

**MO 001/3/2016**

**Principles of strategy, risk and financial  
management techniques**

**MAC2602**

**Semesters 1 & 2**

**Department of Management Accounting**

**Content of this MO**

Appendix A: Administrative and General Information

Appendix B: First part of module content

BAR CODE



# Principles of strategy, risk & financial management techniques



## APPENDIX A

### Administrative and General Information

**IMPORTANT INFORMATION:**

This appendix contains important information about your module.

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# 1 INTRODUCTION

Dear Student

We are pleased to welcome you to this module and hope that you will find it both interesting and rewarding. We shall do our best to make your study of this module fulfilling and successful. You will be well on your way to success if you start studying early during the semester and resolve to do the assignments in an accountable manner.

## Tutorial matter

You will receive a number of tutorial letters during the semester. A tutorial letter is our way of communicating with you about teaching, learning and assessment.

**MO001 (Appendix A)** contains important information about the scheme of work, resources and assignments for this module. We urge you to read it carefully and to keep it at hand when working through the study material, preparing the assignments and the examination and addressing questions to your lecturers.

Please read **Appendix A** as it gives you an idea of generally important information when studying at a distance education institution and within a particular College.

In **Appendix A**, you will find the assignments as well as instructions on the preparation and submission of the assignments. It also provides all the information you need with regard to the prescribed study material and other resources and how to obtain it. Please study this information carefully and make sure that you obtain all the necessary material.

We have also included certain general and administrative information about this module. Please work through this appendix carefully.

Right from the start we would like to point out that **you should read all the communications** you receive during the semester **immediately and carefully**, as they always contain important and, sometimes, urgent information.

# 2 PURPOSE OF AND OUTCOMES FOR THE MODULE

## 2.1 Purpose

This module serves as an introduction to strategy, financial management, financing, managing and investing of funds and risk management.

This module is primarily intended for people who are interested in qualifying as registered chartered accountants (SAICA) or management accountants (CIMA). This module will enable students to develop the necessary competencies prescribed by these professional bodies.

Pre-requisite: FAC1502 & Co-requisite: (either BNU1501 or QMI1500 or DSC1630)

The purpose of this module is to equip students with knowledge and understanding regarding management accounting principles. Theories, methods, techniques and skills relevant to financial management are introduced and applied in topics such as:

- Enterprise strategy and strategic financial management – creating an understanding of the role of strategic management and factors influencing such strategy.
- Risk management – define and explain risk, risk frameworks, approaches and identification, risk assessment and reporting.
- Managing and investing of funds – analysis of financial information, analysing and managing working capital, capital investments and capital budgeting techniques.
- Financial management, financing and the cost of capital – time value of money concepts and solving time value of money problems, sources and forms of finance, theory of capital structure

and the calculation of the cost of capital.

## 2.2 Outcomes

After completing this module, students must be able to demonstrate:

- knowledge and comprehension of the concepts relating to strategy, the stakeholders and factors influencing such a strategy and how the organisation's strategy is developed and the ability to apply this knowledge in basic scenarios;
- knowledge and comprehension of the role of the financial manager, the impact of the time value of money, various sources of financing, the capital structure and be able to calculate the weighted average cost of capital;
- an ability to analyse financial information in order to assist in the management of the long and short term funds of an organisation and to apply selected capital budgeting techniques to elementary investment decisions;
- an awareness of frameworks, procedures, processes and reporting mechanisms that are part of the organisation's effective risk management plan. Students must be able to identify different categories and types of risks from an analysis of basic scenarios and suggest elementary risk responses.

## 3 LECTURER(S) AND CONTACT DETAILS

### 3.1 Lecturers

The lecturers responsible for this module are as follows:

Lecturer: M Lötter (Mrs)  
Building and office number: Samuel Pauw Building, Room 4 - 47  
Telephone number: 012 429 4321

Lecturer: N Smit (Miss)  
Building and office number: Samuel Pauw Building, Room 4 - 46  
Telephone number: 012 429 4179

E-mail: 1<sup>st</sup> Semester: [MAC2602-16-S1@unisa.ac.za](mailto:MAC2602-16-S1@unisa.ac.za)  
2<sup>nd</sup> Semester: [MAC2602-16-S2@unisa.ac.za](mailto:MAC2602-16-S2@unisa.ac.za)

E-mail and telephone numbers are included above and any correspondence (e.g. letters) should be addressed to:

The Module leader (MAC2602)  
Department of Management Accounting  
Samuel Pauw Building  
PO Box 392  
UNISA  
0003

**PLEASE NOTE: Letters to lecturers should not be enclosed with or inserted into assignments.**

### 3.2 Department

The Department of Management Accounting is situated in Pretoria at the main campus on the fourth floor of the Samuel Pauw building.

Enquiries that are not of an administrative nature **but** are **about the content of this module** should be directed to the lecturers. Please have your study material available when you contact your lecturers.

### 3.3 University

If you need to contact the University about matters not related to the content of this module, please consult the publication *myStudies @ Unisa* which you received with your study material. This booklet contains information on how to contact the University (e.g. to whom you can write for different enquiries, important telephone and fax numbers, addresses and details of the times that certain facilities are open).

#### How you contact Unisa?

**Unisa website** (<http://www.unisa.ac.za> & <http://mobi.unisa.ac.za>)

All study-related information is now available on the new Unisa corporate website in both web and mobi formats.

**myUnisa** (<https://my.unisa.ac.za/portal> & <https://my.unisa.ac.za/portal/pda>)

Students can access their own information via the *myUnisa* website or mobi site.

**E-mail** ([info@unisa.ac.za](mailto:info@unisa.ac.za))

Students may send an e-mail to [info@unisa.ac.za](mailto:info@unisa.ac.za) for information on how to contact specific divisions at Unisa via e-mail.

**SMS (32695)** - only for students in South Africa)

Students may send an SMS to 32695 for more information on how to contact specific divisions at Unisa via SMS. The sender will receive an auto response SMS with the various SMS options. The cost to the student per SMS is R1,00.

**Fax** (012 429 4150)

Students will be able to fax their enquiries to 012 429 4150, where after it will be distributed to and processed by the relevant department.

#### How to contact the College of Accounting Studies (CAS) Student Information Hub:

**Tel no: 012 429 4211**

Or

**E-mail addresses:**

- [CASenquiries-Postgraduate@unisa.ac.za](mailto:CASenquiries-Postgraduate@unisa.ac.za)
- [CASenquiries-Undergraduate@unisa.ac.za](mailto:CASenquiries-Undergraduate@unisa.ac.za)
- [CASenquiries-CTA@unisa.ac.za](mailto:CASenquiries-CTA@unisa.ac.za)

## 4 MODULE-RELATED RESOURCES

**PLEASE NOTE:** Your lecturers cannot help you with missing study material. Please contact [despatch@unisa.ac.za](mailto:despatch@unisa.ac.za) or send a sms to 43579 for study material.

This is an online module. All the resources for this module are available on the myUnisa module webpage. For your convenience the main content is also available in this MO001 document.

### 4.1 Prescribed books

There are no prescribed books for this module.

## 4.2 Recommended books

There are no recommended books for this module.

## 4.3 Electronic Reserves (e-Reserves)

There are no electronic reserves for this module.

# 5 STUDENT SUPPORT SERVICES FOR THE MODULE

For information on the various student support systems and services available at Unisa (e.g. student counselling, tutorial classes and language support), please consult the publication *myStudies@Unisa* that you received with your study material.

## CONTACT WITH FELLOW STUDENTS

### 5.1 Study groups

It is advisable to have contact with fellow students. One way to do this is to form study groups. The addresses of students in your area may be obtained from the following department:

Directorate: Student Administration and Registration  
PO Box 392  
Unisa  
0003

### 5.2 E- Tutors

Unisa offers online tutorials (e-tutoring) to students registered for the module MAC2602. Once you have been registered for the module, you will be allocated to a group of students with whom you will be interacting during the tuition period as well as an e-tutor who will be your tutorial facilitator. You will receive a sms informing you about your group, the name of your e-tutor and instructions on how to log onto MyUnisa in order to receive further information on the e-tutoring process.

Online tutorials are conducted by qualified e-tutors who are appointed by Unisa and are offered free of charge. All you need to be able to participate in e-tutoring is a computer with internet connection. If you live close to a Unisa regional centre or a Telecentre contracted with Unisa, please feel free to visit any of these to access the internet. It is the role of the e-tutor to guide you through your study material during this interaction process. For you to get the most out of online tutoring, you need to participate in the online discussions that the e-tutor will be facilitating.

# 6 MODULE-SPECIFIC STUDY PLAN

Read the information on general time management and planning skills contained in the *my Studies @ Unisa* brochure.

Plan your studies properly so as to achieve specific study goals at predetermined dates. This avoids a haphazard approach to your studies and the use of ineffective study techniques.

## Suggested study programme for 2016

**First priority - Compulsory assignment 01 (to gain admission to the examination and contributing 25% towards your year-mark)**

Study the following topics in the study material:

- Topic 1 – Development of the organisation’s strategy (Strategy and strategic planning),



- Topic 2 – Introduction to financial management and
- Topic 3 – Time value of money.
- Topic 4 – Sources and forms of finance,
- Topic 5 – Capital structure and the cost of capital,
- Topic 6 – Analysis of financial information and
- Topic 7 – Analysing and managing working capital.

Complete and submit the compulsory assignment number 01 (included in annexure A for semester 1 and annexure C for semester 2), before the due date. This is a multiple choice questions (MCQ) assignment.

### **Second Priority – Assignment 02 (contributing 75% towards your year-mark)**

- Topic 1 – 7 as for assignment 1,
- Topic 8 – Capital investments and capital budgeting techniques,
- Topic 9 – Risk theory and approaches to risk management,
- Topic 10 – Risk identification and documentation and
- Topic 11– Risk assessment, the management of risk and risk reporting.

Complete and submit assignment 02 (included in annexure B for semester 1 and annexure D for semester 2), before the due date. This is a written assignment.

**Important: See guidelines on how to submit written assignments electronically via my unisa under Frequently asked questions page 13 to 15 of this Appendix.**

Please note that it is the policy of this department not to mark the whole assignment. Depending on the length and difficulty of the assignment, ONLY ONE OR TWO QUESTIONS OR PARTS OF QUESTIONS MAY BE MARKED.

To assist learners, a study programme is provided. This programme indicates the dates on which certain sections of the study material as well as assignments should be completed. The study program is based on the assumption that learners devote more or less 4 hours of study to each topic.

We are convinced that, if you adhere to this programme, you should have no difficulty in mastering the subject. It is very important that the subject matter covered in the topics should be mastered and not just skimmed. If you happen to register late or fall behind with this programme, extra effort on your part will be necessary.

**PLEASE NOTE:** Learning only the solutions to the assignments off by heart is not enough to help pass the exam. You also need to focus on the self-assessments provided in the study material.

## Suggested study programme: Semester 1

Date	Topics from the study material	Due date
29/01/2016 to 16/03/2016	Topic 1 – Development of the organisation's strategy Topic 2 – Introduction to financial management Topic 3 – Time value of money Topic 4 – Sources and forms of finance Topic 5 – Capital structure and the cost of capital Topic 6 – Analysis of financial information Topic 7 – Analysing and managing working capital	<b>16/03/2016</b>
17/03/2016 to 06/04/2016	Topic 8 – Capital investments and capital budgeting techniques Topic 9 – Risk theory and approaches to risk management Topic 10 – Risk identification and documentation Topic 11– Risk assessment, the management of risk and risk reporting	<b>06/04/2016</b>

## Suggested study programme: Semester 2

Date	Topics from the study material	Due date
10/07/2016 to 24/08/2016	Topic 1 – Development of the organisation's strategy Topic 2 – Introduction to financial management Topic 3 – Time value of money Topic 4 – Sources and forms of finance Topic 5 – Capital structure and the cost of capital Topic 6 – Analysis of financial information Topic 7 – Analysing and managing working capital	<b>24/08/2016</b>
25/08/2016 to 14/09/2016	Topic 8 – Capital investments and capital budgeting techniques Topic 9 – Risk theory and approaches to risk management Topic 10 – Risk identification and documentation Topic 11– Risk assessment, the management of risk and risk reporting	<b>14/09/2016</b>

## 7 ASSESSMENT

**Please note:** Although students may work together when preparing assignments, each student should write and submit his or her own individual assignment. In other words, you should submit your own ideas in your own words. It is unacceptable for students to submit identical assignments on the basis that they worked together. That is copying (a form of plagiarism) and none of these assignments will be marked. Furthermore, you may be penalised or subjected to disciplinary proceedings by the University.

### 7.1 Assessment plan

Formative assessment:

Assignments are seen as part of the learning material for this module. Before you complete an assignment, work through the relevant topics in your study material. Pay specific attention to the learning outcomes provided at the start of each topic and make sure that you are able to complete the activities and self-assessment questions provided in each topic before attempting the assignment. Discuss the work with fellow students or tutors. You are then actively engaged in learning. Assignments and tutorial letters form an integral part of your tutorial matter and must be studied for examination purposes.

**Plagiarism:** Plagiarism is the act of taking words, ideas and thoughts of others and passing them off as your own. It is a form of theft which involves a number of dishonest academic activities.

The Disciplinary Code for Students is given to all students at registration. Students are advised to study the Code.

## Compulsory assignments

Submission of compulsory **assignment 01** will earn you admission to the examination. The mark you earn for compulsory assignment 01 will contribute **25%** towards your year mark, which comprises 20% of your final mark.

**Admission to the examination** will therefore only be **obtained by submitting compulsory assignment 01** and the marks obtained for it will contribute towards your year mark.

**Assignment 02** is a written assignment that contributes **75%** towards your year mark, which comprises 20% of your final mark.

You will undoubtedly realise the importance of commencing your study programme timeously so that you can earn a good year mark, by submitting the **two** assignments.

Please refer to the *myStudies @Unisa* brochure on how to use and complete a mark-reading sheet. This assignment will not be marked if it is not completed on a mark reading sheet. Assignment 02 for both semesters is a written assignment.

**PLEASE NOTE: Enquiries about assignments (e.g. whether or not the University has received your assignment or the date on which an assignment was returned to you) must be e-mailed to [Assign@unisa.ac.za](mailto:Assign@unisa.ac.za)**

### Year mark:

The **mark obtained** for compulsory assignment 01 counts 5% and the **mark obtained** for assignment 02 counts 15%, giving a year mark out of 20% towards the final mark.

How it is calculated?

Students require a combined final mark of 50% to pass a module. This final mark is calculated as follows: **5%** for assignment 01 and **15%** for assignment 02 + **80% x mark obtained in the examination.**

The division between the year mark and the examination mark.

If a student fails the examination with less than 40%, the year mark will not be used to pass the student.

How it will work in practice?

The marks you obtain for the compulsory assignments 01 and 02 will be your year mark, contributing towards a possible maximum of 20% of your final mark in the examination. A sub minimum of 40% in the examination is however required, before the year mark will be taken into account towards your final mark.

Your year mark will be taken into account as follows:

- mark (%) for compulsory assignment 01: 25% of year mark (5% of final mark)

- mark (%) for compulsory assignment 02: 75% of year mark (15% of final mark)  
 The year mark will contribute 20% towards your **final mark**. The mark you obtain in the examination will count 80% and your year mark will count 20%. If you earn 75% for compulsory assignment 01, 65% for compulsory assignment 02, and 48% for the examination, your final mark will be 41,10% i.e.  $[(75\% \times 0,05) + (65\% \times 0,15) \times 20\%] + 38,40\% (48\% \times 80\%)$

## 7.2 Unique assignment numbers and due dates

Assignments are numbered consecutively per module, starting from 01.

Your answers in respect of the assignments should be addressed to Unisa (not to the lecturer concerned) and should reach the University not later than the dates specified below. (Refer to the study programme in par. 6).

All assignments have their own unique assignment number.

Please indicate the provided unique number on your mark reading sheet. Failure to do so will result in no admission to the exam.

Assignment number	Due date – First Semester	Due date – Second Semester
<b>01</b> ( <i>Compulsory for admission to the examination and part of year mark</i> )	16/03/2016	24/08/2016
<b>02</b> ( <i>Contributes to your year mark</i> )	06/04/2016	14/09/2016

## 7.3 Submission of assignments

Students may submit written assignments and assignments completed on mark-reading sheets **either** by post **or** Mobile MCQ submission **or** electronically via myUnisa. Assignments may **not** be submitted by fax or e-mail.

Note that it will be wise to submit assignments electronically via *myUnisa* a day or two before the due date as the system is often overloaded on the due date. If the system gives an error message, please wait a while and try again until your assignment is accepted.

For detailed information on assignments, please refer to the *myStudies@Unisa* brochure, which you received with your study package.

To submit an assignment via *myUnisa*:

- Go to *myUnisa*.
- Log in with your student number and password.
- Select the module.
- Click on assignments in the menu on the left-hand side of the screen.
- Click on the assignment number you wish to submit.
- Follow the instructions

Receipt of assignments after the due date disrupts the marking programme and the uncontrolled submission of assignments furthermore creates administrative problems. You are requested to carefully note the under mentioned requirements and suggestions and to adhere strictly to them:

1. **NO EXTENSION OF TIME WILL BE GIVEN FOR THE SUBMISSION OF ANY OF THESE ASSIGNMENTS, AS SOLUTIONS WILL BE FORWARDED AUTOMATICALLY TO ALL STUDENTS SHORTLY AFTER THE DUE DATES.**
2. **NO CORRESPONDENCE OR TELEPHONE CONVERSATION WILL BE CONDUCTED REGARDING THE LATE SUBMISSION OF ASSIGNMENTS.**
3. **ASSIGNMENTS RECEIVED AFTER THE DUE DATE WILL NOT BE MARKED.**

## 7.4 Assignments

The assignments for 2016 are provided in the addendum as annexures A to B for the first semester and annexures C to D for the second semester.

You will receive the correct answers automatically for multiple-choice questions. However, solutions to compulsory assignments will be sent to all students registered for this module in a follow-up tutorial letter, and not only to those students who submitted the assignments.

As soon as you have received the solutions, please check your answers. The assignments and the solutions to these assignments constitute an important part of your learning and should help you to be better prepared for the next assignment and the examination.

**Please note:** Enquiries about assignments (e.g. whether or not the University has received your assignment or the date on which an assignment was returned to you) must be addressed via e-mail ([assign@unisa.ac.za](mailto:assign@unisa.ac.za)) or via sms (43584). You might also find information on myUnisa. To go to the myUnisa website, start at the main Unisa website, <http://www.unisa.ac.za>, and then click on the 'login to myUnisa' link under the myUnisa heading on the screen. This should take you to the myUnisa website. You can also go there directly by typing in <http://my.unisa.ac.za>.

Assignments for MAC2602 are supplied in paragraph 10 of this appendix (Appendix A). Assignments are also available on the myUnisa module site.

## 8 EXAMINATION

To be admitted to the MAC2602 exam you need to submit the compulsory assignment 1 which will also count 25% (maximum) towards your year mark and earn you entry to the exam.

You also need to submit assignment 2 (not compulsory) that will count 75% (maximum) towards your year mark.

### 8.1 Examination period

This module is offered in a semester period of more or less fifteen weeks. This means that if you are registered for the first semester, you will write the examination in May/June 2016 and the supplementary examination will be written in October/November 2016. If you are registered for the second semester you will write the examination in October/November 2016 and the supplementary examination will be written in May/June 2017.

During the semester of the module, the Examination Section will provide you with information regarding the examination in general, examination venues, examination dates and examination times.

Date: May/June (First semester) and October/November (Second semester)

Duration: Two hours per module

Marks: 100

Covers the whole syllabus (Topics 1 to 11)

Could be summatively assessed using multiple-choice questions and/ or written questions.

## **Calculator policy:**

Candidates may only use silent, electronic, battery driven pocket calculators subject to the following conditions:

- Calculators must be cordless and may not have print-out facilities or alpha keys
- Any financial calculator will be allowed
- The calculator function on mobile telephones or any electronic device (i.e. laptops and/or any Smart Phone) may not be used
- Candidates may not share a calculator with another candidate in the examination room.

## **8.2 Examination papers**

Previous examination papers are available to students on myUnisa as well as in the exam tutorial letter which you will receive nearer to the exam.

## **8.3 The importance of a positive study method**

Examination statistics have proved that those learners who prepare their work thoroughly and who complete all the assignments have a better chance of obtaining a pass in the examination than those learners who are content with doing no more than the minimum work.

Only after you have acquired the necessary knowledge should you read through the assignment for the first time, work out the solutions under examination conditions and submit your answers to us so that they will reach the University on or before the due date of the assignment (not after the due date).

The assignment should in effect constitute your first revision of the work which you have studied. In other words, the assignment should not serve as a check list of the work to be studied for the completion of the assignment, but should, when the assignment is attempted, serve as a test of the knowledge you have acquired by studying the work.

When you receive the solutions and compare the suggested solutions with your own, you are provided with an opportunity of revising the work for a second time. If you persevere with such a rigid program of study you will reap the benefit of sustained practice in answering questions and will undoubtedly enjoy success in the examination.

## **8.4 Tutorial letter with information on the examination**

To help you in your preparation for the examination, you will receive a tutorial letter that will explain the format of the examination paper and will contain an old examination paper.

# **9 FREQUENTLY ASKED QUESTIONS**

Please refer to the *myStudies @ Unisa* brochure as it contains an A-Z guide of the most relevant study information.

## FAQ for MAC2602

### **What calculator can I use in the exam?**

You may use any financial calculator, as long as it is a non-programmable calculator. Remember that your answer using a calculator may differ from manual calculations. This is due to rounding. In the study material we refer to the Sharp EL-748 and the HP10bII financial calculators. If you use another make or model, you should study the manual thereof for instructions. We cannot give instructions for all the different makes and models of financial calculators. (Also see the calculator policy as stated under Examination above).

**Do I have to know all the formulae in the study material or will they be given in the exam paper?**

No they are not given in the exam paper, you will have to know them.

**Are the factor tables A to D provided in the exams?**

Yes they are at the back of your exam paper.

**What is important to study for the exam, are there sections that I can leave out?**

No, all sections are examinable. Our exam covers the whole syllabus, therefore it is not advisable to leave out any sections of the study material.

**What tips can you give me for the exam?**

We as lecturers are not allowed to give exam tips to students. It is unethical and not fair to other students that have not spoken to us.

**I have not received my study material yet?**

You need to call the Despatch department, on +27 12 429 4950 or send a sms to 43579 or send an e-mail to [despatch@unisa.ac.za](mailto:despatch@unisa.ac.za). You can also find your study material in electronic format on *myUnisa*.

**I've found a mistake in the study material?**

Although we have put in our best effort to have our study material free of errors we will gladly correct any that might have slipped through. Please contact us so that we can amend it.

**What is expected from me in the answering of questions that require define, describe, examine etc.?**

Please refer back to the "Introduction and overview" section at the beginning of Appendix B on p. xii. Examples of some of the action words that you will come across in the examination and/or in assignments together with their meanings are explained there.

**How do I submit my written assignments online?****GUIDELINES ON HOW TO COMPLETE AND SUBMIT WRITTEN ASSIGNMENTS ONLINE BY MEANS OF MYUNISA**

The only acceptable file format for written assignments is PDF (various PDF writers)

All written assignment MUST be uploaded in **PDF** format. Any other format is not compatible with the onscreen marking tool and therefore it is VERY IMPORTANT that you upload your assignment only in PDF.

**DO NOT** upload any written assignments in Microsoft Word, Microsoft Excel, Microsoft OneNote or any other possible format available.

**DO NOT** upload pages as photo images.

**DO NOT** upload assignments as read only or password protected pdf documents. The onscreen marking tool will not be able to open these assignments for marking purposes and you will receive 0% for the assignment.

**(i) Assignments completed manually:**

Scan the assignment and save it on your computer as a pdf document before it can be uploaded.

- Scan the documents as ONE single document and not all the pages individually.
- **DO NOT** scan the assignment upside down. Open the scanned document on your computer and make sure it is not upside down.

Once you have scanned it in and saved it on your computer as a pdf document you will be able to upload it on myUnisa.

**(ii) Assignments completed in Excel:**

- Make sure that you convert the file to a pdf format first and save it on your computer as a pdf document.
- Once you have converted it CHECK that the questions follow in a logical pattern and that your answers were not cut off in the middle of a sentence or calculation. This will happen if your excel calculations did not fit onto one page. **DO NOT** upload any assignments where a part of the question follows at the end of the pdf document. Therefore, please make sure that all the pages are converted and that the last page do not only have part of a sentence or calculation on it.
- Ensure that you formulas are typed out and that you did not use the formula bar to type in the formula because then only the answer is displayed in the cell without the formula and the substitution of the figures used in the calculation. Marks are awarded for formulas and the substitution of the correct figures into the formulas, not only for final answers. If your answer is correct but it is not supported by a detailed formula and substitution of the correct figures into the formula, you will not receive all the marks for that question.
- If your computer software cannot convert the assignment to a pdf document you will need to print the “excel” assignment and scan it in. Then follow the procedures under “Assignments completed manually”.

**(iii) Assignments completed in Word:**

- Make sure that you convert the file to a pdf format first and save the pdf file on your computer as a pdf document.
- If your computer software cannot convert the assignment to a pdf document you will need to print the “word” assignment and scan it in. Then follow the procedures under “Assignments completed manually”.

**IN ORDER TO SUBMIT WRITTEN ASSIGNMENTS ONLINE, YOU MUST:**

- **Create** a separate subdirectory for MAC2602, Assignment 02 on your computer where you can save all your assignment files for MAC2602.
- **Submit** this one single PDF file on myUnisa (\*See instructions below).

**DO NOT** upload or submit any assignment other than the correct pdf assignment for the correct module.

**DO NOT** submit the individual assignment pages on myUnisa. myUnisa will only accept the first page uploaded and you will not be able to submit all the other pages of your assignment. You may only upload a single PDF file on myUnisa.

**\* HOW TO SUBMIT ASSIGNMENT 02 (WRITTEN ASSIGNMENTS) VIA MYUNISA:**

- Go to [www.unisa.ac.za](http://www.unisa.ac.za)
- Go to myUnisa
- Enter your student number and password



- Select your module from the orange strip - **MAC2602**
- Click on “Assignments”
- Find the MAC2602 course code in the Course column
- Find the corresponding number of the assignment, i.e. 2 in the Ass.No. column
- Click on the Submit link in the Action column next to the assignment number
- Click on the Browse button next to File Name
- In the Choose File dialog box, select the file you want to upload e.g. MAC2602 Assignment 2.pdf, and then click OK
- Select the correct file format from the File Format drop-down list (pdf)
- Click on the Continue button.
- Verify that you are uploading the **correct** file to MAC2602. If the wrong details, e.g. file name, appear on the screen, click Back to restart the file upload process.
- Click on the Continue button to submit your assignment file. If you do not click Continue, no submission action will take place. Large files will take longer to upload than small files. Please be patient after you have clicked Continue.
- **The assignment submission report is your proof that your assignment was submitted. You must print this page for your record purposes.**
- Click on the Return to Assignment List button to go back to the Assignment overview screen.

**DO NOT wait till the due date if you want to submit your assignment online via myUnisa. The web server may experience high traffic volumes and it may result in late submission of your assignment.**

**Please DO NOT click the ‘RESUBMIT’ button unless you want to submit the assignment again from the beginning! When you click that button it immediately cancels your previous submission.**

#### **YOU SHOULD ALWAYS TAKE COGNISANCE OF THE FOLLOWING GENERAL ADVICE:**

- Keep an electronic backup of your assignment that you have submitted, as well as the original assignment if you have done it manually.
- Keep your online submission receipt number or a print screen of your submission receipt as proof of online submission. If you did not receive confirmation that your assignment was submitted successfully then your assignment wasn’t submitted. Please submit your assignment again until you receive confirmation that your assignment was submitted successfully.
- **DO NOT resubmit your assignment online on myUnisa.** Make sure that you uploaded the CORRECT assignment on the CORRECT module BEFORE you click the submit button the first time. (This is similar to dropping a package in the post box – what is done is done.) Do not call or e-mail the lecturers with requests to resubmit your assignment.
- **DO NOT wait until the last day to submit your assignments online on myUnisa.** The servers can’t handle the volume of students and big files being uploaded at once and then you may perhaps not be able to upload your assignment before the deadline.
- **DO NOT email or fax your assignment to your lecturers or the Assignment Section at Unisa.** If you have submitted your assignment electronically (through myUnisa) AND manually (either via post or the drop box at Unisa) you will create problems with your assignments as the system might cancel all your assignments and none of that specific assignment will be marked. You will receive 0% as the system might pick up that you have

not submitted the assignment. **Only use one method** to hand in your assignment. Preferably online in myUnisa.

## **10 ASSIGNMENTS FOR 2016**

ADDENDUM A: COMPULSORY ASSIGNMENT 01/2016 FOR THE FIRST SEMESTER

ADDENDUM B: COMPULSORY ASSIGNMENT 02/2016 FOR THE FIRST SEMESTER

ADDENDUM C: COMPULSORY ASSIGNMENT 01/2016 FOR THE SECOND SEMESTER

ADDENDUM D: COMPULSORY ASSIGNMENT 02/2016 FOR THE SECOND SEMESTER

ADDENDUM E: ERRATA APPENDIX C

## **ADDENDUM A: COMPULSORY ASSIGNMENT 01/2016 FOR THE FIRST SEMESTER**

**DUE DATE: 16 MARCH 2016**

Before attempting this assignment, you should be fully conversant with the contents of topics 1 to 7.

The assignment contains 20 multiple choice questions which have to be answered on an assignment **mark-reading sheet OR via *myUnisa***.

Submission of this assignment is important to gain admission to the examination. Marks awarded for this assignment contributes 25% towards your year mark which comprises 20% towards your final mark.

The unique number for this assignment is:

**MAC2602 - Unique number – 687839**

How to use and complete an assignment mark-reading sheet:

1. All the information on a mark-reading sheet must be filled in with a HB pencil.
2. Do not use a pen to fill in the mark-reading sheet.
3. Do not attach a barcode label to the mark-reading sheet.
4. Use only the orange mark-reading sheet that you received with your study material.
5. For more details regarding the completion of the mark-reading sheet, we refer you to the brochure *myStudies @ Unisa*.

**COMPULSORY ASSIGNMENT 01/2016 FOR THE FIRST SEMESTER**

**THIS ASSIGNMENT MUST BE COMPLETED EITHER THROUGH MYUNISA OR ON A MARK-READING SHEET [DUE DATE 16 MARCH 2016]**

**MULTIPLE CHOICE QUESTIONS (60 marks) Unique number – 687839**

**Set your calculator on four decimal places for this assignment.**

1. The mission statement is devised by the organisation's board of directors as a tool that guides the priorities that direct an organisation's behaviour. Which other benefits of a mission statement are there?
  - (a) It provides an indication about the direction an organisation should take.
  - (b) It enables communication of a common culture through the organisation.
  - (c) It discloses the operating performance of the organisation.
  - (d) It describes information with regards to the organisation.
  - (e) It is developing corporate values for the organisation.
  - 1) Statements (a), (b) and (c)
  - 2) Statements (a), (b) and (d)
  - 3) Statements (b), (c) and (e)
  - 4) Statements (a), (c) and (d) (3)
  
2. The load shedding of electricity usage by ESKOM has a negative impact on the production of Company Y. ESKOM can be referred to as a key stakeholder of Company Y and therefore the choice of strategies are being influenced by the significance of the relationship between Company Y and ESKOM. The significance of the relationship is the \_\_\_\_\_ ESKOM.
  - 1) level of interest of ...
  - 2) dependency on ...
  - 3) conditions in ...
  - 4) degree of power of ... (3)
  
3. Choose the correct definition/explanation of "capital structure" from the list of definitions below.
  - 1) It is the money the organisation has on hand (including petty cash, unbanked payments received) as well as the money in the bank (including cheque accounts or short-term deposits).
  - 2) It is the term used to describe the annual return or compensation earned on an investment.
  - 3) It refers to the controlling of balances included in the current assets and current liabilities, the way the related functions within the organisation are performed and the way working capital is financed.
  - 4) It is the manner in which an organisation's assets are financed. It is normally expressed in percentages of each type of capital used by the organisation, such as debt and equity. (3)

4. The risk of entry by potential competitors forms part of Porter's five forces that shape industry competition. Select the factors which determine the strength of rivalry among current competitors.
- (a) The presence of global customers
  - (b) Absence of switching costs
  - (c) The growth rate of the industry
  - (d) The competitive structure of the industry
  - (e) The amount of overhead costs
- 1) Statements (a), (b) and (c)
  - 2) Statements (a), (b), (c) and (d)
  - 3) Statements (b) and (d)
  - 4) Statements (b), (c), (d) and (e) (3)
5. What was the traditional historical overall objective of a business?
- 1) Sustainability
  - 2) Capital growth
  - 3) Maximisation of profit
  - 4) All of the above (3)
6. After the shift in the role of financial managers from being scorekeepers, the main focus of the financial manager became \_\_\_\_\_?
- 1) the acquiring of funds as well as the use of these funds by applying general management principles.
  - 2) the planning, organising and control of the financial activities of a business.
  - 3) the management and control of money and money-related operations within a business.
  - 4) to contribute with his/her financial knowledge and skills towards the long-term creation of sustainable wealth for the owners/investors of the business. (3)
7. Which ONE of the following statements is a correct description of agency theory?
- Agency theory is:
- 1) the conflict between the self-interest of the managers/agents and their task to maximise long-term wealth for the shareholders (owners).
  - 2) the appointment of managers by the shareholders to run the company on a day-to-day basis.
  - 3) the transfer of ownership through the sale of shares.
  - 4) the risk that the goals of agents (managers) may be different from those of the shareholders. (3)
8. You inherited money and want to invest it at the best return. After visiting a few banks for advice, you have two options. The first option offers a rate of 3% compounded 4 monthly and the second option offers a rate of 5% compounded bi-annually. Which option with its matching effective annual rate is the best option?
- 1) Option 1 with 12,49%
  - 2) Option 2 with 10,25%
  - 3) Option 1 with 9,27%
  - 4) Option 2 with 10,00% (3)

9. Mr T has started his own photography business. He has a very good camera that will still be fine for the next two years. At the end of the second year, he wants to buy a better camera for R75 000. He can invest his money at a compounded interest rate of 12% per annum. How much should he invest per month for the next two years in order to have the required amount at the end of two years?

[Use the mathematical formula to calculate the amount and round the final answer to the nearest rand. The financial calculator calculation will present different alternatives due to rounding.]

- 1) R2 781
- 2) R634
- 3) R2 948
- 4) R3 108 (3)

10. Which of the following statements regarding the relationship between Table C and Table D are TRUE?

- a) A factor in Table D, for an investment made at the end of the period, cannot be converted to a factor relating to an investment made at the beginning of the period.
- b) The initial amount in Table C is invested at the beginning of the period, whereas the initial amount in Table D is invested at the end of each period.
- c) Table C shows the future value of R1 (a single amount) after  $n$  years and Table D shows the future value of R1 per period (annuity), received for  $n$  years.
- d) The factor of R1 at 6% in Table D ( $n = 4$ ) for an investment made at the beginning of the period converted to an investment made at the end of the period, is equal to the sum of the factors of year 1 to 4 in Table C at 6%.

- 1) Statements (a), (b) and (c)
- 2) Statements (a), (b) and (d)
- 3) Statements (a), (c) and (d)
- 4) Statements (b), (c) and (d) (3)

11. Which ONE of the following statements refers to the term extrapolation?

- 1) Calculates the periodic payments for a loan based on constant payments and a constant interest rate.
- 2) Determines a rate that falls between two of the tabulated rates, for example between 8% and 10%.
- 3) The calculation used to determine an actual rate where this actual rate lies outside two specific rates.
- 4) Used to calculate the present value of a future amount by using a discount rate. (3)

12. Which ONE of the alternatives is represented by this  $\left[ \left( \frac{(1+i)^{n+1} - 1}{i} \right) - 1 \right]$  formula?

- 1) Present value of R1 per period (annuity) where the investment is made at the end of the period.
- 2) Future value of R1 per period (annuity) where the investment is paid in advance.
- 3) Future value of R1 per period (annuity) where the investment is made at the end of the period.
- 4) Present value of R1 per period (annuity) where the investment is paid in advance. (3)

13. Which ONE of the following is an example of raising money internally?

- 1) Borrow money from creditors.  
 2) The company generates money by selling an ownership interest.  
 3) Bonds can be sold directly to investors.  
 4) Save retained cash flows and reinvest it in the organisation. (3)
14. Which of the following considerations are TRUE when an organisation needs to raise capital?
- a) Debt holders run the highest risk of their capital not being repaid.  
 b) Debt tends to have a finite life while equity tends to be part of the organisation for life.  
 c) Equity financing is relatively more expensive than debt financing.  
 d) Holders of ordinary shares do not control the organisation as they have no voting rights.  
 e) Interest payable on debt is deductible as a business expense for normal tax purposes.
- 1) Statements (a), (c) and (e)  
 2) Statements (a), (b) and (e)  
 3) Statements (b), (c) and (e)  
 4) Statements (b), (c) and (d) (3)
15. A target capital structure is the point where the mix of the two capital components achieves the lowest average cost of long-term financing for the organisation. LiLo Ltd has a target capital structure of (D:E) 20 000 000:30 000 000. LiLo needs to raise R20 million for a project and wants to uphold the target capital structure. How will the capital structure look after the new project?
- 1) (D:E) 20 000 000:30 000 000  
 2) (D:E) 10 000 000:10 000 000  
 3) (D:E) 30 000 000:40 000 000  
 4) (D:E) 28 000 000:42 000 000 (3)
16. The yield to maturity (YTM) percentage is \_\_\_\_\_.
- 1) the effective required return (cost) for equity instruments.  
 2) the effective after-tax cost of debt financing.  
 3) the internal rate of return (IRR) that will discount all cash flows to zero.  
 4) also called the effective rate of return. (3)
17. Little Ox Ltd is financed with 300 million ordinary shares with an issue price of R10 (market share price is R20) each and with 2 million, 15% debentures at a current market value of R200 500 000. Calculate the weighted average cost of capital (WACC) of Little Ox Ltd if  $k_e = 18\%$  and  $k_d = 15\%$  (before tax). [Use the formula method.]
- 1) 17,56%  
 2) 17,77%  
 3) 15,18%  
 4) 17,99% (3)

18. The ratios used in ratio analysis can be grouped into different classifications. Which ONE of the following is not one of the classifications?
- 1) Liquidity
  - 2) Financial investment
  - 3) Solvency and financial/capital structure
  - 4) Profitability and performance
- (3)
19. In managing inventory, keeping too much inventory results in the following:
- a) Systems to manage/control the inventory
  - b) Higher suppliers' bills
  - c) Customer dissatisfaction because of higher costs.
  - d) Physical stores/infrastructure required to maintain the inventories in good condition
  - e) Holding and ordering costs
- 1) Statements (a), (c) and (e)
  - 2) Statements (a), (b) and (d)
  - 3) Statements (b), (d) and (e)
  - 4) Statements (a), (d) and (e)
- (3)
20. The aggressive working capital investment policy is \_\_\_\_\_.
- 1) a policy kept by an organisation to keep working capital in a balance
  - 2) when a low level of net working capital is kept compared to total assets
  - 3) established where sales vary throughout the year (in seasonal businesses)
  - 4) where the investment in working capital is high compared to all assets
- (3)

**Total [60]**



## **ADDENDUM B: COMPULSORY WRITTEN ASSIGNMENT 02/2016 FOR THE FIRST SEMESTER**

**DUE DATE: 6 APRIL 2016 (No extension of time will be given for submission of this assignment)**

Before attempting this assignment, you should be fully conversant with the all the contents of MAC2602.

Marks awarded for this assignment contributes 75% towards your year mark of 20% and 15% towards your final mark.

This assignment contains longer type questions.

Please remember to indicate the unique number on your assignment cover, the unique number for this assignment is:

**MAC2602 - Unique number – 780546**

**Important: See guidelines on how to submit written assignments electronically via my unisa under Frequently asked questions page 12 to 14 of this Tutorial letter.**

## COMPULSORY ASSIGNMENT 02/2016 FOR THE FIRST SEMESTER

**THIS ASSIGNMENT MUST BE COMPLETED IN FULL AND SUBMITTED TO REACH THE UNIVERSITY BEFORE OR ON THE DUE DATE OF 6 APRIL 2016.**

**LONGER TYPE QUESTIONS (100 marks) (120 minutes) Unique number – 780546**

**Set your calculator on four decimal places for this assignment.**

### **QUESTION 1 (28 marks)**

**[This question consists of two parts, Part A and Part B.]**

#### **PART A**

The EEF-J company is in process of applying to be listed on the Johannesburg Stock Exchange (JSE). They have 30 million equity shares in issue. Their current financial statements for the year ended April 2016 has just been approved by the directors. An extract of information from the financial statements is provided to you:

	<b>R'000</b>
Current assets	25 850
Current liabilities	4 556
Total assets	29 800
Total liabilities	9 540
Retained earnings	2 100
Net profit for the year	8 588
Taxation for the year	1 222
Revenue	40 520

In the year ended April 2012, they had a qualified audit report. Thereafter they have improved the internal control procedures and received satisfactory audit reports for the following years.

Mr JJM, the financial manager, approached you as trainee financial manager to assist him in the process of listing the EEF-J company on the JSE.

#### **REQUIRED:**

- a) Name and briefly explain the process that takes place when a company applies to be listed for the first time. (2)
  - b) List four of the JSE listing requirements. Apply the financial information of the EEF-J company and determine whether the company will comply with each requirement or not. (10)
  - c) Provide a conclusion as to whether the EEF-J company complies with the JSE listing requirements as well as a recommendation of what could be done in the instance of not complying. (3)
- [15]**

**PART B**

The EEF-J company raised capital by the issuing of shares. To ensure that they attain their target capital structure, they decided to make use of debt financing for their new expansion project. The bond that they are interested in has the following details:

Par value	R16 500 000
Current market value	R12 600 000
Annual interest	14%
Company tax rate	28%
Redeemable after 6 years	Par value

Mr JJM, the financial manager, asked you as trainee financial manager, the following questions regarding the debt financing.

**REQUIRED:**

- a) Which process should EEF-J follow before they can issue corporate bonds? (2)
  - b) Explain what the "effective cost of finance" entails. (3)
  - c) Mr JJM wants to know how the new bond will affect their cash flows over the period of the debt. (Ignore the effective interest and taxation. Only indicate the specific in- and outflows regarding the bond for each of the years 0 to 6). (4)
  - d) Calculate the after-tax cost of the new bond by using your financial calculator. Show detailed inputs. (4)
- [13]

**QUESTION 2 (25 marks)**

A cattle farming business, Bhrama Ltd, already owns a number of farms in the Zeesim area. They are in the business of buying and breeding cattle and then selling cattle to various butcheries. They are currently listed on the stock exchange. They are considering expanding the business by acquiring more farms in the Rodsee area. Bhrama Ltd is a leader in the cattle farming business.

The following information for the financial year ended 29 February 2016 is provided to you:

Gross profit	R606 424 000
Net profit	R360 796 000
Gross profit margin	61,35%
Current assets	R1 379 568 000
Non-current assets (including value of farms purchased)	R1 620 984 000
Total liabilities	R1 444 541 000
Long-term debt (including current portion)	R659 900 000
Retained earnings	R56 011

- The company has an issued share capital of 150 million ordinary shares.
- The current (2016) market price per share is 1 400 cents.
- The dividend per share is 10 cents.

**REQUIRED:**

- a) Explain the importance of strategic information of a business. (3)
- b) List seven kinds of information that can be included in strategic information and link each kind to the specific information regarding Bhrama Ltd provided in the question. (7)

- c) Calculate the following ratios for the year 2016:
- i. Net profit margin. Explain what the ratio indicate and whether you reckon the calculated ratio is good or bad with a motivation. (4)
  - ii. Asset turnover (industry average 0,50). Explain what the ratio indicate and whether you reckon the calculated ratio is good or bad with a motivation. (4)
  - iii. Debt to equity ratio (based on market value) (3)
  - iv. Earnings per share (2)
  - v. Dividend yield (2)

[Round your final answers to two decimals in the case of a percentage or to the nearest rand in the case of values.] [25]

### **QUESTION 3 (17 marks)**

Lovin'-it Ltd imports handcrafted gifts. They purchase an average of R1 000 000 stock from a supplier in India on an annual basis. The credit terms of the supplier is 3/10 net 50. The cost of other short-term financing options has an effective annual rate of 19%. The current tax rate is 28%.

You may ignore the effect of foreign exchange variances.

#### **REQUIRED:**

- a) Name and briefly explain two advantages and two disadvantages of trade accounts payable. (4)
- b) Calculate the value of discount received from the supplier in India if all purchases are paid within the discount period. How should it be accounted for (disclosed) in Lovin'-it Ltd's statement of profit or loss and other comprehensive income? (4)
- c) Calculate the effective annual rate of utilising the full credit period. (6)
- d) Advise Lovin'-it Ltd of the best financing option (should they make use of the discount offered or not)? Motivate your advice by referring to relevant calculations. (3)

[Work to four decimals and round only your final answer to two decimals.] [17]

### **QUESTION 4 (20 marks)**

The Rain-from-Spain company is an innovative manufacturing and rental studio that offers a fresh approach to events infrastructure. They manufacture and rent modern furniture and accessories for events. They also illuminate items thereby creating a unique atmosphere in any venue. One of the directors, Mr AB, made a suggestion (option 1) to buy a new manufacturing machine at a cost of R650 000. Depreciation is calculated on a straight-line basis on the cost of the machine over its useful life of 3 years. Mr AB has compiled the following cash flow table.

Cash flows:

Net cash in/(outflow)[Excluding depreciation and after tax]  
 Factor at 15%  
 Present value (rounded to the nearest rand)

	Year 1	Year 2	Year 3
Net cash in/(outflow)[Excluding depreciation and after tax]	R247 867	R273 067	R363 067
Factor at 15%	0,870	0,756	0,658
Present value (rounded to the nearest rand)	R 215 644	R206 439	R238 898

The second director, Mr JP, made a suggestion (option 2) that they can rather invest the R650 000 at a

specific interest rate at the bank. He said that they then would have R870 000 at the end of 3 years.

These two investment options are mutually exclusive. Management's target rate for investment projects is set at 16%.

**REQUIRED:**

- a) Determine the internal rate of return (IRR) should the company buy the new manufacturing machine as suggested by Mr AB (option 1). Interpolate between 15% and 18%. (9)
- b) Use the mathematical formulae method and information given with regard to Mr JP's investment suggestion (option 2) to determine the effective interest rate of his suggestion. Which of the two investment option's should be chosen? Motivate your conclusion regarding the best option by referring to your calculations in (a) and (b) and relevant evaluation criteria. (5)  
[Work to four decimals and round only your final answer to two decimals.]
- c) Calculate the accounting rate of return (ARR) for the investment in the manufacturing machine (option 1). Use the ARR of buying the machine as calculated as well as evaluation criteria to explain to management why the new manufacturing machine option should be the best choice. (6)  
[20]

**QUESTION 5 (10 marks)**

This question consists of five multiple-choice questions. Each question must be considered independently, except where specific reference is made to information in another question. Each question has only one correct answer, and the marks per question (5.1 – 5.5) are indicated in brackets after each question.

Please answer the five questions by listing the question numbers below one another, from 5.1 – 5.5, with your corresponding answer next to it, for example:

- 5.1 (a)  
5.2 (b)

The questions are as follows:

- 5.1 The directors of a consulting company realised that stakeholders have varying degrees of influence over the strategic choices that their company makes. Which ONE of the following alternatives does NOT relate to reasons why key stakeholders have an influence on the choice over future strategies?
- a) dependency  
b) degrees of power  
c) level of interest  
d) maturity of the organisation (2)

5.2 The Poetry Company arranged a break-away weekend for management to brainstorm on their strategic planning and way forward. They approached you to explain the SWOT analysis approach to strategic planning to them. Which ONE of the following statements is FALSE and should therefore not be included in your explanation?

- a) In SWOT analysis, the situational analysis should cover the organisation and its environment currently, as well as how the environment may develop in the future.
- b) Strategy formulation is the process when decisions are evaluated to achieve the organisation's strategic objectives.
- c) Strategy achievement programmes (implementation) entails putting the strategy into action or making the strategy work as intended by developing detailed plans.
- d) Strategy evaluation is the final step at the end of the year when performance is measured to determine the success of the implementation of the detailed plans (2)

5.3 The Pearl Company has done an intensive exercise to identify and evaluate the risks in the company. They have appointed a risk management team to monitor the effectiveness of the risk management process. Which ONE of the following combinations of methods is available to the risk management team to monitor the effectiveness of the risk management process?

- a) Scenario management, loss management, key risk indicators, risk and control self-assessments completed by management
- b) Risk assessment, risk responses, results of audit reviews
- c) Risk reporting, residual risk assessment, documentation of risk
- d) Risk description, inherent risk rating, risk categorisation (2)

5.4 The CARE-full Company has a low risk appetite. Management are in the process of formulating risk responses to their inherent risk ratings. Which combination of the risk responses below can be linked to financial, credit risk?

- 1) Board approved limits, monitoring of results, lending procedures
- 2) Uninterruptable power supply, system testing
- 3) Member surveys, increased marketing
- 4) Human resource development and training plans
- 5) Underwriting of loans, semi-annual loan reviews

- a) Statements (2) and (5)
- b) Statements (1) and (4)
- c) Statements (2) and (3)
- d) Statements (1) and (5) (2)

5.5 The MMdoc Company is compiling a risk register. Which combination of data should NOT BE included in a risk register?

- a) Description and date when risk was identified
- b) Risk factors, internal and external perspectives
- c) Root cause analysis and risk responses as well as the target/implementation date
- d) Inherent- and residual risk rating, interdependencies with other risks

(2)

[10]

**Total [100]**

## **ADDENDUM C: COMPULSORY ASSIGNMENT 01/2016 FOR THE SECOND SEMESTER**

### **DUE DATE: 24 AUGUST 2016**

Before attempting this assignment, you should be fully conversant with the contents of topics 1 to 7.

This assignment contains 20 multiple choice questions which have to be answered on an assignment **mark-reading sheet OR via *myUnisa***.

Submission of this assignment is important to gain admission to the examination. Marks awarded for this assignment contributes 25% towards your year mark which comprises 20% towards your final mark.

The unique number for this assignment is:

**MAC2602 - Unique number – 868158**

How to use and complete an assignment mark-reading sheet:

5. All the information on a mark-reading sheet must be filled in with a HB pencil.
6. Do not use a pen to fill in the mark-reading sheet.
7. Do not attach a barcode label to the mark-reading sheet.
8. Use only the orange mark-reading sheet that you received with your study material.
5. For more details regarding the completion of the mark-reading sheet, we refer you to the brochure *myStudies @ Unisa*.

## COMPULSORY ASSIGNMENT 01/2016 FOR THE SECOND SEMESTER

**THIS ASSIGNMENT MUST BE COMPLETED EITHER THROUGH MYUNISA OR ON A MARK-READING SHEET [DUE DATE 24 AUGUST 2016]**

### **MULTIPLE CHOICE QUESTIONS (60 marks) [Unique number 868158]**

**Set your calculator on four decimal places for this assignment.**

1. There are different competitive strategies that an organisation can follow to achieve their long-term goals. Which ONE the following defines the differentiation strategy?
  - 1) Minimised expenses and better selling prices than competitors.
  - 2) Excellent quality products to increase value to the customer.
  - 3) Emphasise strong market abilities and create products perceived as uniquely creative, attractive and well-designed.
  - 4) Standard no frills high volume products at better prices than competitors. (3)
  
2. Which four stakeholder groups are all connected through their relationship with the company?
  - 1) Employees, Customers, Suppliers, Shareholders
  - 2) Shareholders, Government, Employees, Banks
  - 3) Local authorities, Customers, Suppliers, Banks
  - 4) Suppliers, Customers, Banks and lenders, Shareholders (3)
  
3. Human resource policies are part of the influential factors in the internal environment when a company's strategy is developed. Which ONE of the following is an example of this factor?
  - 1) All employees will be dressed in red shirts on the company teambuilding day.
  - 2) The employees are invited to an informative session where policies and laws will be discussed.
  - 3) Employees should adhere to specific rules of the company.
  - 4) Some employees received bonuses for their good work. (3)
  
4. Which ONE of the following statements is NOT a benefit of using the SWOT analysis for strategic planning?
  - 1) protecting against external threats
  - 2) amending internal weaknesses
  - 3) identification of core competencies of the organisation and building on those strengths
  - 4) monitoring of their overall external environment – factors are identified and analysed into strengths and weaknesses (3)



5. Nowadays it is important that a business should have “satisfying the needs of all stakeholders” as an objective. A construction company uses water in some of their processes. In accordance with their overall objective, they have decided to filter the water after usage and to reuse it in their processes. Which overall objective is this an example of?
- 1) Short-term profit maximisation for owners
  - 2) Corporate governance
  - 3) Sustainable long-term wealth creation
  - 4) Long-term owner/investor value maximisation (3)
6. Which inputs do strategic management decisions require from the finance function?
- a) Inputs regarding Human Resource (HR) policies and salary packages.
  - b) Inputs regarding financial planning issues.
  - c) Inputs regarding investment appraisal.
  - d) Inputs regarding the company’s products adhering to governmental standards.
  - e) Inputs regarding financial market operations.
- 1) Statements (a), (b) and (c)
  - 2) Statements (b), (c) and (d)
  - 3) Statements (c), (d) and (e)
  - 4) Statements (b), (c) and (e) (3)
7. There are five types of profit companies provided for in the Companies Act of 2008. Which ONE of the following is NOT one of the five types?
- 1) state-owned company
  - 2) private company
  - 3) personal liability company
  - 4) public benefit company (3)
8. You will be saving different amounts (unequal amounts) of your annual bonus every year. Over a period of 6 years, the money that you will have invested is as follows: R3 400, R5 500, R1 200, R3 300, R4 400, R2 300. The investment will earn 12% annually compounded interest. Determine the present value of these unequal payments.  
[Round your answer to the nearest rand.]
- 1) R10 183
  - 2) R15 718
  - 3) R14 034
  - 4) R14 472 (3)
9. Mrs SS borrowed R10 000 from a small loans company at a monthly rate of 2,2%. The loan must be repaid in six equal semi-annually instalments. How much would she need to pay as the periodic annuity instalment?
- 1) R5 164
  - 2) R6 011
  - 3) R2 515
  - 4) R3 498 (3)

10. An annuity is a stream of equal payments at equal intervals of time in the future. Which ONE of the following is TRUE with regard to an ordinary annuity?
- 1) An example is dividend payments on ordinary shares, where the dividend pay-out is not static.
  - 2) An annuity where the payments fall due at the beginning of each payment interval (period).
  - 3) An annuity where the payments take place at the end of each year or period (payment interval) at the same time that interest is calculated.
  - 4) The repayment of an amount owing in fixed instalments (payments). (3)
11. Which of the following statements regarding compounding are FALSE?
- a) It refers to the calculation of interest on a principal (initial) amount and adding that interest to the principal for investment in the following period.
  - b) Repayments on loans from banks and housing bonds are usually based on compounded interest.
  - c) Money invested at compounded interest increases quicker in value, which is why compounded interest is preferred over simple interest.
  - d) When we borrow or invest money at a compounded interest rate, the interest due at the beginning of each year, is added to the amount of the original loan or investment (the principal amount).
  - e) The interest is not paid at the end of the period in which it accrues. In the next period(s), interest is earned on the capital re-invested.
- 1) Statements (b) and (e)
  - 2) Statements (a), (b) and (d)
  - 3) Statements (b), (c) and (e)
  - 4) Statements (d) and (e) (3)
12. You are given this factor from Table B: 3,274. In which ONE of the following time-value-of money problems should this factor be used?
- 1) A specific amount to be invested annually at the end of each year for five years at 16% compound interest per annum. Use this factor to calculate the present value.
  - 2) A person would like to invest a specific amount at the end of each year at an annual compound interest rate of 16%. Use this factor to determine the value after five years.
  - 3) Invest an amount at an annual compound interest rate of 16% in order to receive Rx after five years. Use this factor to determine the value now.
  - 4) Someone would like to invest a specific amount at an annual compound interest rate of 15%. Use this factor to determine the value after 5 years. (3)
13. Which ONE of the following statements correctly describes what is meant by secondary market transactions?
- 1) The buyers of shares offered to the public by the issuing organisation pay an amount for the share certificates that give them (the shareholders) part ownership in the organisation.
  - 2) Holders of an organisation's securities can subsequently sell equity and debt securities to other investors.
  - 3) Bonds with maturities of longer than one year are sold directly to investors.
  - 4) Capital is raised in this type of market transaction and money flows from the investors to the organisation. (3)

14. Sky-above Ltd had 2 000 ordinary shares in issue. The total market value of the existing shares was R32 000. Sky-above issued 300 new ordinary shares to new investors at a market price of R16 each. What is the percentage of control of the original shareholders after the issue of the new shares?
- 1) 13,04%
  - 2) 15,00%
  - 3) 86,96%
  - 4) 90,91%
- (3)
15. Capital structure is the manner in which an organisation's non-current assets are financed. It can also be explained as \_\_\_\_\_.
- 1) the mix of equity and long-term debt that determines which percentage of the organisation's cash flow is attributable to owners/investors and which percentage is attributable to lenders.
  - 2) a cross (hybrid) between equity and debt, depending on the terms of issue.
  - 3) a mix of equity and short-term debt of an organisation that will affect the risk and value of the organisation.
  - 4) the owners/investors that are required to take on debt financing as well in order to fund all the long-term assets of the new business.
- (3)
16. Which ONE of the following is TRUE regarding the criticisms against the dividend growth model?
- 1) The valuation formula should be restated to calculate the expected rate that investors will require ( $k_e$ ).
  - 2) The constant growth model is based on the return that the investor is prepared to accept on the investment.
  - 3) The expected growth rate in dividends is predicted by the shareholders.
  - 4) The expected growth rate in dividends and future dividends are uncertain.
- (3)
17. Which ONE of the following formulas is NOT used to calculate the weighted average cost of capital (WACC)?
- 1)  $k_e \times \frac{k_e}{V_e + V_d} + k_d \times \frac{k_d}{V_e + V_d}$
  - 2)  $(k_e \times \text{Equity funding \%}) + (k_d \times \text{Debt funding \%})$
  - 3)  $k_e \times \frac{V_e}{V_e + V_d} + k_d \times \frac{V_d}{V_e + V_d}$
  - 4)  $\frac{k_e V_e + k_d V_d}{V_e + V_d}$
- (3)

18. Growth rate refers to the increase or decrease from one period to another. Calculate the growth rate for revenue of R980 million (previous period: R780 million) and for operating cost of R23 million (previous period: R55 million).
- 1) Revenue 25,64% decline, Operating cost 58,18% growth
  - 2) Revenue 25,64% growth, Operating cost 58,18% decline
  - 3) Revenue 20,41% growth, Operating cost 139,13% decline
  - 4) Revenue 20,41% decline, Operating cost 139,13% growth (3)
19. The cost of financing trade accounts change when discounts are offered. What is the rule of when to take up discount that is offered by the supplier?
- 1) It should be compared to the cost of other long-term financing sources.
  - 2) The nominal annual percentage cost equation should take the effect of compounding into account.
  - 3) The effective cost of discount forgone should be weighed against the organisation's regular cost of short-term funding.
  - 4) If the organisation's regular cost of short-term funding (such as the overdraft rate) is lower, it is not cost-effective to take the discount. (3)
20. Which ONE of the following is TRUE with regard to the conservative financing policy?
- 1) When temporary working capital is low, the total funding will mainly consist of short-term deposits.
  - 2) The organisation makes use of more long-term financing.
  - 3) Excess money will be invested in long-term instruments.
  - 4) Long-term financing is only used to support the peaks of the temporary working capital. (3)

**Total [60]**

**ADDENDUM D: COMPULSORY WRITTEN ASSIGNMENT 02/2016 FOR THE SECOND SEMESTER**

**DUE DATE: 14 SEPTEMBER 2016 (No extension of time will be given for submission of this assignment)**

Before attempting this assignment, you should be fully conversant with the all the contents of MAC2602.

Marks awarded for this assignment contributes 75% towards your year mark and 15% towards your final mark.

This assignment contains longer type questions.

Please remember to indicate the unique number on your assignment cover, the unique number for this assignment is:

**MAC2602 - Unique number – 739537**

## COMPULSORY ASSIGNMENT 02/2016 FOR THE SECOND SEMESTER

**THIS ASSIGNMENT MUST BE COMPLETED IN FULL AND SUBMITTED TO REACH THE UNIVERSITY BEFORE OR ON THE DUE DATE OF 14 SEPTEMBER 2016.**

**LONGER TYPE QUESTIONS (100 marks) (120 minutes)[Unique number 739537]**

**Set your calculator on four decimal places for this assignment.**

### **QUESTION 1 (22 marks)**

**[This question consists of two parts, Part A and Part B]**

The financial director of Anti-hi-Jade Ltd, a security company that specialises in the protection of women on roads, wants to acquire a new satellite security system at a cost of R200 million. They need to make decisions regarding the way of financing the new system. The company has a debt:equity ratio (D:E) of 30:70.

In a financial meeting, they identified a few possible forms of financing: issuing of new share capital, corporate bonds, debentures, bank overdraft, sale and leaseback, banker's acceptance, debtor finance (factoring) or instalment sale agreement.

The following information regarding the current situation (before the new satellite security system is taken into account) of Anti-hi-Jade Ltd is available:

Total assets	R1 000 million
Equity	R700 million
Debt	R300 million
Interest rate	9%
Company tax rate	28%
Earnings before interest and tax (EBIT)	R160 million

The new system will increase the earnings before interest and tax (EBIT) with R25 million.

### **REQUIRED:**

#### **PART A**

- a) Compare financing by means of equity versus financing by means of debt by focusing on the following aspects: taxation, risk and return, initial costs involved as well as capital repayments. Present your answer in a table as follows:

Equity financing versus debt financing:

<b>EQUITY</b>	<b>DEBT</b>
<b>Taxation:</b>	
<b>Risk and return:</b>	
<b>Initial costs involved:</b>	
<b>Capital repayments:</b>	

- b) Which form of financing should Anti-hi-Jade Ltd use, debt or equity? Why?

(4)  
(2)

- c) Indicate at least six types of debt instruments that are available for Anti-hi-Jade Ltd to use. Supply a short motivation about the appropriateness or not of each instrument. Present your answer in a table as follows:

Debt instruments and their appropriateness or inappropriateness for Anti-hi-Jade Ltd:

For example 1. Corporate bonds:	
2.	
3.	
4.	
5.	
6.	
7.	

(6)  
[12]

## PART B

Anti-hi-Jade Ltd strives to increase the returns for equity holders. How will the return on equity (ROE) be affected when the satellite security system is funded by 100% debt? Present the information in the following two tables and then explain the effect of debt funding.

<u>Current financial leverage situation (interest on debt = 9%)(given)</u>	
Total assets 1 000:Equity 700	
:Debt 300	
Capital structure = D:E =	?:?
Earnings before interest and tax (EBIT)	?
Interest (9% x R ?)	( ? )
Profit before tax	?
Income tax expense	( ? )
Net profit	?
Return on equity (ROE)	= ? $\frac{100}{1}$
Formula = ?	= ? x $\frac{100}{1}$
	= ? %

<u>New system</u> funded with <b>no equity and 100% debt (interest on debt = 9%)</b>	
Total assets 1 200:Equity 700	
:Debt ?	
Capital structure = D:E =	? : ?
Earnings before interest and tax (EBIT)	?
Interest (9% x R ?)	$\frac{(?)}{1}$
Profit before tax	?
Income tax expense	$\frac{(?)}{1}$
Net profit	?
Return on equity (ROE)	
Formula = ?	$= \frac{?}{?} \times \frac{100}{1}$
	= ? %

[10]

### **QUESTION 2 (27 marks)**

Beta-pharm, a medicine company, asked you to assist them in the financial analysis of their financial information.

The following selective information for the year ended 2016 is provided to you:

	2016 R'000	2015 R'000
Revenue	298 005	215 960
Net operating profit /(loss)	93 955	15 018
Operating costs	(57 200)	(56 630)
Earnings before interest and tax (EBIT)	97 509	17 338
Interest expense	(14 998)	(9 566)
Net profit	59 408	5 440
Trade and other receivables	25 669	15 440
Total current liabilities	34 915	8 066
Total current assets	88 428	44 220
Total Assets	251 918	209 029
Interest-bearing borrowings	105 000	90 392

- The company has an issued share capital of 100 000 000 ordinary shares.
- The current market price per share is 350 cents (2015: 300 cents).
- The dividend per share is 11 cents (2015: 4 cents).
- The revenue and operating profit/(loss) figures for 2014 is R 210 million and R51 million respectively and for 2013 it is R 235 million and R25 million respectively.

#### **REQUIRED:**

- Name six different techniques that can be applied in financial analysis. (3)
- Describe briefly how indexed financial statements are compiled. (2)
- Calculate the indexed figures of the revenue and operating costs. Use 2013 as base year. (4)



- d) Calculate the following ratios for the years 2016 and 2015:
- Operating profit margin. Explain what this ratio indicates and give detailed reasons for the change between 2015 and 2016. (5)
  - Current ratio. Explain what this ratio indicates and give detailed reasons for the change between 2015 and 2016. (5)
  - Interest cover. Does the change in this ratio from 2015 to 2016 make it safer for Beta-pharm to acquire additional long-term debt or not? (4)
  - Total assets to total debt ratio (based on book values). What does a high total assets to total debt ratio mean for the investors in the company? (4)

[Work to four decimals and round your final answer to two decimals.]

[27]

### **QUESTION 3 (18 marks)**

Two office furniture trading companies, Wood-ex and Pine-ex, sell all their furniture on credit. The revenue for the year ending July 2016 was R15 million for Wood-ex and R14 million for Pine-ex.

The debtors ageing schedule of both companies is supplied as at the end of July 2016. Both organisations have approximately the same (rand) balance for accounts receivable.

The credit terms offered to the customers of Wood-ex are: 2/10 net 30. The credit terms offered to the customers of Pine-ex are: 3/30 net 45. Value added tax (VAT) is 14% for both companies.

		<b>Wood-ex</b>				<b>Pine-ex</b>			
<b><u>Days outstanding</u></b>	<b>Balance of the account</b>	<b>Percentage of total balance</b>			<b><u>Days outstanding</u></b>	<b>Balance of the account</b>	<b>Percentage of total balance</b>		
0 - 10	1 255 010	46%			0 - 20	501 003	18%		
11 - 30	450 335	17%			21 - 30	2 006 001	73%		
31 - 60	958 556	35%			31 - 45	201 055	7%		
60 +	65 225	2%			45 +	62 936	2%		
		<b>2 729 126</b>	<b>100%</b>					<b>2 770 995</b>	<b>100%</b>

#### **REQUIRED:**

- Analyse and interpret the ageing schedules for both companies separately. (5)
- Discuss the possible issues of Wood-ex and Pine-ex by referring to the four different areas of the credit policy. (8)
- Calculate the receivable days for both companies by using months and discuss your findings. (5)

[18]

### **QUESTION 4 (23 marks)**

The Motor-grand-Car company is a company selling customised racing cars for use in various racing competitions. They use machine CTC to customise each car for a specific client.

The financial manager did some research on a new type of machine that will decrease the overall expenses (material and fixed costs). The cost of this new machine HTB is R950 million.

The financial manager has compiled the following cash flow table.

	Machine	
	CTC- current	HTB- new
	R'000	R'000
Cost price	60 000	950 000
Book value - Current	36 000	-
Tax value - Current	?	-
Market value – Current	25 000	-
Realisable value at end of useful life	NIL	NIL
Useful life:		
- Original	5 years	3 years
- Remaining	3 years	-
Annual expenses (material and fixed costs)	R'000 R1 795 000	R'000 R1 750 000
Annual production and sales:		
- Maximum sales (number of cars)	30 000	30 000
- Selling price (per car)	R75 000	R75 000
Annual wear and tear allowance for taxation purposes at 25% on the straightline method.	R ?	R ?
Annual depreciation calculated on the straightline method on the cost of the machine over its useful life (included in fixed costs)	R ?	R ?

Additional information:

1. The rate of company taxation is 28%. VAT can be ignored.
2. Management requires a return of 14% on capital projects.
3. Assume that all cash flows occur at the end of the year concerned, except initial capital outlays which occur at the beginning of the year.

**REQUIRED:**

Determine whether machine CTC should be replaced by machine HTB by:

- (i) Calculate the net present value (NPV) of retaining the existing CTC machine. Show detailed tables of cash flows and taxation in order to calculate the NPV. (12)
- (ii) Calculate the net present value (NPV) of the new HTB machine. Show detailed tables of cash flows and taxation in order to calculate the NPV. (9)
- (iii) Give your conclusion and motivation, based on your calculations in (i) and (ii) above and evaluation criteria, on whether the existing machine CTC should be replaced by the new machine HTB. (2)

[Work to four decimals and round your final answer to the nearest rand.]

[23]

**QUESTION 5 (10 marks)**

This question consists of five multiple-choice questions. Each question must be considered independently, except where specific reference is made to information in another question. Each question has only one correct answer, and the marks per question (5.1 – 5.5) are indicated in brackets after each question.

Please answer the five questions by listing the question numbers below one another, from 5.1 – 5.5, with your corresponding answer next to it, for example:

5.1 (a)  
5.2 (b)

The questions are as follows:

5.1 There are three generally accepted competitive strategies that are available to organisations in order to achieve their long-term goals: cost leadership-, differentiation- and pricing strategies. Which ONE of the following explanations best describes “selective pricing”?

- a) By setting a low selling price for a product or service in order to gain market share.
- b) By setting high selling prices for unique products, thereby maximising short-term profits.
- c) By setting the selling price for a product or service on the perceived value to the customer.
- d) By setting different selling prices for the same product or service in different markets. (2)

5.2 Porter's Five Forces Model assumes that the competitive environment within an industry depends on five forces that have an impact on the organisation's success, namely, threat of new entrants, threat of substitute products or services, bargaining power of suppliers and bargaining power of buyers and the strength of rivalry among existing competitors. Which of the following statements refer to the “barriers to exit”?

- 1) Substantial investment in non-current assets
- 2) Customer switching costs
- 3) Penalty clauses in supplier contracts
- 4) Absence of switching costs
- 5) Potential upswing in economic conditions

- a) Statements (1), (2) and (5)
- b) Statements (1), (3) and (5)
- c) Statements (2), (3) and (4)
- d) Statements (1), (4) and (5) (2)

5.3 One of the eight inter-related components of the enterprise risk management (ERM) programme is control activities. Which ONE of the following statements correctly describes the responsible parties for control activities?

- a) The board is ultimately responsible. Management and the risk management department will usually do the assessments and provide feedback to the board or a sub-committee thereof.
- b) The board is approving and monitoring the annual risk management plan.
- c) The board should ensure continuous risk monitoring by management and the risk management department. The board does this by approving and monitoring the annual risk management plan.
- d) Board of directors (the board) and the internal control committee. (2)

5.4 The most important financial risk is that the organisation will not be able to continue to function as a going concern. The OLZ Company is in process of researching hedging techniques. Which financial risk does OLZ want to condense?

- a) Credit risk
- b) Interest rate risk
- c) Investment risk
- d) Product risk

(2)

5.5 Risk reporting is concerned with periodic reports to the stakeholders and the board of directors. Which ONE of the following is NOT included in risk reporting?

- a) results from the internal audit committee
- b) a review of management's responses to significant risks and the risk strategy
- c) results from the monitoring of risk responses and significant residual risks that exist
- d) results of audit reviews to assess the adequacy and effectiveness of the risk management process and mitigating action plans to reduce risks to an acceptable level

(2)

[10]

**Total [100]**

**ADDENDUM: ERRATA APPENDIX C.**

**APPENDIX C: Due to unreadable printing in the shaded areas Page 202 - 203, 205, 208 – 211 should be replaced with the following:**

LIKELIHOOD/PROBABILITY		
ASSESSMENT	MEASUREMENT	DESCRIPTION
extreme	5	expected to occur
very high	4	will probably occur
medium	3	can occur at some time and may be difficult to control
Low	2	not expected to occur
negligible	1	may occur only in exceptional circumstances

IMPACT/CONSEQUENCE		
ASSESSMENT	MEASUREMENT	DESCRIPTION
extreme	5	impact or consequence of the risk will threaten the survival or viability of the organisation
very high	4	will have a significant impact on the achievement of organisation objectives or threaten the continued operation of the organisation
medium	3	will have a moderate impact on the achievement of organisation objectives
Low	2	will threaten efficiency or effectiveness of some aspects of the organisation
negligible	1	limited effect and the impact or consequence of the risk can be dealt with by routine operations

**Source:** CIMA (2009)  
**FIGURE 26.1:** Risk assessments with the likelihood and impact matrix

Legends:

	Critical	usually represented by the colour red
	High	usually represented by the colour orange
	Medium	usually represented by the colour yellow
	Low	usually represented by the colour green

### Feedback on activity 26.1

Various images of risk rating matrices are available on the internet. The following is an illustrative example of a risk-rating matrix with the calculated values (results of the risk assessments) in brackets:

IMPACT	LIKELIHOOD				
	Negligible (1)	Low (2)	Medium (3)	Very high (4)	Extreme (5)
Extreme (5)	medium (5)	medium (10)	high (15)	critical (20)	critical (25)
Very high (4)	low (4)	medium (8)	medium (12)	high (16)	critical (20)
Medium (3)	low (3)	medium (6)	medium (9)	medium (12)	high (15)
Low (2)	negligible (2)	low (4)	medium (6)	medium (8)	medium (10)
Negligible (1)	negligible (1)	negligible (2)	low (3)	low (4)	medium (5)

### Legends:

	Critical	usually represented by the colour red
	High	usually represented by the colour orange
	Medium	usually represented by the colour yellow
	Low	usually represented by the colour green
	Negligible	usually represented by the colour blue or no colour

### Feedback on activity 26.2

Calculation of inherent risk ratings:

- a. new technologies to be introduced by a competitor:  $4 \times 5 = 20$
- b. inefficient or wasteful contracts:  $3 \times 4 = 12$
- c. a fluctuation in currencies:  $3 \times 1 = 3$

The following represents selected fields of the risk register after taking the above information into account.

RISK OBJECTIVE / CATEGORY	RISK TYPE	RISK DESCRIPTION	INHERENT RISK RATING
Strategic risk	Technological risk	New technologies to be introduced.	20
Operational risk	Business risk	Inefficient or wasteful contracts can be entered into on behalf of the organisation.	12
Financial risk	Currency risk	Fluctuation in currencies can have a negative effect on the price of imported raw materials.	3

**Legends:**

	Critical	usually represented by the colour red
	High	usually represented by the colour orange
	Medium	usually represented by the colour yellow
	Low	usually represented by the colour green

**Activity 27.2**

Consider the following risks and the corresponding inherent risk ratings and formulate suitable risk responses if you assume that the organisation's risk appetite is low:

RISK CATEGORY	RISK TYPE	RISK DESCRIPTION	INHERENT RISK RATING	RISK RESPONSES
Strategic risk	Technological risk	New technologies to be introduced.	20	
Operational risk	Business risk	Inefficient or wasteful contracts are entered into on behalf of the organisation.	12	
Financial risk	Currency risk	Fluctuation in currencies can have a negative effect on the price of imported raw materials.	3	

**Feedback on activity 27.2**

The risk responses below were introduced to align the residual risk ratings with the organisation's risk appetite (refer to study unit 22, section 5), which is low, for these types of risks.

RISK CATEGORY	RISK TYPE	RISK DESCRIPTION	INHERENT RISK RATING	RISK RESPONSE
Strategic risk	Technological risk	New technologies to be introduced.	20	i. Obtain the rights to incorporate the new technology into the current products.
Operational risk	Business risk	Inefficient or wasteful contracts can be entered into on behalf of the organisation.	12	i. Draft a policy and procedure document for contract management; ii. Have the board approve a delegation of authority; and iii. Appoint a lawyer to review and sign-off on all contracts.
Financial risk	Currency risk	Fluctuation in currencies can have a negative effect on the price of imported raw materials.	3	i. Accept the risk.

**Legends:**

Critical	usually represented by the colour red
High	usually represented by the colour orange
Medium	usually represented by the colour yellow
Low	usually represented by the colour green

**Feedback on activity 27.3**

Calculation of residual risk ratings:

1. New technologies:  $4 \times 1 = 4.$
2. Inefficient or wasteful contracts:  $1 \times 4 = 4.$
3. A fluctuation in currencies:  $3 \times 1 = 3.$

The following diagram represents selected fields of the risk register after taking the information above into account.

Risk category	Risk type	Risk description	Inherent risk rating	Risk response	Residual risk rating
Strategic risk	Technological risk	New technologies to be introduced.	20	i. Obtain the rights to incorporate the new technology into the current products.	4
Operational risk	Business risk	Inefficient or wasteful contracts can be entered into on behalf of the organisation.	12	i. Draft a policy and procedure document for contract management;  ii. Have the Board approve a delegation of authority; and  iii. Appoint a lawyer to review and sign-off on all contracts.	4
Financial risk	Currency risk	Fluctuation in currencies can have a negative effect on the price of imported raw materials.	3	i. Accept the risk.	3

**Legends:**

Critical	usually represented by the colour red
High	usually represented by the colour orange
Medium	usually represented by the colour yellow
Low	usually represented by the colour green
Negligible	usually represented by the colour blue or no colour