.00</td>
<td>20,092.50</td>
<td>0.893</td>
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<tr>
<td>Year 2</td>
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<td>19,925.00</td>
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<tr>
<td>Year 3</td>
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<td>Year 4</td>
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<tr>
<td>Year 5</td>
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<td>Year 6</td>
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<td>Year 7</td>
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<td>Year 8</td>
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<tr>
<td>Year 9</td>
<td>28,000.00</td>
<td>10,108.00</td>
<td>0.361</td>
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<tr>
<td>Year 10</td>
<td>30,000.00</td>
<td>9,660.00</td>
<td>0.322</td>
<td></td>
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<tr>
<td>Total</td>
<td>280,050.00</td>
<td>154,719.80</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a) Net Present Value = Total Present Values - Initial Investment

\[ \text{NPV} = 154,719.80 - 125,000.00 = \text{N}\$29,719.80 \]  

b) Profitability Index (PI) = Total Present Value / Initial Investment

\[ \text{PI} = \frac{154,719.80}{125,000.00} = 1.24 \]  

c) It advisable to buy the machine because the NPV is positive and the PI is more than 1.
Question 4.

a) 7 essential items that are important in the management of accounts receivable are:
   (i) **Credit Selection** This is the process of selecting the right people or entities to give credit.
   (ii) **Credit standards** These are minimum requirements for offering credit.
   (iii) **Credit limits** This refers to the maximum amount of credit one can be granted.
   (iv) **Credit terms** This is the stipulation of the conditions surrounding the granting of the credit.
   (v) **Collection Policy** This refers to the procedures a firm uses to collect outstanding credit.
   (vi) **Monitoring payments patterns** This is the process of checking how debtors are paying in order to establish a trend.
   (vii) **Following up on non-paying accounts** This refers to collecting money from debtors who will be defaulting on their payments. (7)

b) 6 methods of collecting money from delinquent accounts:
   (i) Letters or emails.
   (ii) Telephone calls
   (iii) Short messaging services (sms)
   (iv) Personal visits
   (v) Using collection agencies/ debt collectors

   (3 marks for any 3)