

## SECTION A

**[30 MARKS]**

**REQUIRED:**

Answer the following questions by choosing the correct answer. Please indicate the **letter** you have chosen as your answer next to the correct question number on the answer sheet that has been provided to you.

**Question 1.1** (1)

Capital structure decisions include determining:

- A** which one of two projects to accept.
- B** how to allocate investment funds to multiple projects.
- C** the amount of funds needed to finance customer purchases of a new product.
- D** how much debt should be assumed to fund a project.

**Question 1.2** (1)

Which one of the following will produce the lowest present value interest factor?

- A** 6% interest for 5 years.
- B** 6% interest for 8 years.
- C** 6% interest for 10 years.
- D** 8% interest for 10 years.

**Question 1.3** (1)

Cash flow to shareholders is defined as:

- A** the total amount of interest and dividends paid during the past year.
- B** the change in total equity over the past year.
- C** cash flow from assets plus the cash flow to creditors.
- D** dividend payments less net new equity raised.

**Question 1.4** (1)

Net working capital is defined as:

- A** total liabilities minus shareholders' equity.
- B** current liabilities minus shareholders' equity.
- C** fixed assets minus long-term liabilities.
- D** current assets minus current liabilities.

**Question 1.5** (1)

Which one of the following will decrease the operating cycle?

- A** paying accounts payable faster
- B** decreasing the inventory turnover rate
- C** collecting accounts receivable faster
- D** increasing the accounts payable turnover rate

**Question 1.6** (1)

The market values of a bond equal:

- A** the sum of the annuity payments and the face value.  
the present value of the face value less the present value of the annuity
- B** payments.  
the present value of the future cashflows of the bond discounted at a market
- C** related rate.
- D** the yield to maturity.

**Question 1.7** (1)

Salty pays an annual dividend of R10 on its preference shares and will continue this dividend into perpetuity. The value of one share of these preference shares is:

- A** the present value of R10 over 20 years.
- B** priced the same as a R10 perpetuity
- C** worth R10.
- D** worthless as it offers no growth.

**Question 1.8** (1)

The return required by all capital providers on the total assets of a company is called:

- A** cost of capital
- B** cost of debt
- C** cost of equity
- D** capital growth

**Question 1.9** (1)

The cost of preference shares is computed as:

- A** the dividend yield on the shares.
- B** the after-tax cost of debt.
- C** an annuity.
- D** a share with a growth rate of 1%

**Question 1.10** (1)

Diversifiable risk:

- A** is the risk that affects a small number of assets.
- B** is measured by beta.
- C** is also known as systematic risk.
- D** is risk that affects a large number of assets.

**Question 1.11** (2)

Timo just invested R49 000 that he received as an insurance settlement.

Calculate how much more this account be worth in 40 years if he can earn an average return of 7.6% rather than just 7.1%

- A** R59 818.92.
- B** R98 509.16.
- C** R140 423.33.
- D** R155 986.70.

**Question 1.12** (2)

Suppose the first comic book of a classic series was sold in 1954. In 2017, the estimated price for this comic book was R310 000, which is an annual return of 22%. For this to be true, what was the original price of the comic book in 1954?

- A** 1.00
- B** 0.97
- C** 1.33
- D** 1.12

**Question 1.13**

**(2)**

Corner Books has a debt-equity ratio of 0.57. Calculate the total debt ratio.

- A** 0.36
- B** 0.30
- C** 0.44
- D** 2.27

**Question 1.14**

**(2)**

Dijo Markets has sales of R1 389 400 and costs of goods sold of R892 700. Beginning inventory is R94 300, and ending inventory is R110 200.

Calculate the length of the inventory period.

- A** 41.81 days
- B** 33.86 days
- C** 26.86 days
- D** 31.10 days

**Question 1.15**

**(2)**

Nadine's Boutique has an accounts payable period of 30 days. Sales of R3,300, R3,400, R4,600, and R4,100 are expected for Quarters 1 through 4, respectively. The cost of goods sold is equal to 62% of the next quarter's sales. The accounts payable balance is R975 as of the beginning of Quarter 1.

Calculate the amount of the projected cash disbursements for accounts payable for Quarter 2 of next year. Assume a year has 360 days.

- A** R2 645
- B** R2 486
- C** R2 567
- D** R2 604

**Question 1.16** **(2)**

Laten issued 30-year bonds 10 years ago. The bonds pay an interest of 8% per annum and have a face value of R1 000. Calculate the yield to maturity of the bonds.

- A** 6.00%
- B** 6.25%
- C** 7.79%
- D** 8.64%

**Question 1.17** **(2)**

Gentle recently paid a dividend of R0.35 on its share. The dividend is expected to grow by 5% into perpetuity. Calculate the value of the share if the required return is 14%.

- A** R3.89
- B** R4.08
- C** R2.50
- D** R7.00

**Question 1.18** **(2)**

The current price share price of Namtek is R32.50. The company recently paid a dividend of R3.35 per share and it expects to pay this dividend into the foreseeable future.

Calculate the required return on this share if the market risk premium is 5%.

- A** 10.00%
- B** 15.35%
- C** 5.35%
- D** 10.31%

**Question 1.19**

**(2)**

Java has debt of 55% in its capital structure with equity constituting the rest. The pretax cost of the debt is 8% and the prevailing tax rate is 27%.

Assuming that equity holders require a 19% return, calculate the weighted average cost of capital.

- A** 12.5%
- B** 12.01%
- C** 11.86%
- D** 13.72%

**Question 1.20**

**(2)**

Your portfolio is made up of 60% of share A, 20% of share B and the rest in share C. Share A has a beta of 1.5, share B has a beta of 1.3 and share C has a beta of 1.7. Calculate the beta of your portfolio.

- A** 1.30
- B** 1.50
- C** 1.60
- D** 1.25

<b>END OF SECTION A</b>
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**SECTION B**

**[20 marks]**

**QUESTION 2**

**(10 marks)**

**This question consists of TWO independent parts**

**PART A**

**(6 marks)**

In 1903, the winner of Sukuma Lotto was paid R50. In 2017, the winner's prize was R235 000.

**REQUIRED:**

- 2.1** Calculate the winner's prize in 2040 if the prize continues increasing at the same rate. **(6)**

**PART B**

**(4 marks)**

Your father helped you start saving R25 a month beginning on your fifth birthday. He always made you deposit the money into your savings account on the first day of each month just to "start the month out right." Today completes your 15th year of saving and you now have R6 528.91 in this account.

**REQUIRED:**

- 2.2** Calculate the rate of return on your savings. **(4)**
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**QUESTION 3**

**(10 marks)**

Pam Daduka has a two-share portfolio. The detail of the portfolio is as follows:

	<b>Total market value of shares</b>	<b>Beta</b>	<b>Expected return</b>
<b>Share A</b>	575 000	1.8	19.30%
<b>Share B</b>	420 000	1.2	14.20%

**REQUIRED:**

- 3.1** Calculate the expected return of the portfolio. **(4)**
- 3.2** Comment on the pricing of the shares given a risk-free rate of 8.5% **(6)**  
and a market risk premium of 6%.

<b>END OF SECTION B</b>
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## **SECTION C**

**[50 marks]**

### **QUESTION 4**

**(25 marks)**

The new intern of Gijima Ltd is in the process of completing the cash budget for the periods January to March. He is unable to complete the cash budget in time for the next board meeting and you have been requested to complete it. Below is the outline of the cash budget for the first quarter:

<b>Gijima Ltd</b>			
<b>Cash Budget for period January to March</b>			
	<b>January</b>	<b>February</b>	<b>March</b>
Sales	60 000	70 000	85 000
Purchases	60 000	48 000	55 000
Credit sales			
Cash sales			
<b><u>Cash collections</u></b>			
Cash sales			
60% Credit sales collected			
40% Credit sales collected			
<b>Total Cash collections</b>			
<b><u>Cash disbursements</u></b>			
Purchases			
Wages			
Overheads			
Tax			
Bottling plant			
<b>Total cash disbursements</b>			
<b>Opening cash balance</b>			
<b>Collections</b>			
<b>Disbursements</b>			
<b>Closing cash balance</b>			

**\*Question continues next page\***

**Additional information:**

- 80% of sales will be on credit.
- It is expected that 60% of debtors settle within the month of sale and 40% the month after that.
- Purchases will be paid in the month incurred.
- Wages are R7 000 for January after which it is expected to increase to R8 000 per month going forward, due to annual wage negotiations in February.
- Other overheads are R2 000 per month and are paid in the month incurred.
- Provisional tax of R8 000 has to be paid in March.
- A new bottling machine will be purchased in February for R30 000.
- At the beginning of the year the company had the following balances in its books:
  - ✓ Cash: R50 000
  - ✓ Accounts receivables R18 000

**REQUIRED:**

- 4.1** Using the structure that you have been given by the intern, prepare **25**  
and complete the cash budget for Gijima Ltd

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**QUESTION 5****(25 marks)**

Juber is one of South Africa's leading online food ordering and delivery platform. Juber was launched in 2012 by Jabu Maluleke, a well-known entrepreneur from Dzingidzingi in Limpopo. Juber was listed on the JSE in 2017, allowing it to access capital at a greater scale. You were recently appointed as the financial manager of Juber. Jabu requested you to review the capital structure of the company, which consists of ordinary shares, preference shares and debentures as follows:

**Ordinary Shares**

The company has 150 000 ordinary shares in issue. The required return on this share is 16.5%. The company expects dividends to be R3, R4 and R7 per share in the next three (3) years. Thereafter, the dividend will increase by 5% per annum.

**Preference shares**

Juber has 10% 100 000 preference shares in issue with a par value of R100 per share. The shares are non-redeemable and currently trade at R105.

**Debentures**

The company issued 15 000 bonds three (3) years ago at a par value of R1 000 per share. The bonds have a coupon of 10% and pay interest semi-annually. The bonds have a yield to maturity of 10.58% and are currently trading at R960.29 per bond

**REQUIRED:**

- |            |   |            |
|------------|---|------------|
| <b>5.1</b> | Describe three shortcomings of the dividend growth model.   | <b>(3)</b> |
| <b>5.2</b> | Calculate the value of one ordinary share of Juber.   | <b>(8)</b> |
| <b>5.3</b> | Calculate the cost of preference shares.  | <b>(2)</b> |
| <b>5.4</b> | Explain the difference between the yield to maturity and the coupon rate of a bond.                     | <b>(2)</b> |
| <b>5.5</b> | Determine whether Juber's bonds are trading at a premium or discount. Provide a reason for your answer. | <b>(2)</b> |
| <b>5.6</b> | Calculate the number of months until the bonds mature.  | <b>(6)</b> |
| <b>5.7</b> | Explain the impact of an increase in the yield to maturity of a bond on the following:                  |            |
|            | • Value of a bond.  | <b>(1)</b> |
|            | • Coupon rate of a bond.  | <b>(1)</b> |

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