

The Basics of Financial Management Exercises



Noordhoff

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5th edition

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Preface

The accompanying exercise book was revised simultaneously with the revision of *The Basics of Financial Management*. The set-up and chapters are equal to those of the textbook.

Each chapter contains a large number of exercises, which complement the related subject material in the textbook. The sequence in which exercises are incorporated, is tailored as much as possible to the manner in which the chapters are structured in the textbook. All exercises are provided with a paragraph indication, easily recognized by the , which refers to the related text in the textbook.

The exercises are divided into three categories:

- 1 *Knowledge questions* (marked with a **K**), which are meant to help memorize and understand the theory.
- 2 *Exercises* (marked with an **E**), which apply the theory to a specific situation.
- 3 *Insight questions* (marked with a **I**), which apply the theory to higher level thinking skills, such as analysing, evaluating and creating. These questions delve deeper into the subject material and link it to other parts, allowing an increased understanding of the coherence of the individual parts.

An answer book is available with this exercise book. In *Answers and solutions*, answers are given to all questions. For some exercises, extra practice material with Excel alternatives is available on the website. These exercises are marked with the following symbol: .

We trust that this approach offers students sufficient possibilities for an active approach and self-evaluation. This book comes with an overview showing all the changes made to the previous edition.

We are open to suggestions for improvement.
The authors,
Teteringen/Zwolle/Enschede



Series overview

The Basics of Financial Management

The Basics of Financial Management - Exercises

The Basics of Financial Management - Answers and solutions

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PART 1

Business Economics and Companies

1

Businesses and their Role in the Economy



Knowledge Questions

- 1
- §1.1 **K1.1** Describe the study object of economics.
 - §1.1 **K1.2** Into which components is economics divided?
 - §1.1 **K1.3** Describe the study object of business economics.
 - §1.2 **K1.4** Describe the term 'company'.
 - §1.2 **K1.5** What is the difference between 'effectiveness' and 'efficiency'?
 - §1.2 **K1.6** What annotation can be made with the following statement: 'Companies strive for maximum profit'?
 - §1.3 **K1.7** What is the essence of corporate social responsibility?
 - §1.3 **K1.8** What is life-cycle assessment?
 - §1.3 **K1.9** Indicate for each of the following elements whether it belongs to the traditional unit cost, the social costs or the environmental costs:

 - a cleaning up polluted soil
 - b underpayment of parties in the production chain
 - c wages of employees
 - d purchase of raw materials
 - e child labor
 - f depletion of raw materials
 - §1.4 **K1.10** Indicate for the following organizations whether they are considered to be companies or non-profit organizations:

 - a energy supplier Essent
 - b the fire department
 - c Nederlandse Spoorwegen (Dutch railway)
 - d University of Applied Sciences InHolland
 - e The Red Cross
 - §1.4 **K1.11** What do we mean by privatization?
 - §1.4 **K1.12** Which measure could be used to assess the effectiveness of:

 - a The police

Mission: The police are always there. Making our country safer. They protect democracy, uphold the law, and represent authority on the streets. The police help where needed. In emergency situations, they intervene decisively. Where others would back down, the police stand tall. Even if this requires force or puts them at risk. The police are actively engaged with civilians and partners. They are mindful of what goes on in society. The police are there for everyone. Alert and at your service.

b Probation services

Mission: The probation services in the Netherlands contribute actively to society's safety by curbing criminality and reducing recidivism. We focus on risk management and control, and by encouraging perpetrators or suspects to change their behaviors.

c The Kidney Foundation

Mission: We actively attempt to combine knowledge and accelerate research directed at curing kidney disease. An example is that of regenerative medicine, which works on the repair of kidney damage using the body's own stem cells.

◆ §1.5 **K1.13**

Indicate in which sector (agriculture, forestry, fishing and mining, manufacturing, wholesale trade, retail trade, services) the following companies mainly operate:

a *HorecaRama*

HorecaRama offers a wide selection of products from renowned brands for the hospitality industry, from professional deep-fat fryers to ice-cube makers to furniture and cutlery.

b *Philips*

Philips is a leading provider of healthcare technologies aimed at improving health and achieving better care within the full spectrum of the health continuum. From healthier living to diagnostics, from treatment to home care.

c *de Bijenkorf*

De Bijenkorf is the Netherlands' number one inspirational, surprising, and creative department store, where everyone is unique.

◆ §1.5 **K1.14**

Indicate for the following activities whether they are related to mass production, job production, batch-job production or batch-mass production.

a car manufacturing**b** compost production**c** the painting of a family portrait on commission◆ §1.5 **K1.15**

Below, the financial data of six companies are provided. These companies are:

- a tobacco wholesaler;
- an accounting firm;
- a supermarket;
- a brick producer;
- a jeweler;
- a touring car company.

	(1)	(2)	(3)	(4)	(5)	(6)
Assets as a % of total assets						
Fixed assets	69%	42%	70%	7%	86%	57%
Inventory	0%	58%	30%	52%	0%	20%
Accounts receivable	31%	0%	0%	41%	14%	23%
	100%	100%	100%	100%	100%	100%
Costs as a % of the total costs						
Raw material or trade goods	0%	54%	81%	97%	0%	19%
Personnel costs	71%	23%	10%	1%	38%	10%
Costs of fixed assets	7%	3%	4%	1%	15%	12%
Other operating costs	22%	20%	5%	1%	47%	59%
	100%	100%	100%	100%	100%	100%

Which company matches which number?

- ◆ §1.6 **K1.16** What is the difference between supply chain and industry?
- ◆ §1.6 **K1.17** Indicate for the following cases if there is conglomeration, vertical integration or horizontal integration:
- A garden center also starts selling Christmas items.
 - A mobile phone provider takes over a competitor, who also offers mobile phone services.
 - A mail order company begins its own delivery service.
- ◆ §1.6 **K1.18** Since 2005, the construction, maintenance and management of the Dutch railroads have been the responsibility of Prorail B.V. In the past, both management and operation of the railroads were the responsibility of NS (Dutch Railways). How would you describe this development?
- ◆ §1.7 **K1.19** In franchising, there is a form of co-operation between an entrepreneur and a 'chain'. Due to what reasons could the co-operation come under pressure?

◆ §1.7 **K1.20**

The electricity grid of the Netherlands is managed by seven grid operators. See the figure below



Substantiate whether this is called full competition, oligopoly or monopoly.

◆ §1.7 **K1.21**

What is the difference between a conglomerate and a joint venture?

Exercises

◆ §1.3 **E1.1**

Department store HEMA is switching to cocoa farmers who are affiliated with a network that works against exploitation in the cocoa industry. In the course of next year, the first HEMA chocolates made from traceable cocoa should be on the shelves. HEMA wants to contribute to a decent income for cocoa farmers. Poverty among farmers is often accompanied by child labor in the cocoa chain and deforestation, says Wilma Veldman of HEMA.

The company joins chocolate manufacturer Tony's Chocolonely, which is committed to "slave-free chocolate". The chocolate maker

has started an initiative to work with several Dutch companies to produce and purchase fairer chocolate. Ben & Jerry's, PLUS and Delicata from Albert Heijn are some of the names. The companies have agreed that they only use traceable cocoa beans, for which they pay a higher price. The intention is to work with farmers for the longer term, so that they have income security and can invest in their business.

Source: nu.nl, 23 September 2023 (translated)

- a** To which of the sustainable development goals (SDGs) does HEMA's intention with regard to the purchase of cocoa contribute?
- b** Is the future increase in the purchase price of cocoa and the consequent increase in the selling price part of internal costs or external costs?
- c** Give some examples of external costs in the production of chocolate.

➔ §1.3

E1.2

Production and sales of jeans have a number of negative externalities affecting people and the planet. Important environmental externalities in the value chain include use of scarce water, air pollution and climate change. Negative social effects include various forms of bonded labor (work with a non-voluntary component), child labor and underpayment. The true price gap of a pair of jeans is estimated at over €30 (€10.90 environmental external costs and €22 social external costs).

- a** What is the impact of the external costs on the unit cost of a pair of jeans?
- b** What is the impact of the external costs on the selling price of a pair of jeans?

Research shows that the external costs of a pair of jeans in 2030 can be reduced to €9.45 environmental costs and €8.20 social costs. As a result, the purchase price of raw material increases with €2 per pair of jeans.

- c** What is the impact of these changes on the unit cost of a pair of jeans?
- d** What is the impact of these changes on the selling price of a pair of jeans?