

MASTER OF BUSINESS ADMINISTRATION

STRATEGIC FINANCIAL MANAGEMENT

ASSIGNMENT

ASSIGNMENT SUBMISSION DATE: _____

Please refer to the **Academic Calendar** for the assignment submission dates.

TECHNICAL REQUIREMENTS AND ASSIGNMENT INSTRUCTIONS

- Please ensure that your **first name, surname, student number, the course code number and total number of pages** appear on the front cover of your assignment.
- Assignments **must be submitted online via the Turnitin link** on your course subject page. Assignments may not be submitted via e-mail.

Here is an example of the assignment submission link:

 [BPM_Public_Policy_Assign_Sub_7April2016](#)

- You will find instructions on how to upload assignments in the Turnitin guide to submitting papers here:
http://online.regenesys.net/pluginfile.php/81380/mod_resource/content/7/Submitting%20a%20Paper%20turnitin.pdf
- Please answer this assignment according to the guidelines covered in the Assignment Submission Guide, which you can download here:
http://online.regenesys.net/pluginfile.php/12920/mod_resource/content/2/Assignment_Submission_Guide_Acad_ver7.pdf
- We recommend that you start this assignment as soon as possible. You will then get a good idea of the subject content early on in your studies.

Assignment Notes:

- Full referencing of all sources, including page numbers in in-text referencing, is essential. For example: (Gitman, 2010:15) in-text reference, and then in your reference list:
Gitman, L.J. 2010, *Principles of Managerial Finance*, Cape Town: Pearson Education.
- Extensive and credible academic references are required to demonstrate that you have researched the topics fully and so that you can substantiate your arguments critically.
- Please respect the introduction, body, and conclusion format for answering questions.

Assessment Terminology:

Ensure that you have a thorough understanding of the frequently used terms in assessments. For an explanation of assessment terminology, go to:

http://online.regenesys.net/pluginfile.php/12920/mod_resource/content/2/Assignment_Submission_Guide_Acad_ver7.pdf

INTRODUCTION TO THE ASSIGNMENT

- This assignment consists of **SEVEN** questions.
- Please remember that this assignment may not exceed 17 pages, excluding the title page.
- The font must be Arial 11 and single spacing must be used.
- Students are required to use the in-text referencing method prescribed by Regenesys under guidelines and policies on the student portal. Further, students are encouraged to refer to the referencing mark allocation guide to see the minimum number of references needed for this assignment.
- Please do not copy directly from the text unless absolutely necessary, and remember to put this in inverted commas and include an in-text reference. Paraphrase all the reference comments that you use and include the appropriate reference and page numbers. Plagiarism is a serious offence in the academic field.
- The appendices must be a maximum of three pages each and the information must be relevant and summarised. Please provide the relevant links referenced in your appendices, in order for the assessor to evaluate the source further if necessary.

NOTE: At postgraduate level, students are expected to substantiate their answers with evidence from independent research.

- Responses should be in **ESSAY AND PARAGRAPH FORMAT**. Bullet type responses should be avoided.
- If you decide to work as a group or team in doing your assignment, please make sure that you write your assignment individually and in your own words.
 - If **NOT**, you will be told you have copied and you will have to do a brand new assignment, which will be capped at 60% and for which you will have to pay a resubmission fee.

ASSIGNMENT QUESTIONS

QUESTION 1

[20 MARKS]

Assume that your organisation is looking for a specialist to assist with decisions regarding future investment strategies. Critically discuss whether you would appoint an accountant or a financial manager. In your discussion, be sure to highlight the difference between an accountant and a financial manager, and the roles and responsibilities of both individuals.

QUESTION 2

[10 MARKS]

How could a financial information system be beneficial to a business with respect to strategic financial management?

QUESTION 3

[15 MARKS]

You have been instructed to assist your direct manager, who is extremely risk-averse, to make a decision between two investments, A and B. Both investments require an initial investment of R300 000, and they both have a most likely annual return of 15%.

Your manager has brainstormed three scenarios (pessimistic, most likely and optimistic), and the expected annual returns associated with each possible scenario. The estimated returns associated with the three possible scenarios for assets A and B are detailed in the table below.

	Asset A	Asset B
Initial investment	R300 000	R300 000
Annual rate of return		
• Pessimistic	10%	5%
• Most likely	15%	15%
• Optimistic	18%	20%

Explain to your manager, and demonstrate, how to conduct a scenario analysis. Based on this analysis, discuss which asset is likely to be chosen and why.

QUESTION 4**[10 MARKS]**

Obtain the latest financial statements of your organisation (or one you are familiar with) and comment on the firm's liquidity. Be sure to justify your arguments with sound analysis and interpretation of the financial statements. Show all calculations.

QUESTION 5**[10 MARKS]**

Research and explain the influence of credit management and debt collection on a firm's financial liquidity. Before attempting this question, revisit the technical requirement and assignment instructions. In this instance, remember that full referencing of all sources, including page numbers in in-text referencing, is essential.

QUESTION 6**[10 MARKS]**

An initial investment on machinery of R10 000 is expected to generate cash inflows of R3 000, R4 000, R5 000 and R6 000 at the end of the first, second, third and fourth year respectively. Assist your manager. Calculate and interpret the NPV of the investment if the discount rate is 15%. In addition, calculate and interpret the payback period of the investment.

QUESTION 7**[25 MARKS]**

- 7.1 The equity beta of WealthCorp Ltd is 1.10, the market risk premium is expected to be 9%, and the yield on government bonds is currently 12%. WealthCorp Ltd issued bonds (R100 par value) that are currently trading at R80 and have a 5% coupon rate. The corporate tax rate is currently 25% and the maturity date of the bonds is in 10 years. (8)

Using the **CAPM**, calculate the cost of equity and the market's overall expected rate of return (R_m). Thereafter, interpret these values.

- 7.2 WealthCorp Ltd paid a dividend of R0.10 per share. The dividend is expected to grow at 10% annually. The share price is currently R1.70. (3)

What is WealthCorp's cost of equity, based on the **dividend growth model**?

- 7.3 GlobalCorp Ltd issues 12% irredeemable preference shares with a R50 face value each. The company also has to pay a flotation cost equivalent to 10% of the expected sales price. The company pays 25% income tax. Calculate the cost of the preferential shares if these are issued at a 10% premium. (4)

- 7.4 Calculate the weighted average cost of capital (WACC) using the following capital structure of Westeros Ltd: (5)

- Common share capital: R200 000
- Long-term loan: R600 000
- The company pays 14% on the bank loan and the cost of equity is 5%.
- Income tax is 30%.

- 7.5 What does it mean to "manipulate the capital structure", and why would a company do this? (5)

Total Marks: 100