

LIVE: EXAM QUESTIONS



Lesson Description

In this lesson

- We work through questions related to:
 - Business Roles
 - Business Operations



Improve your Skills

Question 1

Neymar's lodge on his Walkerville farm does not generate enough profit anymore. Neymar decides to invest his capital of R40 000 as a fixed deposit at a rate of 8% interest per year. How much will he get over a period of 3 years if the interest was calculated using:

- 1.1.1 Simple interest (2)
- 1.1.2 Compound interest (Show all calculations) (7)
- 1.1.3 Which method of calculating interest will benefit Neymar? Motivate your answer. (2)

Question 2

Read the statement below and answer the questions that follow.

Shawn inherited R30 000 from a relative. He wants to buy shares on the Johannesburg Security Exchange (JSE).

- 2.1 Can Shawn buy shares by himself on the Johannesburg Security Exchange (JSE)? Motivate your answer. (4)
- 2.2 State FOUR functions of the Johannesburg Security Exchange (JSE). (8)

Question 3

- 3.1 Differentiate between government retail bonds and unit trusts (4)
- 3.2. Identify the type of shares held by each of the shareholders below:
- 3.2.1 They receive dividends before ordinary shareholders.
- 3.2.2 They get paid after dividends have been paid to preference shareholders.
- 3.2.3 Gifts or payments in the form of shares or stock are paid as compensation for non-payment of a dividend
- 3.2.4 They will only receive dividends after everyone else has been paid.



Question 4

You are the financial advisor who must assist a client who wants to invest R5 million for three years in ONE of the following investment options:

- A fixed-deposit bank account for three years at simple interest of 8,5% per year
- Shares in a well-known listed company at R5 per share. Dividends of 95 cent per share have been paid out in the past two years. The directors have indicated that this amount will not change for the next three years.
- Government retail bonds for three years at 8% per year, compounded annually
- A small shopping centre with 10 shopping outlets (units). Rent per unit will be fixed at R60 000 per year for the next three years

Support your customer to make the best investment decision by:

- Explaining each investment option listed above
- Describing the risk involved in each option
- Calculating the return on each investment (show calculations clearly)

Recommend the best investment option to your client and motivate your recommendation.

(40 marks)

SOLUTIONS TO EXAM QUESTIONS LIVE

Question 1

1.1.1

Formula $I = P \times i \times t$

- Where P is the amount
- i is the interest rate
- t is the period

$R40\ 000 \times 8/100 \times 3 \text{ years} = R9600 \text{ interest in 3 years}$ ✓✓ (2)

1.1.2

Compound interest

Interest end of year 1	Interest end of year 2	Interest end of year 3
$R40000 \times 8/100$	$(R40000 + R3200) \times 8/100$	$(43200 + R3456) \times 8/100$
$=R3200$ ✓✓	$=R3456$ ✓✓	$=R3732.48$ ✓✓

$=R10388.48$ ✓ (7)

Keep it simple

1.1.3

Compound interest would be best because Neymar would of made R788.48 more on the same investment ✓✓

Question 2

2.1

No,

- Shawn has to use a share broker.
- Share brokers specialise/are trained to buy and sell shares and are strictly selected by the JSE, to ensure that share trading is executed orderly and honestly.
- Shawn can instruct his broker to buy any company's shares that are listed or noted on the JSE.

(Max 4 marks)

2.2

- Serves as a link between investors and companies.
- Monitors changes in listed companies.
- Keeps investors informed by publishing share prices in newspapers and other media daily.
- Serves as a barometer of economic conditions.
- Monitors the activities of the stockbrokers.

- Allows small investors to buy shares in large companies.
- Enables financial institutions to invest their surplus cash/funds in shares.
- Uses STRATE to facilitate electronic share transactions.
- Promotes the services/image of the JSE by educating and informing the general public about it.
- Enables companies to offer share option incentives, which increases their ability to attract and retain high quality investment talent.
- Forces listed companies to improve their reporting, and provide better information for investment decision-making by investors.
- Creates a safe environment for exchanging securities.
- Sets strict listing requirements which increase the liquidity of listed companies.
- Allows shareholders to realise the value of their investments through a public trading platform.
- Any relevant answer related to the functions of the JSE.

(Max 8 marks 4 x 2)

Question 3

3.1

Government retail bonds	Unit trusts
<ul style="list-style-type: none"> • The investor lends money to the government for a couple of years • The government promises to pay the money back at a certain interest rate on a specific date • The interest rates are usually higher than the interest rates offered on fixed deposits and money market accounts • The retail bond will receive interest twice a year at a fixed rate <p style="text-align: right;">(Sub Max 2 marks)</p>	<ul style="list-style-type: none"> • It is a trust formed to manage a portfolio of securities in which small investors can buy units • Investors combine their money with others and spread their risk across a number of securities via unit trusts • Unit trusts offer a variety of choice, a wider range of shares and a lower degree of risk • Money can be withdrawn with 48 hours <p style="text-align: right;">(Sub max 2 marks)</p>

3.2.1 Ordinary preference shares

3.2.2 Ordinary shares

3.2.3 Bonus Shares

3.2.4 Founders Shares

Question 4**Introduction**

- The customer/investor must seek advice on various investment options in order to make informed investment decisions.
- An investor should consider the advantages and disadvantages of each form of investment and should therefore understand the characteristics of each form of investment.
- The financial advisor should consider the risk involved in different forms of investment as high-risk investments earn higher income.
- Low-risk investments are safer, but provide lower return on investment.
- Any other relevant introduction related to the importance of assessing investments.

Any (2 x 1) (2)

Investment options/opportunities**Fixed Deposits:**

- Money is deposited in a bank account for a pre-determined period at a fixed interest rate.
- Fixed deposits may not out-perform the effect of inflation over a long period.
- Any other relevant answers related to a description of fixed deposits.

Submax (2)

RISK:

- The risk is very low as the investor will receive his/her investment when the fixed deposit matures/the term expires.

Submax (2)

RETURN ON INVESTMENT (ROI)**Return on investment = (gain from investment – cost of investment) / cost of investment expressed as %**

- Is not very high compared to other types of investments.
- Interest may be calculated at single or compound (interest may be paid out annually or capitalised/re-invested).

Submax (2)

CALCULATION of ROI:

5 000 000 x 8,5/100 OR 8,5% x 3 years

= R1 275 000 after 3 years

Sub max 4

Shares:

- When you buy shares in a company, you become a proportional owner/shareholder of that company.
- A shareholder can receive a proportional share in the profits of the company, called dividends.
- Shareholders may vote at a shareholders' meeting.
- Shares can be bought through a registered stock broker or using an online share account on a broker's electronic/internet platform.
- A broker's commission is paid every time shares are bought or sold.
- Any other relevant answers related to shares.

Submax (4)

RISK:

- The risk of losing your initial investment (or part of it) can be high over the short term if share prices fluctuate/change a lot.

Submax (2)

ROI:

- The ROI depends on the decision of directors to declare dividends or not.
- Dividends are paid in cash or in the form of additional shares.
- Investors pay tax on dividends earned.

Submax (2)

CALCULATION of ROI:

R5 000 000 = 1 000 000 shares

R5 p. share

= 1 000 000 shares x R0,95 p.s. x 3 years

= R2 850 000 after 3 years

Submax (4)

Max (12)**Government Retail Bonds:**

- The investor lends money to government for a number of years (pre-determined or at a fixed term).
- Government promises to pay back the money at a certain interest rate on a specific date.
- There are two-, three- or five year bonds available.
- Retail bonds are easy to buy or sell at many supermarket chains, post offices, JSE and online.
- There are no administration fees or commissions payable on transactions.

- The government encourage citizens to save and at the same time has capital available for rendering services and improve infrastructure.
- A minimum of R1 000 and a max of R1 million may be invested.
- Any other relevant answers related of government retail bonds.

Submax (4)

RISK:

- No risk is involved in investing in government retail bonds as the investor will receive his investment back at maturity.
- Capital and interest will be paid electronically into the investor's bank account when the period expires.
- Investor can only lose his/her investment in times of war.

Submax (2)

ROI:

- A market-related interest rate will be determined and this rate is fixed for the investment period.
- Interest is earned half annually on 31 March and 30 September.
- Interest may be capitalised on request (is then compounded).

Submax (2)

CALCULATION of ROI:

$$R5\ 000\ 000 \times (1,08)^3$$

= R6 298 560 value after 3 years

Interest: R6 298 560 – R5 000 000

= R1 298 560 (earned over 3 years)

Submax (4)

Max (12)

Business investment in the shopping complex:

- A capital investment is made when capital goods are bought like land and buildings, in this case the shopping mall.
- Property is bought to rent out or to be sold at a profit in future.
- The location of the shopping mall should be considered as surrounding property values will influence the value of the shopping mall/property.
- This type of investment may not quickly/easily be converted into cash, as it may take time to sell it again.
- High registration fees when purchased and annual property taxes/rates are payable.
- If the shopping mall appreciates in value, capital gains tax will be paid when the property is sold.

- Any other relevant answers related to business investment.

Submax (4)

RISK:

- The property may lose value (depreciate) over time and will have to be sold at lower than the initial investment.

Submax (2)

ROI:

- Tenants may not pay their rent regularly, so the owner may lose regular income.

Submax (2)

CALCULATION of ROI:

10 units x R60 000 p.a. x 3 years

= R1 800 000 (over 3 years)

Submax (4)

Max (12)

Recommendation

- Based on the lowest risk, the government retail bonds are the best option to consider.
- Shares rendered the highest return on investment over 3 years, but the risk of this form of investment is fairly high.
- Any other relevant recommendation of an investment option listed in the question that is supported by the calculations above.

Max (4)

Conclusion

- When choosing the best investment option, all possible information about different options should be considered as large amounts are at stake and it will influence the future of the investor either positively or negatively.
- An informed choice of investment is a wise choice that will only be to the benefit of the investor.
- Any other relevant conclusion related to the above-mentioned forms of investments and risk assessments.

Any (1 x 2) (2)

Details	Maximum	Total
Introduction	2	MAX 32 Marks
Fixed deposits	10	
Shares	12	
Government retail bonds	12	
Business investment	12	
Recommendation	4	
Conclusion	2	
INSIGHT		
Layout		2
Analysis, Interpretation		2
Synthesis		2
Originality, Examples		2
TOTAL MARKS		40