JOHANNESBURG

## Accountancy@UJ

## Financial Management 1B

## BSR1B01/FNM1B01

## LAST ASSESSMENT OPPORTUNITY <br> 21 November 2019

## ANSWER BOOK

## INSTRUCTIONS:

- This answer book (for Section C) consists of $\mathbf{1 4}$ pages.
- Clearly PRINT your initials, surname and student number in the spaces provided on this question paper.
- Answer ALL questions in the spaces provided in black or blue pen on the answer book. Please note that marks will ONLY be allocated to answers written in these spaces!
- Make use of the spaces below the questions (where applicable) for all workings/calculations.
- Silent, non-programmable calculators may be used, unless instructed otherwise.
- Round all calculations to TWO decimal places unless instructed otherwise.
- Answers with Tippex and in pencil will not be marked and the paper will not be eligible for a remark.


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## SECTION C

## Answer the following questions in the spaces provided.

## QUESTION 1

Uber Eats is an online food delivery company. Users can read menu's, order and pay for food from participating restaurants using an application on the iOs or Android platforms. Meals are delivered by couriers using cars or motorbikes.
Jabu is an Uber Eats employee. He purchased a "Big Boy Commercial 150cc" motorbike for R13 999 to use for his deliveries. He financed the motor bike through a loan from Big Bank at an effective rate of $10 \%$ p.a. He must repay the loan in monthly instalments over the next 3 years.

## REQUIRED:

1.1. Determine the value of his monthly instalment
$\qquad$
1.2. Determine how much Jabu will still own the bank after 18 months?
$\qquad$

Jabu receives a fixed monthly salary and tips from the customers. Jabu saved all the tips that he received over the 4 months at Big Bank at nominal rate of $9.5 \%$ p.a.compounded monthly. The tips were as follow:

Month $1 \quad$ R3 000
Month 2 R2 800
Month 3 R4 000
Month 4 R3 750
1.3. Determine the value of Jabu's tips at the beginning of month 1 ?

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1.4. If the interest that Jabu earns on his savings increased, what impact would that have on the value of his savings at the today?

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## QUESTION 2

The following is a current abridged statement of financial position relating to Bona Co, a company listed on the JSE.

|  | Rm | Rm | Notes |
| :--- | :--- | :--- | :--- |
| Equity and liabilities |  |  |  |
| Share capital | 12 |  | 1 |
| Retained earnings | 15 | 27 |  |
| Total equity |  |  |  |
| Non-current liabilities | 13 | 2 |  |
| Long-term borrowings | 21 | 3 |  |
| Current liabilities |  | 34 |  |
| Total liabilities |  | 61 |  |
| Total equity and liabilities |  |  |  |

## Notes:

1. The share capital of Bona Co consists of 12 million of ordinary shares currently trading at R1.50 per share
2. Long-term borrowings consists of a loan. Repayments on the loan are due each year at $15 \%$ of the current value, for a period of 10 years
3. Current liabilities consists of Trade and other payables as well as bank overdraft, with interest of $20 \%$ per annum payable thereon.

## Additional information:

1. The current long-term government bond yield is $10 \%$ and equity risk premium is expected to be $6 \%$ going forward.
2. The corporate tax rate is $28 \%$

## REQUIRED:

2.1 Calculate the after-tax weighted average cost of capital of Bona Co.

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## QUESTION 3

[6 MARKS]
After experiencing accommodation shortages during their University days, two friends decided to go into the business of providing affordable student accommodation at Auckland Park for University of Johannesburg (UJ's) students and other surrounding universities. They projected the following cashflows in building and developing their first student accommodation that will lodge 150 students.

| Year | Cash flow (million) |
| :--- | :--- |
| 0 | -R1 590000 |
| 1 | R360 500 |
| 2 | R475 000 |
| 3 | R450 000 |
| 4 | R539 000 |
| 5 | R587 500 |

Based on their research and the current risk profile of their company, they have determined the following benchmarks in order to ensure that they make decisions in the best interest of the company.

- Profitability Index of the project is 35
- Target Average Accounting Rate of Return (ARR) is $75.76 \%$
- Target Payback Period (PBP) is 2.5 years
- Required rate of return is $12.20 \%$
- Weighted Average Cost of Capital is $12 \%$


## REQUIRED:

3.1 Calculate the accounting rate of return (ARR) and advise whether the project should be accepted or rejected?

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3.2 Calculate the payback period and advise whether the project should be accepted or rejected?

3.3 Calculate the net present value (NPV) and advise whether the project should be accepted or rejected?

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## QUESTION 4

Jabulani Limited's accountant has just retired and as yet have not hired anyone to replace her. Management are trying to determine the value of the raw material issued to work-in-progress and have contacted you to assist them with the process. They provided you with the following transactions:

| Date | Unit cost price | Purchases from <br> supplier | Returns to <br> supplier | No of units transferred to <br> WIP |
| :--- | :--- | :--- | :--- | :--- |
| 3 April | R10 | 120 units |  |  |
| 10 April |  |  |  | 100 units |
| 20 April |  |  | 20 units |  |
| 26 April | R15 | 150 units |  |  |

## Additional information:

Opening raw material stock: 25 units at an average price of R12 per unit.
Any returns to suppliers are made at original cost. The return on 20 April relates to purchases made on 3 April.

## REQUIRED:

4.1 Using the weighted average method of valuation, prepare the stores ledger account for the month of April.

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## QUESTION 5

Madiba Magic Limited manufacture the original "Madiba" shirt. Madiba Magic accounts for its stock on the FIFO basis. You have been provided with the following transactions for the month and have been asked to provide the accountant with the closing stock balance to be included in his month end report.

Opening inventory: 200 shirts at R100 each
Actual purchases and sales for the month:

| DATE | PURCHASES |  | SHIRTS SOLD |
| :--- | :--- | :--- | :--- |
|  | Quantity |  |  |

## REQUIRED:

5.1 Determine the closing stock balance to be included in the accountant's month end report.

5.2 Calculate the value of cost of sales for April.
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## QUESTION 6

Sipho is a tutor at $U J$, who is employed on a contract basis and is paid per week for the hours that he works.For the past study week before exams, Sipho worked the following hours:

| Day of the week | No. of hours worked |
| :--- | :--- |
| Monday | 8 |
| Tuesday | 8 |
| Wednesday | 9 |
| Thursday | 10 |
| Friday | 10 |
| Saturday | 8 |

Sipho's contract states that he will receive R80 for every hour worked, and he is expected to work 8 hours per day. Overtime is paid at 1.5 times his normal rate, and weekends are paid at double the normal daily rate.

The following deductions are made from Sipho's remuneration:

- Pension fund contributions of $8 \%$ (UJ also contributes $8 \%$ )
- PAYE is calculated as $15 \%$ of taxable remuneration
- Weekly Medical Aid premiums of R150 are payable to MediMed, of which Sipho and UJ contribute 50\% each
- UIF payments are made monthly, but are deducted from Sipho's wages each week. $1 \%$ is contributed by Sipho and $1 \%$ by UJ.

Sipho incurred 9 unproductive hours during this week
6.1 Calculate the net wages for Sipho for the week
$\square$


