



UNIVERSITY
OF
JOHANNESBURG

Department of Commercial Accounting

Cost and Financial Management 1B

CFM11B1 / CFM1BB1

Last Assessment Opportunity
2 November 2015

Time: 3 hours

Marks: 100

Assessors: Mrs B Maleke
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Internal moderator: Mrs M Mouton

INSTRUCTIONS:

- This paper consists of 18 pages (including the cover page and appendix).
- Answer all questions. Show all calculations and workings clearly.
- **Start each question on a new page.**
- Silent, non-programmable calculators may be used.
- Round all calculations to **two decimal places**, unless stipulated otherwise.
- **INDICATE YOUR INDEX NUMBER (FROM THE CLASS LIST) IN THE TOP MIDDLE OF YOUR SCRIPT.**

Question	Topic	Marks	Time
1	Unit 1: The Financial Management Function	10	18 minutes
2	Unit 2: Financial Instruments and Financial Markets	20	36 minutes
3	Unit 3: Principles of Foreign Trade and Exchange Rates	10	18 minutes
4	Unit 4: Risk and Uncertainty	20	36 minutes
5	Unit 5: Time value of money	20	36 minutes
6	Unit 6: Cost of Capital	20	36 minutes
		100	180 minutes

QUESTION 1**(10 MARKS)**

For each of the questions below select the most correct answer and present your answer in this format **e.g. 1.1 - B**. Do **NOT** answer at the back of your answer sheet.

1.1 The main financial objective of a business enterprise is to:

- a) Provide a service, or to sell a product
- b) To provide employment
- c) To make money
- d) To maximise shareholder wealth **(1)**

1.2 A few of the major differences between the focus of financial accounting and financial management is that financial accounting does not take into consideration:

- a) Risk
- b) Timing of cash flows
- c) Size of the cash flows
- d) All of the above **(1)**

1.3 External stakeholders of a company may include:

- a) Government and regulatory bodies
- b) Suppliers
- c) Press and media
- d) All of the above **(1)**

1.4 The role of the financial manager is to act as an agent on behalf of:

- a) Stakeholders
- b) Shareholders
- c) Management
- d) Employees **(1)**

- 1.5 A company is subject to external economic forces which are constraints to the financial manager, such as:
- a) Supply and demand
 - b) Inflation and interest rates
 - c) Exchange rates
 - d) All of the above
- (1)**

State whether the following statements are **TRUE** or **FALSE**:

Write your answer as follows, **e.g.- 1.6 false**

- 1.6 The purpose of financial accounting is to report the performance of a company over a specified period of time and the financial position at the end of that period. **(1)**
- 1.7 Financial management can focus on specific areas of an organisation's activities. Information may be produced to aid a decision rather than to be an end product of a decision. **(1)**
- 1.8 According to the new Companies Act 71 of 2008 and IFRS, certain types of companies are legally obliged to prepare and publish financial accounts. **(1)**
- 1.9 The value of a financial instrument is the same as the price. **(1)**
- 1.10 The three drivers of value are the timing of the cash flows, the risk of the instrument and the size of future cash flows. **(1)**

QUESTION 2**(20 MARKS)**

Indicate whether the following statements are referring to **BONDS** or **ORDINARY EQUITY**:
Write your answer as follows, **e.g- 2.1 BONDS**.

- 2.1 This instrument is an expensive way of raising capital as it guarantees a fixed income to the investor and the capital amount must be repaid. (1)
- 2.2 This instrument has an uncertain income stream. (1)
- 2.3 This instrument has a term and a maturity date. (1)
- 2.4 This instrument has potential for excellent capital growth. (1)
- 2.5 This instrument is not redeemable. (1)
- 2.6 This instrument has no maturity date. (1)

Answer the following questions by referring to the below extract of a JSE report.

Formulae:

$$PE = MPS \div EPS$$

$$DY = DPS \div MPS$$

Name	Close (cents)	Day move %	High	Low	12 m %	Volume trade (000)
ANGLO AMERICAN PLC (AGL)	15 200	(2%)	15 400	14 900	(10%)	2 084

REQUIRED:

- 2.7 Identify the type of decision that the financial manager must make when the company has an excess of cash. (1)
- 2.8 List 4 questions that the financial manager must ask before making a decision on what to do with the company's excess cash. (4)
- 2.9 Calculate the opening price of AGL share on this particular day. Round your answer off to two decimal places. (4)
- 2.10 What terminology is used in the equity market to refer to a downward trend of share prices? (1)
- 2.11 Explain what the information in the day move % column in the JSE report means for AGL. (1)
- 2.12 Explain what the information in the 12 month % column in the JSE report means for AGL. (1)
- 2.13 What was the volume of shares traded during that particular day? (1)
- 2.14 Name the term used when a company lists on the JSE for the first time. (1)

QUESTION 3**(10 MARKS)**

3.1 You are given the following rates from the bank:

US\$ 1 = R12.6507 and US\$ 1 = R12.4503

REQUIRED:

Indicate which of the two exchange rates represents the bid rate and which represents the offer rate.

(1)

3.2 The following is an extract from a cross-rates currency table as it appeared in Business Report , 17 July 2015:

Currency	US\$	R	€	£	¥
USA(\$1)	1.0000	12.3869	0.9170	0.6415	124.0400
RSA (R)	0.0807	1.0000	0.0740	0.0518	10.0128
Euro (€)	1.0905	13.5088	1.0000	0.6995	135.2800
UK(£)	1.5590	19.3118	1.4295	1.0000	193.3820
Japan (¥)	0.0080	0.0999	0.7393	0.5172	1.0000

REQUIRED:

3.2.1 What is the direct quote for the South African Rand/British-Pound? **(1)**

3.2.2 Assuming that the Japanese Yen is the domestic currency, what is the indirect quote for the US dollar/Japanese Yen? **(1)**

3.2.3 XYZ (Pty) Ltd a South African company imports raw materials from a Japanese supplier. In July 2015 XYZ (Pty) Ltd imported material to the amount of ¥500 000. Use the cross rate table above and determine the amount of Rands to be included in the accounting records of XYZ (Pty) Ltd. **(2)**

3.3 Explain what a “Rand hedge” company is? **(2)**

3.4 Explain how the following affects the changed environment within which the financial manager operates:

3.4.1 Speed **(1)**

3.4.2 Connectivity **(1)**

3.4.3 Intangibles **(1)**

QUESTION 4**(20 MARKS)**

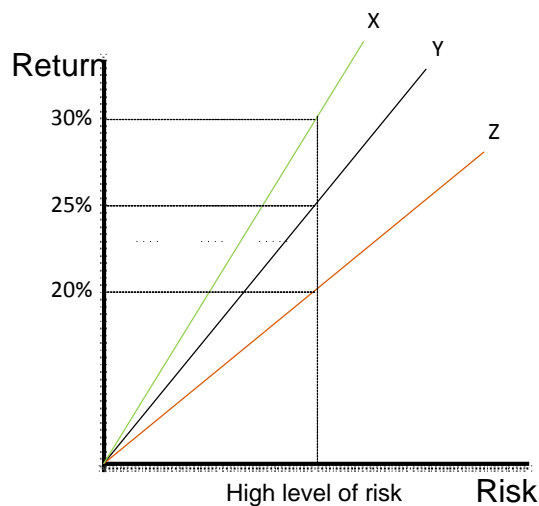
4.1 State whether the following statements are **TRUE** or **FALSE**:

4.1.1 The higher the required return, the lower the risk of a financial instrument. **(1)**

4.1.2 Deterioration/weakening of the Rand against the Dollar resulted in a clothing company having to pay more for its raw material that is imported from America.
This is an example of business risk. **(1)**

4.1.3 High inflation is an example of a systematic risk which can be diversified. **(1)**

4.2

**REQUIRED:**

4.2.1 Which one of the three investors (X, Y or Z) can be seen as being conservative? **(1)**

4.2.2 Which one of the three investors (X, Y or Z) can be seen as being aggressive? **(1)**

- 4.3 Long Gates Ltd have surplus money worth R100 000. They are considering investing in a portfolio. Two investment opportunities exist, namely Project Motors and Project Paint. Long Gates Ltd will invest R44 000 (44%) in Project Motors and R66 000 (66%) in Project Paint.

Projected historic returns on these projects are as follows:

Year	Historic return Project Motors	Historic return Project Paint
2013	12%	13%
2014	22%	9%

REQUIRED:

Calculate the average expected return of the portfolio.

(5)

- 4.4 You are the financial manager of Super Cricket Ltd. Your responsibility is to make investing and financing decisions for the company. You have collected the following information of two possible investment options:

Option 1: Blue Ball Ltd

Possible return	Probability
12%	60%
32%	40%

The economist calculated the **variance** of Blue Ball Ltd to be 96%.

Option 2: Hard Bat Ltd

Possible return	Probability
8%	20%
23%	80%

The economist calculated the **expected return** for Hard Bat Ltd to be 20%.

REQUIRED:

- 4.4.1 Before you as a financial manager can make any investment decision, what else should you calculate for each investment option above? (1)
- 4.4.2 Calculate the expected return for Blue Ball Ltd. (2)
- 4.4.3 Calculate the standard deviation for Blue Ball Ltd. (1)
- 4.4.4 Calculate the standard deviation for Hard Bat Ltd. (4)
- 4.4.5 Assume the company is classified as a **risk averse** investor and assume both investment options have the same **expected return**. Based on your calculation above relating to standard deviation, which investment option will you choose and motivate your answer? (2)

QUESTION 5**(20 MARKS)**

- 5.1 What will my investment of R205 300 be worth if my bank pays me compound interest of 9% per annum and I invest my money for 5 years? Use the **calculator** show all workings and round off to two decimal places. **(4)**
- 5.2 A bond of R250 000 is worth R353 725 at maturity. Interest is compounded annually and amounts to 9.95% per annum. Calculate the years left until maturity. Use the **calculator** show all workings and round off to two decimal places. **(4)**
- 5.3 Lindelani decided to extend his house by adding an extra bedroom. The extension will cost him R160 000. First Rand Bank has agreed to give him a loan at a nominal rate of 13,5% per annum compounded annually, provided that he is able to put down a deposit of 10% on the quoted price of R160 000. What will his annual payments be if the loan is to be repaid over a period of 4 years? Use the **calculator** show all workings and round off to two decimal places. **(5)**
- 5.4 Mike wishes to invest an amount of R6500 annually in advance for a period of 5 years. The bank will offer him a 14% per annum compounded annually.

REQUIRED:

- 5.4.1 Calculate the value at the end of the period, using the **formula**. Show the relevant formula. **(4)**
- 5.4.2 If interest was earned at 12% using the **table**, calculate the end value of the loan. (Show the factors used from the table and show all applicable steps). **(3)**

QUESTION 6**(20 MARKS)**

6.1 State whether the following statements are **TRUE or FALSE**:

6.1.1 The weighted average cost of capital should be higher than a project's expected return for the company to invest in that specific project. **(1)**

6.1.2 The weighted average cost of capital consists out of four components namely: the cost of ordinary shares, the cost of preference shares, the cost of creditors and the cost of debt. **(1)**

6.1.3 The cost of capital is the breakeven point at which the proceeds of a project are exactly enough to pay the providers of capital. **(1)**

6.1.4 The 'required rate of return' is the return to pay the providers of capital. **(1)**

6.1.5 The cost of preference shares are tax deductible. **(1)**

6.2 Gladiator Ltd presents you with the following information:

- The government bond has a return of 7.5% and the return on the market portfolio is 13%.
- Gladiator Ltd has 100 000 ordinary shares and 300 000 5% preference shares in issue.
- The dividends on the preference shares are paid annually.
- The par value of the preference shares are R4.00 and are currently trading at R3.00.
- The preference shares are redeemable in 3 years from today at par value.
- Assume a company tax rate of 28%.

REQUIRED:

6.2.1 Calculate the cost of the ordinary shares for Gladiator Ltd. Show all calculations. **(2)**

6.2.2 Calculate the cost of the preference shares. Show all calculations. **(5)**

- 6.3 The following is an extract from the most recent statement of financial position of Minions Ltd, a manufacturer of manufacturing equipment:

MINIONS LTD

Statement of financial position at 31 October 2015

ASSETS

Property, plant and equipment	R1 350 000
Inventories	R700 000
Trade and other receivables	R210 000
Cash and cash equivalents	R240 000
	<u>R2 500 000</u>

EQUITY AND LIABILITIES

Ordinary share capital	R1 000 000
Preference share capital	R300 000
Long-term liabilities	R1 200 000
	<u>R2 500 000</u>

Additional information:

The cost of ordinary shares has been calculated at 21%.

The cost of preference shares has been calculated at 14%.

The cost of debt has been calculated at 8%.

All of the costs provided are before tax.

Assume a company tax rate of 28%.

REQUIRED:

Calculate the after-tax weighted average cost of capital of Minions Ltd. Show all calculations and round all amounts off to two decimals.

(8)

[TOTAL = 100 MARKS]