INSTRUCTIONS TO CANDIDATES:

1. This question paper consists of **FOURTEEN** numbered pages, including this page.

2. There are four questions in this paper. **ANSWER ALL FOUR QUESTIONS.**
   
   Each question carries equal marks.

3. Answer Question 1 on the MCQ data sheet provided, and each of Questions 2, 3 and 4 in a different booklet, ensuring that you complete the required information on the cover of the MCQ data sheet and each answer booklet.

4. Submit the MCQ data sheet and all three booklets, even if you have not used all of them.

5. Show all workings and financial calculator settings and functions, and follow all rounding instructions.

6. Appendix A on page 12 contains formulae you may find useful.

7. Appendix B on page 13 needs to be detached and inserted into your Question 2 booklet. Do not forget to fill in your student number at the top of this appendix.

8. Appendix C on page 14 needs to be detached and inserted into your Question 4 booklet. Do not forget to fill in your student number at the top of this appendix.
Question 1  
(50 marks: 45 minutes)

This is a Multiple Choice question. Answer each question by clearly indicating your choice on the data sheet provided. Your name and student number must appear on the data sheet. Each question carries 2 marks. There will be no negative marking.

1. Which of the following is an advantage of a partnership?
   (a) separate legal status.
   (b) more capital is available than in a sole proprietorship.
   (c) unlimited life.
   (d) ease of transfer of ownership.
   (e) limited liability.

2. An over-the-counter market:
   (a) has a physical location.
   (b) is formalized and regulated.
   (c) trades in a limited number of standardized securities.
   (d) can be described by all the above.
   (e) cannot be described by any of the above.

3. With indirect financing:
   (a) financial institutions receive a fee for their intermediation services.
   (b) commercial banks issue direct securities to surplus economic units.
   (c) deficit economic units issue primary securities to commercial banks.
   (d) all the above apply.
   (e) only (a) and (c) apply.

4. _______ is traded in the _________ market.
   (a) An option; futures
   (b) A Japanese yen; forex
   (c) A treasury bond; money
   (d) A treasury bill, capital
   (e) Commercial paper, equities

5. Regarding secondary securities:
   (a) they are direct securities.
   (b) they represent obligations of the private sector.
   (c) they represent assets of organizations such as the Development Bank.
   (d) they are issued by municipalities such as the eThekwini municipality.
   (e) none of the above apply to secondary securities.

6. The following is an example of a non-marketable financial instrument, issued by financial intermediaries:
   (a) Preference shares.
   (b) Hire purchase contracts.
   (c) Banker’s acceptances
   (d) Negotiable Certificates of Deposit
   (e) Fixed deposits.
7. When the JSE is classified as a secondary market it means that:
   (a) it facilitates the trading of shares between the issuing company and investors.
   (b) it is semi strong efficient.
   (c) it allows for the speedy conversion of financial assets into cash.
   (d) it facilitates the raising of new capital.
   (e) none of the above apply.

8. Which one of the following is a primary market transaction?
   (a) John selling his ABSA shares to his uncle.
   (b) A bank selling shares of a medical firm to an individual.
   (c) Mary buying newly issued shares from a corporation
   (d) A sole proprietor buying shares from an individual investor.
   (e) An individual investor selling shares to another individual.

9. Which of the following is an important document for a partnership?
   (a) indemnity clause
   (b) indenture contract.
   (c) partnership agreement.
   (d) the founding statement.
   (e) statement of purpose.

10. The following statement is NOT true about inefficient markets:
    (a) They react slowly to new information.
    (b) They offer tremendous arbitrage opportunities.
    (c) They cannot be beaten by using historical information.
    (d) There is limited competition among investors in such markets.
    (e) There is a need for investors to diversify in such markets.

11. The Chief Financial Officer (CFO) or financial manager addresses the following questions:
    I. How long should customers be given to pay for their credit purchases?
    II. How long will it take to produce a product?
    III. Should the firm build a new factory?
    IV. Should the firm borrow more money?
    (a) I and IV only.
    (b) II and III only.
    (c) II, III, and IV.
    (d) I, III and IV.
    (e) I, II, III, and IV.

12. Which of the following is NOT the most appropriate form of finance for purchasing goods for resale:
    (a) a bank overdraft.
    (b) a mortgage loan.
    (c) a five-year loan
    (d) (a) and (c) are not appropriate.
    (e) (b) and (c) are not appropriate.
13. Which of the following statements tend to reinforce the argument that financial markets are efficient?
   I. Information spreads rapidly in today's world.
   II. There is tremendous competition in the financial markets.
   III. Market prices continually fluctuate.
   IV. Market prices react suddenly to unexpected news announcements.
   (a) I and III only.
   (b) II and III only.
   (c) I, II, and III only.
   (d) II, III, and IV only.
   (e) I, II, III, and IV.

14. Which of the following represent cash inflows for a firm?
   I. Buying back shares.
   II. New loan proceeds.
   III. Payment of government taxes.
   IV. Issuance of securities.
   (a) II and III only.
   (b) I, III and IV.
   (c) II and IV.
   (d) I, II, III, and IV.
   (e) III and IV only.

15. The original sale of securities by governments and corporations to the general public occurs in the:
   (a) primary market.
   (b) secondary market.
   (c) private placement market.
   (d) proprietary market.
   (e) over-the-counter market.

16. Tendai recently identified mispriced shares by analyzing current financial statements released by companies on the Nairobi Stock Exchange. Which of the following statements is true?
   (a) Tendai is a fundamental analyst.
   (b) Tendai is a technical analyst.
   (c) The Nairobi Stock Exchange is both weak-form and semi-strong form efficient.
   (d) The Nairobi Stock Exchange is not even weak-form efficient.
   (e) The Nairobi Stock Exchange is strong-form efficient.

17. Limited liability means:
   (a) that the owners are not personally liable for business debts.
   (b) that creditors cannot look beyond the business, to the owner's personal assets, for payment.
   (c) that the maximum loss by investors is limited to their investment in the firm.
   (d) all of the above apply.
   (e) only (a) and (b) apply.
18. How many of the following statements are true about private companies:
   I. They do not face any agency problems.
   II. They face fewer disclosures requirements compared to public companies.
   III. They can have more than 50 shareholders.
   IV. They can sell shares to the public.
   (a) Only one statement is true.
   (b) Only two statement are true.
   (c) Only three statements are true.
   (d) All four statements are true.
   (e) None of the four statements are true.

19. The following is NOT an example of a direct agency cost:
   (a) the cost of an executive office suite for top management.
   (b) the cost of ignoring a wealth-creating business opportunity.
   (c) the cost of employing auditors to monitor management performance.
   (d) management overpaying when purchasing another company.
   (e) management throwing lavish parties and holding conferences at 5* hotels.

20. Working capital management:
   (a) balances the amount of company debt to the amount of available equity.
   (b) is concerned with having sufficient funds to operate the business on a daily basis.
   (c) ensures that sufficient equipment is available to produce the amount of product desired on a daily basis.
   (d) ensures that long-term debt is acquired at the lowest possible cost.
   (e) ensures that dividends are paid to all shareholders on an annual basis.

21. Which one of the following statements is TRUE concerning the organizational structure of a corporation?
   (a) The financial director reports directly to the chairman of the board.
   (b) The chief executive officer reports to the chairman and the board of directors.
   (c) The credit manager reports to the human resources manager.
   (d) The chief operations officer reports to the vice president of production.
   (e) all of the above are true.

22. World financial markets are at best described as:
   (a) strong-form efficient.
   (b) semi-strong form efficient.
   (c) weak-form efficient.
   (d) inefficient.
   (e) perfect.

23. The following is true about agency costs:
   (a) they are the costs that result from companies hiring agents to do business on their behalf.
   (b) they are the costs that result from default and bankruptcy of a firm.
   (c) they represent the total salary bill to management paid by shareholders over the lifetime of the firm.
   (d) they are the costs that arise from any conflict of interest between shareholders and management.
   (e) all of the above are true.
24. Profit maximization is not consistent with wealth maximization:
   (a) because it does not consider the timing of cash flows.
   (b) because earnings do not represent cash flows available to shareholders,
   (c) because it does not consider risk.
   (d) for all of the above reasons.
   (e) for none of the above reasons

25. Investment institutions, such as insurance companies and pension fund companies:
   (a) are the single largest group of institutional investors in JSE securities.
   (b) are examples of contractual financial intermediaries.
   (c) are deposit-taking institutions.
   (d) are described by (a) and (b).
   (e) are described by all of the above.
Question 2  (50 marks: 45 minutes)

The latest abridged financial statements of Blue Steel (Pty) Ltd are presented below:

**Income Statement of Blue Steel (Pty) Ltd for the year ended 31 January 2016**

(R 000's)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (R 000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>100 000</td>
</tr>
<tr>
<td>Less Cost of goods sold</td>
<td>70 000</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>30 000</td>
</tr>
<tr>
<td>Less operating expenses</td>
<td>15 000</td>
</tr>
<tr>
<td>Profit before interest and tax</td>
<td>15 000</td>
</tr>
<tr>
<td>Less Interest</td>
<td>5 000</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>10 000</td>
</tr>
<tr>
<td>Less taxes (30%)</td>
<td>3 000</td>
</tr>
<tr>
<td>Net Profit after tax</td>
<td>7 000</td>
</tr>
<tr>
<td>Dividend</td>
<td>2 800</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>4 200</td>
</tr>
</tbody>
</table>

**Balance Sheet of Blue Steel (Pty) Ltd as at 31 January 2016**

(R 000's)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (R 000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity</strong></td>
<td></td>
</tr>
<tr>
<td>Ordinary Share Capital @ R10 each</td>
<td>23 000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>12 000</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>15 000</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>9 000</td>
</tr>
<tr>
<td>Accruals</td>
<td>2 000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>9 000</td>
</tr>
<tr>
<td><strong>Total equity &amp; Liabilities</strong></td>
<td>70 000</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Net non-currents assets</td>
<td>33 000</td>
</tr>
<tr>
<td>Current assets</td>
<td>37 000</td>
</tr>
<tr>
<td>Inventory</td>
<td>15 000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>15 000</td>
</tr>
<tr>
<td>Cash</td>
<td>7 000</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>70 000</td>
</tr>
</tbody>
</table>

At a recent board meeting, the firm set the following objectives and targets for their 2017 financial year:

- The firm projects that sales will grow to R125 000 000 in 2017.
- Cost of goods sold and operating expenses will increase proportionately with sales.
- Interest will remain unchanged in 2017.
- The tax rate will decrease to 28%.
- Accounts payable and accruals will increase proportionately with sales.
- Net non-current assets, cash and inventory will increase proportionately with sales, but accounts receivable will double from 2016.
- The firm will lower its payout ratio to 30% in order to support the growth in sales.
- Any additional finance needed must be raised from short and long-term debt and equity. However, the company desires to maintain its 2016 current ratio and total debt ratio.
Required:
(a) Determine whether or not Blue Steel (Pty) Ltd can achieve all of their goals simultaneously for 2017, by completing the Pro-Forma Income Statement and Balance Sheet provided in Appendix B on page 13. Detach this appendix from the exam paper and include it in your question 2 answer book. Write your student number in the space provided.

(38 marks: 34 minutes)

(b) Describe the four factors which determine a firm’s ability to sustain growth.

(12 marks: 11 minutes)
Question 3  (50 marks: 45 minutes)

Answer all THREE unrelated parts of this question

Part A  (18 marks: 16 minutes)
In January 2016, Lukas Dholmo, one of South Africa’s best-known rugby players, signed a contract to play, and later coach, for Pirahna Rugby Club. In terms of his contract, he was guaranteed earnings of R6 075 000 over a 20-year period, broken down as follows:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>EARNINGS (RANDS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>875 000</td>
</tr>
<tr>
<td>2017</td>
<td>650 000</td>
</tr>
<tr>
<td>2018</td>
<td>800 000</td>
</tr>
<tr>
<td>2019</td>
<td>1 000 000</td>
</tr>
<tr>
<td>2020</td>
<td>300 000</td>
</tr>
<tr>
<td>2021 to 2025</td>
<td>240 000 per annum</td>
</tr>
<tr>
<td>2026 to 2035</td>
<td>125 000 per annum</td>
</tr>
<tr>
<td>TOTAL</td>
<td>6 075 000</td>
</tr>
</tbody>
</table>

Required:
(a) Calculate the value of this contract when Lukas signed it on the first of January of this year, if the relevant rate of interest is 8% per annum, and earnings are received at the end of each year.

(13 marks: 12 minutes)

(b) If Lukas would prefer to receive an equal annual salary at the end of each year for the period 2016 – 2035, as opposed to the uneven earnings listed above, calculate the equal annual salary he should ask for.

(5 marks: 4 minutes)

Part B  (18 marks: 16 minutes)
You were recently at a family reunion in Kimberley. Your cousin attends a nearby university, and missed her Finance 2 lectures on bonds, due to illness. She has asked you to help her. You look in a current business publication, and use the following two bonds as examples:

**Eskom E168**
- Maturity Date: 2024 (8 years from now)
- Face Value: R1 000
- Coupon Rate: 11% (coupons paid semi-annually)
- YTM: 14%

**Eskom E170**
- Maturity Date: 2020 (4 years from now)
- Face Value: R1 000
- Coupon rate: 13.50% (coupons paid annually)
- YTM: 15.3%

Required:
(a) Explain to your cousin the meaning of the following terminology:
   - maturity date
   - face value
   - coupon rate and
   - YTM.

(8 marks: 7 minutes)
(b) Show how bonds are valued by valuing the £168. (4 marks: 4 minutes)

(c) The price of a bond is sensitive to interest rate changes. Compare the two bonds, with regard to their relative interest rate sensitivity. (6 marks: 5 minutes)

Part C  (14 marks: 13 minutes)
You have been working for a while after university and two Finance companies, Trojan (Pty) Ltd and Apollo (Pty) Ltd, have approached you to work for them. In each case, they are offering you a minority shareholding and a directorship. Each company is offering the same salary and you will have to pay for the shares.
Both companies are expected to commence paying dividends in one year's time which will be paid at yearly intervals. Trojan's first dividend will be 44c per share and is expected to display a constant growth of 6% thereafter.
Apollo's dividend forecast is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Expected Dividend</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>27c</td>
</tr>
<tr>
<td>2</td>
<td>38c</td>
</tr>
<tr>
<td>3</td>
<td>50c</td>
</tr>
<tr>
<td>4</td>
<td>64c</td>
</tr>
</tbody>
</table>

Thereafter, growth will be 5% indefinitely.
The expected rate of return for the risk inherent in each company is 15%. Both companies are offering you these shares at a price of R5.00 per share.

Required:
Calculate which company you would choose to work for, if you base your decision only on the share offer.
Question 4  (50 marks: 45 minutes)

Answer both unrelated parts of this question.

Part A  (30 marks: 27 minutes)
Paradise cc is a small retail outlet for surfing accessories. They have forecasted the following net cash in(out)flow figures for the next 3 months:

<table>
<thead>
<tr>
<th></th>
<th>June</th>
<th>July</th>
<th>August</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Cash Inflow:</td>
<td>15 400</td>
<td>56 000</td>
<td>-3 400</td>
</tr>
</tbody>
</table>

At the end of May they will have short-term borrowings of R10 000, and an opening cash balance of R15 000 in their business account. Their minimum required cash balance in the business account is R40 000. They pay interest @ 1% per month on short-term borrowings and earn interest @ 0.5% per month on any short-term investments made.

Required:
Complete the Short term Financial Plan for Paradise cc for the next 3 months. Use the outline provided on Appendix C on page 14. Do not forget to write your student number at the top of Appendix C, nor to detach it and place it inside your Question 4 booklet.

Part B  (20 marks: 18 minutes)
Briefly describe each of the following:
(i) Factoring.
(ii) Banker’s Acceptance (as a source of finance).
(iii) Carrying costs of Cash.
(iv) A Restrictive working capital policy (with respect to the level of investment in current assets only).
(v) The ABC inventory management technique.
APPENDIX A
SELECTED RATIOS AND FORMULAE

ROA = NPAT / Total Assets
Current Ratio = Current Assets / Current Liabilities
Equity Multiplier = Total Assets / Equity
Net Profit Margin = NPAT / Sales
Total Debt ratio = Total debt / Total Assets
Debt: Equity ratio = Total Debt / Total Equity
Total Asset Turnover = Sales / Total Assets
ROE = PM x TAT x EM
IGR = (ROA x b) / [1 - (ROA x b)]
SGR = (ROE x b) / [1 - (ROE x b)]
P_0 = D_t / (R - g)
R = D_t / P_0 + g
P_0 = D / R
EAR = (1 + APR / m)^m - 1
APPENDIX B

Question 2 (a)

STUDENT NUMBER: ______________________________

Pro forma Income Statement of Blue Steel (Pty) Ltd for the year ending 31 January 2017

<table>
<thead>
<tr>
<th>Item</th>
<th>(R 000’s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td></td>
</tr>
<tr>
<td>Less Cost of goods sold</td>
<td></td>
</tr>
<tr>
<td>Gross Profit</td>
<td></td>
</tr>
<tr>
<td>Less operating expenses</td>
<td></td>
</tr>
<tr>
<td>Profit before interest and tax</td>
<td></td>
</tr>
<tr>
<td>Less Interest</td>
<td></td>
</tr>
<tr>
<td>Profit before tax</td>
<td></td>
</tr>
<tr>
<td>Less taxes</td>
<td></td>
</tr>
<tr>
<td>Net Profit after tax</td>
<td></td>
</tr>
<tr>
<td>Dividend</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
</tr>
</tbody>
</table>

Pro forma Balance Sheet of Blue Steel (Pty) Ltd as at 31 January 2017

<table>
<thead>
<tr>
<th>Item</th>
<th>(R 000’s)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity</strong></td>
<td></td>
</tr>
<tr>
<td>Ordinary Share Capital @ R10 each</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td></td>
</tr>
<tr>
<td>Short-term debt</td>
<td></td>
</tr>
<tr>
<td>Accruals</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
</tr>
<tr>
<td><strong>Total equity &amp; Liabilities</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Item</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
</tr>
<tr>
<td>Net non-currents assets</td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td></td>
</tr>
</tbody>
</table>

DETACH THIS APPENDIX AND INCLUDE IT IN YOUR QUESTION 2 ANSWER BOOKLET. WRITE YOUR STUDENT NUMBER LEGIBLY IN THE SPACE PROVIDED AT THE TOP OF THIS APPENDIX.
APPENDIX C

STUDENT NUMBER: ________________________

Question 4 Part A:

Short-Term Financial Plan of Paradise cc for June – August

<table>
<thead>
<tr>
<th></th>
<th>June</th>
<th>July</th>
<th>August</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash in / out flow</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New ST investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest earned on ST investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ST investments sold</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New ST borrowing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest paid on ST borrowing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ST borrowing repaid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing cash balance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum cash balance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulative surplus (deficit)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening ST investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing ST investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening ST debt</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing ST debt</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

DO NOT FORGET TO FILL IN YOUR STUDENT NUMBER AT THE TOP OF THIS PAGE, TO DETACH THIS PAGE FROM YOUR QUESTION PAPER, AND TO PLACE IT INSIDE YOUR QUESTION 4 ANSWER BOOK!!!