



Graduate School

Marketing • Supply Chain • Business

EXAMINATION : FINANCIAL MANAGEMENT 1 (FM101)
DATE : 19 MAY 2015
TIME ALLOWED : 3 HOURS
TOTAL MARKS : 100
MATERIAL SUPPLIED : ANSWER BOOK

INSTRUCTIONS TO CANDIDATES:

1. Please refer to the examination rules and regulations as found in the examination answer book.
2. Answer **ALL** the questions.
3. Read each question carefully to determine exactly what is required before attempting the answer.
4. Answers must be set out in a systematic way under appropriate headings and sub-headings.
5. Number your answers clearly.
6. **IMPORTANT:** Indicate the questions attempted by drawing a circle around the question number on the front cover of the answer book.
7. The use of calculators is permitted. **ALL** calculations must be shown.

NOTE:

- Examination answer books are the property of the IMM GSM and may not be removed from the examination hall.
- Answers to examination questions should not include appendices in the form of personal notes to the examining panel.

ANSWER ALL THE QUESTIONS**QUESTION 1 [10]**

For each question below select the **MOST APPROPRIATE** answer from the choices given. Mark your answer with an **X** in the correct block in the **space provided on the first page of your answer booklet**. Be sure to select the correct letter next to the relevant question number.

- 1.1 What are the four main qualitative characteristics that influence the usefulness of accounting information?
- i) Comparability
 - ii) Understandability
 - iii) Relevance
 - iv) Reliability
 - v) Profitability
- a) ii, iii, iv and v
 - b) i, ii, iii and iv
 - c) i, ii, iv and v
 - d) All of the above.
- 1.2 Which of the following **is** an example of a **non-current asset**?
- a) Sales
 - b) Delivery vehicle
 - c) Mortgage loan
 - d) Debtors
- 1.3 Which of the following **is not** an example of a **liability**?
- a) Creditors
 - b) Stationery on hand
 - c) Mortgage loan
 - d) Bank overdraft
- 1.4 Which of the following **is not** an example of **owners' equity**?
- a) Net profit
 - b) Drawings
 - c) Land & buildings
 - d) Capital contributions

- 1.5 Which of the following **is** an example of an **expense**?
- a) A loan was raised from Beep Bank Ltd
 - b) Warehouse owned used for storing stock
 - c) Receipts from customers for the sale of clothes
 - d) The monthly interest paid in respect of the loan obtained from Beep Bank Ltd
- 1.6 Which calculation would you use in order to calculate owners' equity?
- a) Capital contribution + Net profit + Drawings
 - b) Capital contribution – Net profit – Drawings
 - c) Capital contribution – Net profit + Drawings
 - d) Capital contribution + Net profit – Drawings
- 1.7 A company has total assets of R263 000 and total liabilities of R125 000. Calculate the value of owners' equity.
- a) R263 000
 - b) R125 000
 - c) R138 000
 - d) R388 000
- 1.8 A company has total assets of R572 000, owners' equity of R375 000 and current liabilities of R26 500. Calculate the total value of non-current liabilities.
- a) R170 500
 - b) R197 000
 - c) R223 500
 - d) R920 500
- 1.9 A company has owners' equity of R295 000, total liabilities of R78 900 and non-current assets of R33 800. Calculate the total value of current assets.
- a) R340 100
 - b) R373 900
 - c) R407 700
 - d) R182 300

1.10 Calculate the net profit of a company if the income was R396 000, expenses was R265 000, current assets was R23 600 and current liabilities was R18 200.

- a) R5 400
- b) R131 000
- c) R136 400
- d) R246 800

QUESTION 2 [10]

Batman is the Chief Executive Officer and Robin is the Financial Director of B&R (Pty) Ltd. B&R (Pty) Ltd manufactures and sells gadgets to technologically savvy customers. The company has a December year end.

Batman and Robin have had a discussion to obtain a mortgage loan from Beep Bank Ltd to purchase a property. They disagree on how the mortgage loan should be accounted for. Batman thinks that the mortgage loan should be an expense as monthly repayments similar to rent paid are made every month. Robin thinks that the mortgage loan should be accounted for as a liability.

Batman and Robin have approached you, as a recent graduate of Financial Management 1, to assist them in settling this disagreement.

Batman entered into the mortgage loan agreement with Beep Bank Ltd on the 1 June 2014 for an amount of R1 250 000. The mortgage loan is repayable in 10 years' time i.e. 1 June 2024. The interest rate is 12% per annum and is payable on a monthly basis.

REQUIRED:

- 2.1 By applying all the key terms of the definition of a liability, explain to Batman why the mortgage loan should be accounted for as a liability as at 31 December 2014. **(4)**
- 2.2 Should the mortgage loan be shown in the statement of financial position as at 31 December 2014? If so, you are required to identify AND explain which section the mortgage loan would be disclosed in. **(3)**
- 2.3 Calculate the amount of interest expense for the year ended 31 December 2014. **(3)**

QUESTION 3 [10]

Superman (Pty) Ltd is a retailer that sells various items of clothing such as capes and underpants.

The following information relating to stock has been provided for the months of February 2015 and March 2015.

	February 2015	March 2015
Sales	R206 750	R131 770
Cost of sales	R177 400	R115 390
Opening stock	R245 000	R93 600
Purchases	R35 800	?
Purchase returns	R9 800	R6 300
Closing stock	R93 600	R107 450

REQUIRED

- 3.1 What are the two methods that businesses may use to account for stock? **(1)**
- 3.2 Calculate the purchases of Superman (Pty) Ltd for the month of March 2015. **(4)**
- 3.3 Calculate the gross profit for Superman (Pty) Ltd for the months of February 2015 and March 2015. **(5)**

QUESTION 4 [14]

The following transactions appeared in the accounting records of Hulk, a gym, for the month of February 2015:

Date

- 01/02 Bruce Banner, the owner of Hulk, deposited R34 000 into the company bank account.
- 03/02 Purchased gym equipment to the value of R55 000 on credit from Techno Gym (Pty) Ltd payable within 90 days.
- 04/02 Sold nutritional supplements (stock) to the value of R14 500 on credit (ignore the cost of sales element of this transaction).
- 10/02 Purchased a second-hand delivery vehicle at a cost of R15 000 and paid cash.
- 13/02 Purchased R6 900 nutritional supplements (trading stock) and paid cash.
- 22/02 Bruce Banner withdrew R5 600 from the company bank account for personal expenditure.
- 25/02 Paid salaries and wages of R9 800 for the month of February 2015.

REQUIRED:

Indicate how each of the given transactions affects the accounting equation by showing the effect on each element of the equation with a +/- along with the value of the effect.

The format shown below should be used in answering this question:

e.g. 01/02 Paid R10 000 for rent.

Date	Assets	Owners' Equity	Liabilities
01/02	- R10 000	- R10 000	

QUESTION 5 [21]

Marvel (Pty) Ltd is a company that sells comic books and has a December year end. The company was incorporated on 1 January 2014. The accountant of Marvel (Pty) Ltd has prepared the Statement of Financial Position as at 31 December 2014:

Statement of Financial Position of Marvel (Pty) Ltd as at 31 December 2014		
	R	R
ASSETS		
Non-current Assets		178 000
Equipment	120 000	
Vehicles	58 000	
Current Assets		28 000
Debtors	12 300	
Inventory	15 600	
Prepaid expenses	100	
TOTAL ASSETS		206 000
EQUITY AND LIABILITIES		
Owners' Equity		71 100
Ordinary share capital	100	
Retained income	71 000	
Non-current Liabilities		112 000
Long-term loan	112 000	
Current Liabilities		22 900
Creditors	18 400	
Accrued expenses	4 500	
TOTAL EQUITY AND LIABILITIES		206 000

The following transactions have not been accounted for in the above statement of financial position as at 31 December 2014:

- a) The equipment and vehicles of Marvel (Pty) Ltd were purchased on the date of incorporation. Depreciation has not yet been accounted for. Equipment and vehicles are depreciated on the straight-line method at a rate of 20% per annum and 25% per annum respectively.
- b) Marvel (Pty) Ltd purchased a printing machine on the 1 October 2014 at a cost of R25 000. The printing machine was paid for in full and correctly recorded on the date of purchase. The printing machine is depreciated using the reducing balance method at a rate of 10% per annum.
- c) Captain America, a debtor of Marvel (Pty) Ltd, went into liquidation. His account of R1 800 was written off as a bad debt. No provision for doubtful debt was previously recognised.
- d) An invoice for a sale of R900 to Ms Black Widow, a debtor of Marvel (Pty) Ltd, had not been recognised as yet.
- e) Marvel (Pty) Ltd has an insurance policy which it pays annually in advance. The insurance premiums for January 2015 to December 2015 were paid during the month of December. The insurance premiums are R1 500 per month.
- f) Marvel (Pty) Ltd had unused stationery on hand of R600.
- g) Marvel (Pty) Ltd purchased stock from Iron Man CC on credit. The stock has been correctly recognised but the creditor has not been recognised. The amount of stock purchased was R1 550.
- h) Marvel (Pty) Ltd received an invoice in respect of water & electricity for an amount of R2 025 relating to December 2014 which it has not paid yet.

REQUIRED

Prepare the Statement of Financial Position of Marvel (Pty) Ltd as at 31 December 2014 taking into account the above transactions. You can assume that the retained income is correct. Therefore, no adjustments are required to the retained income account.

QUESTION 6**[15]**

This question comprises THREE unrelated parts.

PART A

The following balances appeared in the ledger of Spiderman CC as at 28 February 2015:

Debtors	R23 700
Provision for doubtful debts	R 3 650

The following adjustments have not yet been processed:

1. Mr Peter Parker owes the business R2 300. Mr Parker has been declared insolvent therefore his debt has to be written off.
2. The accountant of Spiderman CC has also decided to increase the provision for doubtful debts by R850 in respect of long outstanding debtors that look unlikely to settle their account.

REQUIRED:

- 6.1 Prepare the journal entries to account for the two adjustments above.

Use the following format/headings when preparing the journal entries:

Account	Debit	Credit
(6)		

PART B

Dare Devil (Pty) Ltd is a company that earns rental income through leasing the properties that it owns to tenants. The company has a December year end.

Dare Devil (Pty) Ltd earned rental income of R35 000 from January 2014 to October 2014. The rent income for the two months November 2014 and December 2014 has been earned but the tenant has not yet paid it.

REQUIRED:

- 6.2 Prepare the journal entry to account for the above information in the records of Dare Devil (Pty) Ltd as at December 2014.

Use the following format when preparing the journal entry:

Account	Debit	Credit
(5)		

PART C

Flash Electric is a business that supplies electrical services to its customers. The business has a December year end.

The business recently entered into a contract to supply Eskom with monthly electrical services including the installation of prepaid electricity meters, wiring of buildings, etc.

The contract will be for the year 1 January 2015 to 31 December 2015. The amount of these electrical services to be provided by Flash Electrical is R12 000 per month. Eskom paid the entire amount of the contract on 22 December 2014 into the bank account of Flash Electrical. Flash Electrical has not provided any electrical services to Eskom as yet.

REQUIRED:

- 6.3 Prepare the journal entry to account for the above transaction in the records of Flash Electric as at 31 December 2014 (assuming no entry has been made to account for this information).

Use the following format when preparing the journal entry:

Account	Debit	Credit
		(4)

QUESTION 7 [10]

Becca Bling owns a small boutique which specialises in selling cocktail dresses. Becca purchases each dress for R32 from a local factory. Other variable costs she incurs amount to R10 per dress.

The following additional information has been provided to you:

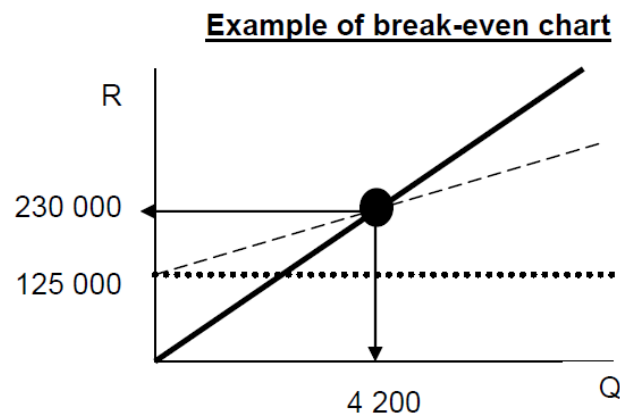
Average selling price per dress	R70
Total fixed costs	R84 000
Expected sales (budgeted)	5000 dresses

The contribution margin percentage has been correctly calculated at 40%.

REQUIRED:

- 7.1 Calculate the break-even point in rands (i.e., the sales revenue required to break even). **(2)**
- 7.2 Calculate the break-even point in units using the relevant break-even formula (i.e., the number of dresses required to break even). **(3)**
- 7.3 Briefly describe what is meant by the margin of safety. **(1)**
- 7.4 Calculate the margin of safety (as a %) for Rebecca's Boutique. **(3)**

Becca's friend gave her a break-even chart and suggested she draw up her own for analysis purposes. Becca was confused as to how to identify the fixed costs from the graph. Below is the example that was given to Becca:



- 7.5 What is the amount of fixed costs shown by the break-even chart above? **(1)**

QUESTION 8 [10]

This question comprises TWO unrelated parts.

PART A

The following is an inventory record of Selffast Ltd for the month of January 2015. Selffast Ltd uses the FIFO method for stock valuation.

Date	Received units	Total R	Issued units	Total R	Description
01	500	50 000			Opening stock for the month (500 units at R100 each).
07	300	33 000			Purchased 300 items at R110 each for resale.
18			600	???	Sold 600 units at a selling price of R350 each.
25	160	20 800			Purchased 160 items at R130 each for resale.
31			360	???	Balance of closing stock at month end

REQUIRED:

- 8.1 Calculate the cost of the stock issued (cost of sales) for the inventory sold on the 18th of January 2015. **(3)**
- 8.2 Calculate the value of the closing stock. **(2)**

PART B

You are provided with the following table of cost prices, mark-ups, selling prices and marked prices:

Cost price	Mark-up	Selling price	VAT (14%)	Marked price
R1 500	40%	(8.3.1)	R294	(8.3.2)
(8.3.3)	20%	(8.3.4)	(8.3.5)	R1 217.52

REQUIRED:

- 8.3 Calculate the amounts represented by 8.3.1 to 8.3.5 in the table above. (Show all workings.) **(5)**

EXAM TOTAL: 100