



ASSIGNMENT MEMORANDUM

SUBJECT : FINANCIAL MANAGEMENT (FM)

ASSIGNMENT : 2nd SEMESTER 2011

QUESTION 1 [10]

- | | | | |
|-----|---|------|---|
| 1.1 | d | 1.6 | b |
| 1.2 | b | 1.7 | c |
| 1.3 | d | 1.8 | a |
| 1.4 | b | 1.9 | c |
| 1.5 | a | 1.10 | a |

QUESTION 2 [15]

- 2.1
- a) OE
 - b) NCA
 - c) CA
 - d) CA
 - e) CL
 - f) NCA (negative asset)
 - g) CL
 - h) OE
 - i) OE
 - j) CL
 - k) CA (negative asset)
 - l) CL

Each correct answer is worth a ½ mark (6)

2.2

Gross margin =	$\frac{\text{Gross profit}}{\text{Turnover}}$	7.28%	✓	6.11%	✓
Net margin =	$\frac{\text{Net profit before tax}}{\text{Turnover}}$	0.77%	✓	0.75%	✓
Mark-up =	$\frac{\text{Gross profit}}{\text{Cost of sales}}$	7.85%	✓	6.51%	✓

(Each ✓ worth ½ mark = 3 marks)

Allocate **two marks** for **correct assessment** of ratio movement between years 2009 and 2010 (total 6 marks).

QUESTION 3

[20]

Date	RECEIVED			ISSUED			BALANCE				
	Units	Price	Amount	Units	Price	Amount	Units	Price	Amount		
1							30	50	1 500,00	✓	
2				10	50	500,00	✓	20	50	1 000,00	✓
7	20	75	1 500,00				✓	20	75	1 500,00	✓
15	40	100	4 000,00				✓	40	100	4 000,00	✓
20				20	50	1 000,00	✓				
				20	75	1 500,00	✓				
				15	100	1 500,00	✓	25	100	2 500,00	✓
25	45	125	5 625,00				✓	45	125	5 625,00	✓
30				12	100	1 200,00	✓	13	100	1 300,00	✓
								45	125	5 625,00	✓

(16)

$$\begin{aligned} \text{Cost of sales} &= \text{R}500 + \text{R}1\,000 + \text{R}1\,500 + \text{R}1\,500 + \text{R}1\,200 \\ &= \text{R}5700 \quad \checkmark\checkmark \end{aligned}$$

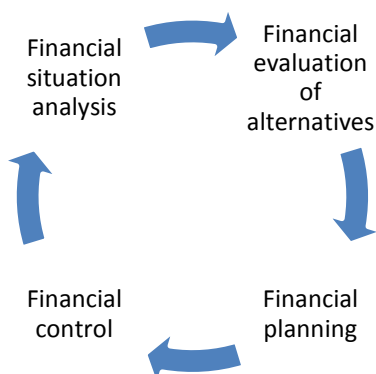
$$\begin{aligned} \text{Gross profit} &= 20/100 \times \text{R}5700 \\ &= \text{R}1140 \quad \checkmark\checkmark \end{aligned}$$

(4)

QUESTION 4

[20]

4.1



The *financial situation analysis* determines how well marketing activities are doing. ✓ It involves the study of trends✓, comparative analyses✓, and assessment of present financial strengths ✓and limitations✓ of the product✓, brand✓ or business unit✓. (4)

Financial information is used to *evaluate alternatives* as whether to introduce new products✓, move into new markets✓, eliminate a product✓, expand the sales force ✓or change the distribution channel✓. (2½)

Financial planning involves the projection of sales✓, cost forecasts and budgets✓, once it has been decided to implement a specific marketing action✓. (1½)

Financial control is about comparing actual results to planned results✓, with the objective of keeping an unfavourable results gap as narrow as possible✓. (1)

Note: 1 mark for correctly identifying the activities and showing them in the correct sequence. **(10)**

4.2 The relationship of a company's borrowings to ordinary shareholders' funds ✓ is known as capital gearing. A company can obtain the finance it needs to conduct its operations from two sources: by the issuing of its ordinary shares ✓ and by borrowing from third parties in the form of loans from banks and other lending institutions ✓. The ratio of the one to the other determines the company's gearing. This ratio is also sometimes called the debt/equity ratio ✓.

The ratio is given as non-current liabilities / (shareholders funds + retained earnings + non-current liabilities) ✓

Another acceptable ratio could also include the expression of this number as a percentage **(3)**

4.3 We say that a company is "highly geared" if the borrowings from external sources exceed the shareholders' capital ✓ by an excessive amount ✓. **(Each ✓ worth ½ mark)** **(1)**

4.4

- **Liquidity** ✓ ratios measuring the ability to meet short-term liabilities, **(6)**
 - **Current, quick** ✓✓
- **Activity** ✓ ratios measuring how effective resources are utilised,
 - **Asset turnover, stock turnover, debtors collection period, creditors payment period** ✓✓ (any two)
- **Profitability** ✓ ratios measuring the overall effectiveness in terms of return on sales and investment.
 - Mark up, gross profit, ROCE ✓✓ (any two)
- **Solvency** ✓ ratios measuring the ability to meet long-term obligations:
 - Gearing, times interest covered ✓✓

Each ✓ for examples worth ½ mark (Maximum 6 marks)

QUESTION 5**[15]**

Peter's Kitchen Renovations : Cash Flow Statement for the month ending August 2011					
1	Opening balance		9 870	✓	
	Receipts:		50 960		
2	Debtor payments received	10 400		✓	
3	Debtor payments received	12 160		✓	
9	Cash deposit	3 700		✓	
12	Cash deposit	14 200		✓	
13	Service contract 50% deposit	10 500		✓	
	Payments:		42 490		
1	Computer software	3 000		✓	
4	SARS	3 600		✓	
5	Creditor payments	6 200		✓	
7	Goods	2 100		✓	
11	Fuel account settled	2 190		✓	
14	Cash withdrawn for salaries	18 400		✓	
15	Withdrawal	7 000		✓	
	Closing balance		18 340	✓✓	
6	Does not affect cashflow				
8	Does not affect cashflow				
10	Does not affect cashflow				
16	Does not affect cashflow				

QUESTION 6**[20]**

Balance sheet for Jack Black as at 30 September 2011						
	Notes					
Assets						
Non-current Assets						
		At cost	Acc.Dep.	Book value		
Property		250 000	-	250 000		✓
Vehicles	1	120 000	48 000	72 000		✓
Equipment	2	90 000	24 975	65 025		✓
<i>Total non-current assets</i>					387 025	✓
Current assets						
Inventory				18 000		✓
Debtors				25 000		✓
Cash				124 975		✓
<i>Total current assets</i>					167 975	✓
Total assets					555 000	✓
Equity & Liabilities						
Equity						
Capital				245 000		✓
Retained profit				75 000		✓
Drawings				-60 000		✓
<i>Total equity</i>					260 000	✓
Non-current liabilities						
Mortgage loan					230 000	✓
Current liabilities						
Creditors					65 000	✓
<i>Total equity and liabilities</i>					555 000	✓
Notes: adjustments 1						
Depreciation vehicles		120000				
Accumulated depreciation beginning of year			24000	½✓		
Depreciation this year			24000	✓		
Accumulated depreciation end of year			48000	½✓		
Notes: adjustments 2						
Depreciation equipment		90000				
Accumulated depreciation beginning of year			13500	½✓		
Depreciation this year			11475	✓		
Accumulated depreciation end of year			24975	½✓		