

The Basics of Financial Management Exercises



Noordhoff

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4th edition

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Cover design: Shootmedia

Cover illustration: Vlad Alexandru Popa via Pexels

Any comments concerning this or other publications should be addressed to Noordhoff Uitgevers bv, Afdeling Hoger onderwijs, Antwoordnummer 13, 9700 VB Groningen or via the contact form at www.mijnnoordhoff.nl.

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ISBN (ebook) 978-90-01-73836-5

ISBN 978-90-01-73835-8

NUR 782


Preface

Simultaneously with the revision of *The Basics of Financial Management*, the related exercise book was also translated. The set-up and chapters are equal to those of the theory book.

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

Each chapter contains a large number of exercises, which are associated with the theory from the corresponding chapter in the text book. The exercises are divided into three categories:

- 1 *Knowledge questions* (marked with a **K**), which are meant to memorize and understand the theory.
- 2 *Exercises* (marked with an **E**), focused on the ability to apply the theory to a specific situation.
- 3 *Insight questions* (marked with a **I**), aiming at the ability to apply higher level thinking skills, like analysing, evaluating and creating. These questions enter 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 provided 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. In the attachment to this book, an overview is included with modifications compared to the previous print.

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** Indicate for the following organizations whether they are considered to be companies or non-profit organizations:

 - a Energy supplier Eneco.
 - b The fire department.
 - c Nederlandse Spoorwegen (Dutch railway).
 - d University of Applied Sciences InHolland.
 - e The Red Cross.
 - ↔ §1.3 **K1.8** What do we mean by privatization?
 - ↔ §1.3 **K1.9** 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.
 - ↔ §1.4 **K1.10** Indicate in which sector (agriculture, forestry, fishing and mining, manufacturing, wholesale trade, retail trade, services) the following companies mainly operate:

 - a Horecarama.
Horecamara 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 Bijenkorf.

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

↔ §1.4

K1.11

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.**

↔ §1.4

K1.12

Below, the financial data of six enterprises are provided.

These enterprises 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?

↔ §1.5

K1.13

What is the difference between supply chain and industry?

↔ §1.5

K1.14

Indicate for the following cases, if there is an expansion in the same industry, vertical integration or horizontal integration:

- a A garden center will also start selling Christmas items.
- b A mobile phone provider takes over a competitor, who also offers mobile phone services.
- c A mail order company begins its own delivery service.

- ◆ §1.5 **K1.15** 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?
- ◆ §1.6 **K1.16** 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?
- ◆ §1.6 **K1.17** The electricity grid of the Netherlands is managed by 7 grid operators. See the figure below



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

- ◆ §1.6 **K1.18** What is the difference between a conglomerate and a joint venture?