



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Accountancy
DEPARTMENT	Commercial Accounting
CAMPUS(ES)	APB
MODULE NAME	FINANCIAL MANAGEMENT B
MODULE CODE	FMA01B1
SEMESTER	Second
ASSESSMENT OPPORTUNITY	Final Summative Assessment Opportunity
MONTH AND YEAR	November 2019

ASSESSMENT DATE	19 November 2019	SESSION	X
ASSESSOR(S)	Ms L Molelekoa		
MODERATOR(S)	Mr R Rhodes, Mr R B Ford (External)		
DURATION	180 min	TOTAL MARKS	100

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	5
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INFORMATION/INSTRUCTIONS:

- This is a closed-book assessment.
- This paper consist of 2 questions.
- Unless otherwise indicated, work to 2 decimal places.
- Silent, non-programmable calculators may be used.
- Read the questions carefully and answer only what is required.
- Write neatly and legibly on both sides of the paper in the answer book, starting on the first page.

QUESTION 1**[50 MARKS]****PART A – Cost of capital****[40 MARKS]**

You are the partner in charge of the financial advisory services appointment of a listed company, Valpre Limited, a manufacturer and supplier of bottled water. The company started its operations 10 years ago and has shown stable growth ever since. The company grew especially well in certain Africa countries due to the increase in mining activities polluting the water in Africa.

In an attempt to diversify, the company decided to introduce a new product line, flavoured water. This new product line was expected to first be tested in the market for a period of six months before the final decision would be taken to implement this new product line permanently.

Mr.Aquabon, the financial director of Valpre was unsure whether to implement this new project line in the first place, stating that: "Flavoured water won't work in Africa that is for sure! People in Africa do not have money for luxuries like flavoured water. It is ridiculous!"

In another statement, Mr.Aquabon said that Valpre always uses the current market value as optimal capital structure in calculating WACC.

An extract of the statement of financial position as on 30 November 20x9 was as follows:

	R '000
Equity	
Share capital	12 500
Share premium	1 200
Retained earnings	25 690
Shareholders loan	2 000
Liabilities	
Non-current liabilities	
Preference shares (13%)	7 500
Debentures (16,5%) (Non-redeemable)	18 700
Long-term loan (18%)	15 300
Current liabilities	
Trade creditors	3 651
Bank overdraft	1 765

Additional information

1. Ordinary shares are presently trading at R 13,50 per share. The par value of the shares is R10 each.
2. Preference shares have a par value of R5 per share. The preference shares are redeemable within two months at a premium of 11%.
3. R200 nominal debentures interest is payable on 31/05 and 30/11 every year. The market value of debentures at reporting date is R252.
4. The interest on the long-term loan is payable at the end of each year for the next 8 years. The creditors gave Valpree the option to settle the loan on 01/12/2007 for R14 563 000. Valpree did not accept the option.
5. Trade creditors fluctuate from month to month and are not considered as part of the permanent financing
6. Bank overdraft is the result from recent cash flow problems incurred by the company. The problems are expected to be temporary and Valpree is obligated to settle the overdraft within the next 2 months.

8. Other information

RSA 153: 11,61%

Beta = 1,6

Tax rate: 28%

 $R_m = 14,17\%$ **Required**

- 1.1 Explain the term cost of capital? (3)
- 1.2 Explain what is meant by the "pooling of funds" principle? (2)
- 1.3 Calculate the WACC of Valpree Limited. Give reasons for your calculations and inclusions/exclusions in the WACC calculation. (25)
- 1.4 Advise Valpree Limited on additional factors they need to take into account before they accept the new project line. (6)
- 1.5 Explain what impact risks will have on the cost of capital. (4)

NOTE:

Round all calculations off to four decimal places

PART B – Leases**[10 MARKS]**

The deputy financial director of Valpree Miss Mpho Raganya, suggested to the financial director to lease out the machinery used to produce the Valpree water instead of buying. The Financial director requested a formal proposal from Miss Mpho.

Required

- 1.6 Assist Mpho with her proposal by listing the advantages and (10) disadvantages of leasing.
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QUESTION 2**[50 MARKS]**

Willy Wonka chocolate factory produces a variety of chocolates to local retailers. Willy Wonka prepares a budget on a monthly basis.

The following forecast are available for 2019:

	November 2018	December 2018	January 2019	February 2019	March 2019	April 2019
Sales (25% cash)			440 000	500 000	560 000	590 000
Purchases			216 000	240 000	300 000	314 000
Overhead expenses			30 000	32 000	34 000	46 000
Provisional tax			30 000			
Credit sales	180 000	190 000				

Additional information:

- On 1 February 2019, the company had an overdraft facility of (R20 000).
- Past experience has revealed that debtors balances are collected as follows:
 - 30% during the month of sale less a 10% settlement discount.
 - 50% one month after the month of sale less a 5% settlement discount.
 - 15% two months after the month of sale.
 - Bad debts 5%.
- Total employee costs are R62 500 and are paid in the month incurred. Salaries for April were not paid due to workers protest action.
- Overhead expenses are paid one month after the month incurred.

Overhead expenses include a write down to Net realisable value of R800 recognised in April 2019; also included is depreciation of R6 000 per month.

5. A new delivery van is to be purchased on 1 February 2019. The vehicle will cost R240 000 and a deposit of 20% must be paid on the same day. The balance will be settled by 36 monthly instalments of R4 500 commencing on 1 February 2019.
 6. The company estimated a provisional tax amount of R30 000 in January. The provisional tax was confirmed and paid on the 27th of February 2019.
 7. 65% of purchases are on credit. However, due to the investment maturing, 100% of April purchases is expected to be cash i.e. no credit purchases. Credit purchases are to be paid one month after month of purchase less a discount of 5%.
 8. The company took out a loan from Batho bank on 1 February 2019 to pay for the vehicle deposit. Interest on the loan is charged at 10% per annum, compounded interest. The loan plus interest is paid in full on 30 April 2019.
 9. The company invested R10 000 into a three month fixed deposit on 1 February 2019. The investment earns interest of 10% per annum, compounded monthly. Interest accrues to Willy Wonka monthly, and is directly transferred into Willy Wonka's current bank account upon accrual. Capital portion of the investment is paid out on maturity date of the investment is 30 April 2019.
- 10.5% of the BD balance is collected one month after the month the loss is incurred.

Required

- 2.1. Prepare the cash budget for, February, March and April 2019. (50)