## 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)**

An example of a capital budgeting decision is deciding:

**A** how many ordinary shares to issue.
**B** whether or not to purchase a new machine for the production line.
**C** how to refinance a debt issue that is maturing.
**D** how much inventory to keep on hand.

**Question 1.2** **(1)**

Which one of these will increase the present value of a set amount to be received sometime in the future?

**A** Increase in the time until the amount is received.
**B** Increase in the discount rate.
**C** Decrease in the future value.
**D** Decrease in the interest rate.

**Question 1.3** **(1)**

The cash flow related to interest payments less any net new borrowing is called the:

**A** operating cash flow.
**B** capital spending cash flow.
**C** net working capital.
**D** cash flow to creditors.

**Question 1.4** **(1)**

Which one of the following accounts is the most liquid?

**A** Inventory

**B** Building

**C** Accounts Receivable

**D** Equipment

**Question 1.5** **(1)**

Which one of the following is a source of cash?

**A** an increase in accounts receivable

**B** an increase in non-current assets

**C** an increase in accounts payable

**D** a decrease in long-term debt

**Question 1.6** **(1)**

All else constant, the market price of a bond will increase when:

**A** the yield to maturity increases.

**B** the yield to maturity decreases.

**C** The coupon rate is less than the inflation rate.

**D** the bond is considered to be risky.

**Question 1.7** **(1)**

When using the dividend growth model, the dividend yield can be calculated by:

**A** dividing the next dividend with the current share price.

**B** multiplying the current dividend with the growth rate.

**C** dividing current dividend by the required return.

**D** multiplying the current share price with the growth rate.

**Question 1.8** **(1)**

The return required by shareholders for investing in a company is called:

**A** cost of capital

**B** cost of debt

**C** cost of equity

**D** capital growth

**Question 1.9** **(1)**

The pre-tax cost of bonds for a company:

**A** is equal to the yield to maturity on the bonds of the company.

**B** is equal to the coupon rate of the bonds.

**C** is equal to the value of the bonds.

**D** is calculated by dividing the coupon payment by the current market value.

**Question 1.10** **(1)**

The standard deviation of returns is a measure of:

**A** systematic risk

**B** total risk

**C** unsystematic risk

**D** undiversifiable risk

**Question 1.11** **(2)**

Jupiter (Pty) Ltd just invested R225 000 to help fund its future projects. Calculate how much additional money the company will have three years from now if it can earn an annual interest rate of 4% rather than 3.5%.

**A** R3 391.90

**B** R3 632.88

**C** R3 008.17

**D** R4 219.68

**Question 1.12** **(2)**

Your father invested a lump sum 28 years ago at 4.05% annual interest. Today, he gave you the proceeds of that investment, amounting to R48 613.24. Calculate how much your father initially invested.

**A** R14 929.47
**B** R16 500.00
**C** R15 994.70
**D** R15 500.00

**Question 1.13** **(2)**

Duke's Garage has cash of R68, accounts receivable of R142, accounts payable of R235, and inventory of R318. Calculate the quick ratio.

**A** 2.25
**B** 0.53
**C** 0.71
**D** 0.89

**Question 1.14** **(2)**

Mvelo Ltd. has sales of R749 500 and cost of goods sold of R368 600. Beginning inventory is R54 700 and ending inventory is R58 200.
Calculate the length of the inventory period.

**A** 15.01 days
**B** 17.89 days
**C** 55.90 days
**D** 90.53 days

**Question 1.15** **(2)**

The Doghouse expects sales of R770, R860, R950, and R960 for the months of May through to August, respectively. The company collects 84% of sales in the month of sale, 13% in the month following the month of sale, and 1% in the second month following the month of sale. The remaining sales are never collected. Calculate how much money the company expects to collect in the month of July.

**A** R918

**B** R856

**C** R876

**D** R943

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

Keptijax has an 8% coupon and pays interest annually. The face value is R1 000 and the current market price is R1 020.50. The bond matures in 20 years.
Calculate the yield to maturity.

**A** 7.79%

**B** 7.82%

**C** 8.00%

**D** 6.00%

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

Camel plans to pay a perpetual dividend of R1.50 on its share.
Calculate the value of the share if the required return is 17% and the risk-free rate is 7%.

**A** R15.00

**B** R21.43

**C** R8.82

**D** R1.50

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

Yoken has a beta of 1.5. The market risk premium is 6% and a risk-free rate of 4.5%. The expected growth rate is 4%.

Calculate the required return.

**A** 13.50%

**B** 17.50%

**C** 9.50%

**D** 10.00%

**Question 1.19** **(2)**

Epimax has a weighted average cost of capital of 14.5%. The company only has debt and equity in its capital structure. The after-tax cost of debt is 6.5% and the cost of equity is 16%.

Calculate the weight for equity in the capital structure.

**A** 84.21%

**B** 15.79%

**C** 45.78%

**D** 55.31%

**Question 1.20** **(2)**

Abubacus has a beta of 1.5 and a required return of 17.5%. Assuming the market risk premium is 5%, calculate the risk-free rate.

**A** 10.50%

**B** 7.50%

**C** 12.50%

**D** 22.50%

**END OF SECTION A**

## SECTION B [20 marks]

## QUESTION 2 (10 marks)

**This question consists of TWO independent parts**

**PART A (3 marks)**

You will receive R4 000 at graduation three (3) years from now. You plan on investing this money at 5% annual interest until you have accumulated R50 000.

**REQUIRED:**

**2.1** Calculate how many years from today will it be till you accumulated R50,000. **(3)**

**PART B (7 marks)**

Siso has just received notification that an amount of R1 400 per year will be deposited into an account bearing interest of 8% p.a. compounded annually. The first payment will be made seven (7) years from now and he will receive a total of 25 annual payments.

**REQUIRED:**

**2.2** Calculate the value of these annual payments today. **(7)**

## QUESTION 3 (10 marks)

**This question consists of TWO independent parts**

**Part A** **(6 marks)**

Maloti Gigiba is the Chief Investment Officer (CIO) of Triangular (Pty) Ltd. He is planning to attend an investment committee meeting where the discussion will revolve around diversification and risk.

**REQUIRED:**

| | | |
|---|---|---|
| **3.1** | Identify and discuss two types of market risks and how these risks are affected by diversification. | **(6)** |

**Part B** **(4 marks)**

Capcom has a beta of 1.6. The prevailing risk-free rate is 8.5%, and the company has a risk premium of 16%.

**REQUIRED:**

| | | |
|---|---|---|
| **3.2** | Assuming the security market line (SML) is applicable, calculate the expected market return. | **(2)** |
| **3.3** | Calculate the required return on Capcom's equity. | **(2)** |

**END OF SECTION B**

## SECTION C [50 marks]

## QUESTION 4 (25 marks)

The finance manager of Siyavuma Ltd has just resigned. He was in the middle of preparing the cash budget for the third quarter of 2022 as below:

**Cash Budget for Siyavuma Ltd**
**Third Quarter 2022**
**R000s**

| | JUL | AUG | SEP | OCT |
|---|---|---|---|---|
| Sales | 600 | 800 | 900 | 700 |
| Purchases | | | | |
| | | | | |
| **Cash Collections** | | | | |
| Opening accounts receivables | 120 | | | |
| Sales | 600 | 800 | 900 | |
| Closing accounts receivables | | | | |
| **Cash collections** | | | | |
| | | | | |
| Opening accounts payables | 80 | | | |
| Purchases | | | | |
| Opening accounts payables | | | | |
| **Cash disbursements** | | | | |
| | | | | |
| **CASH BUDGET** | | | | |
| Opening balance | 430 | | | |
| Cash collections | | | | |
| Cash disbursements | | | | |
| Monthly cash expenses | 180 | 180 | 180 | |
| **Closing balance** | | | | |

**ADDITIONAL INFORMATION:**

- Purchases amount to 70% of the following month's sales.
- The expected average accounts payable period for 2022 is 30 days.
- The expected average accounts receivables period for 2022 is 15 days.

**REQUIRED:**

**4.1** Using the format that the ex-finance manager used, complete the cash budget for the third quarter of 2022. **(25)**

## QUESTION 5 (25 marks)

Otto is a clothing manufacturing company that is listed on the JSE. The company has factories in Johannesburg and Cape Town and is planning to open another one in Kuruman. You have been appointed as the financial manager of the company.
You established the following from the latest annual financial statements as at 31 May 2022:

| | | **R'000** |
|---|---|---|
| **Ordinary Share Capital** | 300 000 shares at par value | 600 |
| **Preference shares** | 15% preference shares at R100 par value | 20 000 |
| **Bonds** | 60 000 bonds at R1 000 par value | 60 000 |

**Additional information:**

- The ordinary shares have a par value of R2 per share. The company recently paid a dividend or R4.56 per share. The dividend is expected to grow by 7% into the foreseeable future. Ordinary shareholders of Otto require a return of 19%.
- Preference shares have a par value of R100 per share. The shares are currently trading at R125 per share.
- The 10% bonds are redeemable in 7 years at par. Coupon payments are made annually. The current yield to maturity on the bonds is 8.78%.
- Company tax rate is 27%.

**REQUIRED:**

**5.1** Describe the relationships that exist between the coupon rate, the yield to maturity, and the current yield for both a discount bond and a premium bond. **(4)**

**5.2** Based on the dividend growth model, explain two components of the required return on a share. **(4)**

**5.3** Calculate the market value of ordinary shares. **(3)**

**5.4** Calculate the cost of preference shares. **(2)**

**5.5** Calculate the market value of one bond. **(4)**

**5.6** Calculate the weighted average cost of capital. **(8)**

**--o0o---END--o0o---**