Paper 2

Duration: 2 hours
Questions: 60 multiple choice questions

Instructions

This question paper has 60 multiple choice questions. Please read each question carefully and circle your answer clearly on the answer sheet provided.

1. Only hand in your answer sheet /paper.
2. Each question contains three options (A, B and C) choose only one answer.
3. Use a 2B pencil to circle your answer on the answer sheet provided.
4. After completing all the questions, you may hand in your answer sheet to your educator.
5. You do not have to fill in a student number on the answer sheet.
6. Please write your school name in the “Course Code” blocks.

Good luck with the first round paper for the Finance and Investment Management Olympiad!!!!

Fimo is sponsored by Strate and organised by Proverto

PROVERTO
Educational Publishers • Opvoedkundige Uitgewers

strate
always discovering

1. **At least how many different shares do advisors recommend to limit risk in your portfolio?**

   A. 5 Shares
   B. 4 Shares
   C. 6 Shares
   D. 7 Shares

2. **The fair value of a share is…**

   A. the value derived from book value accounting
   B. determined by demand and supply
   C. the general consensus for the value based on forecasts
   D. the value that is considered to be reasonable in all circumstances

3. **Which of the following statements is *most likely* correct?**

   A. growth stocks reinvest a significant portion of their earnings in an effort to boost future profits, whereas value stocks distribute a significant portion of their earnings in the form of dividends
   B. value stocks are more expensive than growth stocks
   C. value stocks are usually traded in small quantities, whilst growth stocks are traded in large quantities
   D. value stocks reinvest a significant portion of their earnings in an effort to boost future profits whereas growth stocks distribute a significant portion of their earnings in the form of dividends

4. **A value investor is looking to invest in…**

   A. companies that are trading at a value higher than the company's fundamentals suggest
   B. companies that are trading at a value lower than the company's fundamentals suggest
   C. companies that are trading at a value equal to the value a company's fundamentals suggest
   D. private companies

5. **A growth investor won't mind…**

   A. paying a higher price for a share because of the belief that a company's share will increase
   B. paying a higher price for a share because of the belief that a company's share will decrease
   C. paying a lower price for a share because of the belief that a company's share will increase
   D. paying a lower price for a share because of the belief that a company's share will decrease

6. **What is the market for a share (or its trading price) based on?**

   A. buy prices only
   B. sell prices only
   C. last traded price
   D. buy and sell prices

7. **The bid-ask spread is…**

   A. the profit received when an asset is bought or sold
   B. the difference between the buyer's price and the seller's price
   C. the prices determined by the JSE
   D. determined by analysts' valuation models

8. **Market depth is important as it allows you to analyse the market demand for the share through which of the following:**

   i) Volume
   ii) Prices of buyers and sellers
   iii) Market risk
   iv) Buyer and seller details

   A. all of the above
   B. i, iii and iv
   C. i and ii
   D. i

9. A market order…

A. executes the trade at the best available price
B. executes the trade at the most recent price
C. tells the market which shares to buy at a specified price
D. executes the trade at price specified by the analyst

10. What are the two kinds of stop losses?

A. variable price stop loss and a trailing price stop loss
B. fixed price stop loss and a forward price stop loss
C. fixed price stop loss and a trailing price stop loss
D. variable price stop loss and a forward price stop loss

11. A share, currently trading at R 100, has a trailing stop loss that is triggered when the share price drops to R 90. If the same stock increases in price to R160, when will the stop loss be triggered?

A. R 176
B. R 144
C. R 135
D. R 140

12. Capital Gains Tax (CGT) is…

A. the tax paid on any profit made when a share is sold
B. the tax paid on the annual capital growth of a share
C. the tax paid on dividends received while holding a share
D. the tax paid on the selling price of the share

13. Which of the following are considered by SARS when determining whether profits are revenue or capital in nature?

i) Intention of the original purchase
ii) Length of time that the asset was held
iii) The total value of the transactions
iv) The frequency of the transactions

A. i, ii and iii
B. i and iv
C. i, ii and iv
D. all of the above

14. Which of the following is *least likely* a recommendation for investing?

A. record valid reasons for any sales on the capital account
B. keep the turnover in the capital account to less than 25% of value per year
C. separate your capital portfolios from your trading portfolios by having two separate stock broking accounts
D. keep the turnover in the trading account to more than 75% of value per year

15. Key financial ratios are *least useful* when they are benchmarked against which of the following?

A. organisations in the same industry sector
B. different time periods for the same organisation
C. an organisation and its industry average
D. organisations using different accounting standards

16. Which of the following statements is *least likely* correct when it comes to the financial statements of a firm?

A. the Statement of Retained Earnings shows the amount of income remaining in an organization after dividends have been paid
B. the Income Statement summarises the profitability of a company through a summary of the company's incomes and expenses for a given period
C. the Balance Sheet comprises of all short-term assets and liabilities of a firm only
D. the Cash Flow Statement categorises cash flows according to the activities of the firm: operating, financing and investing

17. Which of the following situations would *least likely* complicate the comparability of key financial ratios between two firms?

A. one firm chooses to capitalise lease expenses, whilst another chooses to expense lease expense
B. a South African farming company specialises in oranges, whilst another specialises in lemons
C. one firm operates in the mining sector, whilst another operates in the food and beverage sector
D. one firm adopts US GAAP, whilst the other adopts IFRS

18. Which of the following is *not* a category of key financial ratios?

i) Profitability
ii) Investment
iii) Solvency
iv) Performance

A. i, ii, iii
B. i, iii, iv
C. all of the above
D. none of the above

19. Based on the following data for a firm: current assets of R 500 000; current liabilities of R 250 000; long-term debt of R 600 000; and goodwill of R 50 000. Determine the firm's current ratio.

A. 0.59x
B. 0.56x
C. 0.83x
D. 2.00x

20. A current ratio that is less than 1.0x implies that:

A. the company has sufficient short-term assets to meet its short-term obligations when they become due.
B. the company has insufficient short-term assets to meet its short-term obligations when they become due.
C. the company has sufficient long-term assets to meet its long-term obligations when they become due.
D. the company has insufficient long-term assets to meet its long-term obligations when they become due.

21. A company has current assets that comprise of: cash at R 90 000, current liabilities at R 60 000 and receivables at R 50 000. If the quick ratio is 1.5x, what is the value of inventory?

A. R 50 000
B. R 60 000
C. R 40 000
D. R 0

22. Which of the following are *not* classified as current assets?

A. inventory
B. receivables
C. cash
D. vehicles

23. The acid test ratio…

A. measures company liquidity more precisely than the current ratio
B. includes the value of inventories within current assets
C. excludes cash from current assets
D. uses data from the company's profit and loss statement

24. An organisation has cash of R50 000, inventories of R80 000, trade debtors of R30 000 and current liabilities of R80 000. What is the acid test ratio?

A. 2:1
B. 1:1
C. 1.38:1
D. 1.63:1

25. A company has current assets comprising of: R 90 000 cash; and R 50 000 receivables. If the company has current liabilities of R 60 000 and the quick ratio is 1.5x, what is the firm's value of inventory?

A. R 50 000
B. R 60 000
C. R 40 000
D. R 0

26. A gross profit margin of 38% is interpreted as:

A. the organisation achieves a profit of R 5.80, for every R15 of sales
B. the organisation achieves a profit of R 2.69, for every R7 of sales
C. the organisation achieves a profit of R 0.79, for every R2 of sales
D. the organisation achieves a profit of R 1.90, for every R5 of sales

27. **Which of the following statements is *least likely correct?***

A. gross profit margin expresses gross profit as a percentage of total sales
B. gross profit is dependent on how many sales are made and the value of sales
C. gross profit margin is the percentage added by management to cover the cost of goods and the required profit for a product or service
D. gross profit cannot be directly controlled by management

28. **What is the mark-up percentage of an organisation that has: total revenue of R700 000 and a gross profit of R300 000?**

A. 75%
B. 74%
C. 76%
D. 43%

29. **An organisation has a gross profit margin of 30% and cost of sales of R 500 000, what is the firm's total turnover?**

A. R 714 286
B. R 741 268
C. R 471 826
D. not enough information

30. **A company has a net profit margin of 15% and a net profit of R 25 000, what is the company's total sales value?**

A. R200 000
B. R166 667
C. R29 412
D. R141 667

31. **Which of the following statements is *most likely* correct regarding capital employed?**

A. capital employed is the net amount invested in the organization and is taken from the Statement of Cash Flows
B. Return on Assets can be improved by increasing capital employed
C. it is not useful to compare return on capital employed with returns obtained outside of the organisation
D. many people consider capital employed ratios to be most useful for analysing various returns

32. Which of the following is *least likely* an operating expense?

A. rent
B. utility bills
C. dividends
D. wages

33. Which of the following ratios are used to measure performance?

i) Gearing
ii) Number of days credit granted
iii) Inventory turnover
iv) Overheads as a percentage of cost of sales

A. i and iv
B. i, iii, iv
C. i, ii, iii
D. i and iii

34. A firm has assets of R 200 000, total borrowings of R 40 000, and equity of R 120 000. Calculate the company's gearing ratio.

A. 8:1
B. 1:3
C. 1:8
D. 3:1

35. Which of the following statements regarding "high gearing" is *most* accurate?

A. borrowing is low in relation to equity
B. equity is low in relation to borrowing
C. equity is equal to borrowing
D. assets are equal to borrowing

36. Determine the number of days credit granted by a firm which has: current debtors of R 100 000; and monthly sales of R 60 000 (this month) and R 80 000 (previous month). Assume 30 days in a month.

A. 45 days
B. 46 days
C. 44 days
D. 50 days

37. If a firm had an increasing number of days credit granted; customers were taking longer to pay and no one customer holds a substantial portion of outstanding debt, would the debt collection routines cause concern?

A. yes, both the fact that customers are taking longer to pay and that no one customer holds a substantial portion of outstanding debt is cause for concern
B. no, both the fact that customers are taking longer to pay and that no one customer holds a substantial portion of outstanding debt is not cause for concern
C. the fact that customers are taking longer to pay is not cause for concern, but the fact that no one customer holds a substantial portion of outstanding debt is cause for concern
D. the fact that customers are taking longer to pay causes concern, but the fact that no one customer holds a substantial portion of outstanding debt is not cause for concern

38. An organisation has an inventory turnover of 7x and an average stock value of R 70 000 per annum, calculate the cost of sales.

A. R 490 000
B. R 460 000
C. R 640 000
D. R 409 000

39. A firm's stock turnover ratio has been slowing (decreasing) over the past five years. What is the *least likely* reason for this change?

A. the firm is efficient in holding the minimum stock used for its operations
B. the firm is forced to discount some stock in order to sell it
C. there is a problem with slow-moving lines
D. the firm is inefficient in holding the minimum stock used for its operations

40. A firm has a stock turnover ratio of 7x, a P/E ratio of 25x, EPS of R 2 and cost of goods sold of R 600 000. Determine the firm's average stock value.

A. R 120 000
B. R 350 000
C. R 85 714
D. R 16 666

41. A firm has a stock turnover ratio of 7x, a P/E ratio of 25x, EPS of R 2 and cost of goods sold of R 600 000. Determine the firm's current share price.

A. R 25.00
B. R 50.00
C. R 12.50
D. R 2.00

42. Which of the following *least likely* focuses on an organisation's investment potential?

A. P/E Ratio
B. PEG Ratio
C. Return on Assets
D. Dividend Yield

43. An organisation has a P/E ratio of 6.5x and EPS of 300c. What is the organisation's current share price?

A. R 19.50
B. R 2.17
C. R 195
D. not enough information

44. Which of the following is *least likely* a key issue that requires acknowledgement in terms of a P/E ratio?

A. the P/E ratio uses historical earnings
B. the P/E ratio only provides a snapshot at a particular point in time
C. the P/E ratio should not be analysed in isolation
D. the P/E ratio cannot be calculated when earnings are negative

45. A firm trading in the insurance industry has a P/E ratio of 20x, and a competitor of the firm trades at a P/E of 17x. Which of the following is *least likely* an explanation for the difference between the two firms?

A. the stock trading at 20x is undervalued
B. the stock trading at 20x is overvalued
C. the stock trading at 20x is a growth stock
D. the stock trading at 20x is fairly valued

46. Which of the following statements is *most accurate* in terms of management's incentives to boost EPS?

A. low P/E ratio organisations seek to acquire lower P/E ratio organisations and prefer to pay in stock
B. low P/E ratio organisations seek to acquire higher P/E ratio organisations and prefer to pay in stock
C. low P/E ratio organisations seek to acquire higher P/E ratio organisations and prefer to pay in cash or debt
D. low P/E ratio organisations seek to acquire lower P/E ratio organisations and prefer to pay in stock

47. When there is ______________leverage, or a _______________P/E ratio, an indebted firm will have a _____________P/E ratio than an ____________ firm.

A. higher; declining; higher; unlevered
B. lower; increasing; higher; levered
C. higher; increasing; lower; unlevered
D. higher; declining; lower; levered

48. An organisation that is trading for less than its book value *most likely* tells an investor that…

A. the asset value is understated
B. Return on Assets is genuinely poor
C. there is a chance that the asset value will face an upward correction by the market
D. the stock should be purchased

49. A P/B Ratio is most suitable for assessing the financial performance of…

A. a service based organisation
B. an organisation with high intangible assets
C. a capital intensive organisation
D. none of the above

50. An organisation has total assets of R 205 million: R 150 million is intangible. There are 30 million shares outstanding at a market price of R 6 per share. Calculate the P/B ratio of the organisation.

A. 2.00x
B. 1.83x
C. 1.53x
D. 1.90x

51. An organization with EPS of R 3 has a P/E ratio of 8.25x, what is the company's share price?

A. R 2.75
B. R24.75
C. R0.36
D. R18.75

52. An organisation has a share price of R 150, EPS of R 25 and an annual EPS growth rate of 30%, calculate the firm's PEG ratio.

A. 0.2x
B. 20.0x
C. 2.0x
D. 2.2x

53. The P/E ratio is ________for a company with a _________growth rate.

A. higher; higher
B. lower; lower
C. higher; lower
D. lower; higher

54. An organisation with a dividend payout ratio of 50% has EPS of R 10 and a share price of R 50. Calculate the dividend yield.

A. 50%
B. 5%
C. 10%
D. 15%

55. A company has a dividend yield of 15% and its share is currently trading at R 50. If capital gains tax is 18% determine the company's dividend per share.

A. R 6.25
B. R 5.00
C. R 7.50
D. R 6.15

56. A company with a PEG ratio of 1.5x is *most likely*…

A. undervalued
B. overvalued
C. fairly valued
D. none of the above

57. Dividends Withholding Tax and Capital Gains Tax are at ____________ and ___________ respectively.

A. 20% and 40%
B. 20% and 28%
C. 15% and 40%
D. 28% and 20%

58. Which of the following statements concerning the 2017 budget speech is *least likely* correct?

A. An increase in fuel levy of 30 cents per litre
B. The income tax rate on income retained by trusts will increase to 45%
C. A new marginal income tax rate for those earning taxable income over R 1.5 million per annum of 50%
D. The government has revised the sugary beverage tax design

59. Who is the current minister of finance?

A. Pravin Gordhan
B. Malusi Gigaba
C. Brian Molefe
D. Nhlanhla Nene

60. Who is the governor of the South African Reserve Bank (SARB)?

A. Gill Marcus
B. Tito Mboweni
C. Malusi Gigaba
D. Lesetja Kganyago