



**PAMIBIA UNIVERSITY**  
**OF SCIENCE AND TECHNOLOGY**  
**Faculty of Management Sciences**

Department of Management

<b>QUALIFICATION: Bachelor in Business Management</b>	
<b>QUALIFICATION CODE: 07BBMA</b>	<b>LEVEL: 7</b>
<b>COURSE: Business Finance</b>	<b>COURSE CODE: BBF612S</b>
<b>DATE: January 2020</b>	<b>SESSION: 2<sup>nd</sup> Opportunity</b>
<b>DURATION: 2 hours</b>	<b>MARKS: 100</b>

<b>2<sup>nd</sup> OPPORTUNITY QUESTION PAPER</b>	
<b>EXAMINER(S)</b>	<b>Ms C Kauami Mr A Ndjavera Mr B Kamudyariwa</b>
<b>MODERATOR:</b>	<b>Mr Ernest Mbanga</b>

**THIS QUESTION PAPER CONSISTS OF 6 PAGES**  
(Including this front page)

**INSTRUCTIONS**

1. Answer all questions.
2. Show all formulae and calculations as marks will be awarded for them.
3. Write clearly and neatly.
4. Number the answers clearly.
5. Please refer to financial statements and additional information for ratio calculations.

**PERMISSIBLE MATERIALS**

1. Calculator.

## Section A:

[15 Marks]

### Question 1: Multiple Choice Questions – Choose the correct Answer(s)

*Please note that numerical questions carry 3 marks.*

1. Credit standards refer to: (1 mark)
  - a. Terms required for all credit customers.
  - b. Limit of credit granted to a customer.
  - c. The different procedures that a firm uses to collect accounts receivable.
  - d. The minimum requirements for extending credit to a customer.
  
2. What does initial outlay mean in time value of money investment decision? (1 mark)
  - a. Cash deposited for interest return
  - b. Cash outflow
  - c. Cash inflow
  - d. The number of years required to recover the initial investment.
  
3. What is the disadvantage of raising finance through a share issue? (1 mark)
  - a. It is illegal
  - b. Existing shareholders will have less control
  - c. Liquidity will be reduced
  - d. Interest payments will rise
  
4. What is the difference between R1 000 invested at 10% p.a. compounded interest for five years if: (3 marks)
  - interest is calculated annually
  - interest is calculated semi-annually?
  - a. N\$ 0
  - b. N\$ 18
  - c. N\$ 315
  - d. N\$ 611
  
5. The primary sources for financial analysis: (1 mark)
  - a. Statement of financial performance
  - b. Auditors' report
  - c. Cashflow statement
  - d. Director's report
  
6. In the management of working capital, CCC refers to (1 mark)
  - a. convenient cash circulation
  - b. cash consumption cycle
  - c. cash conversion cycle
  - d. circulating cash cycle

7. The following are characteristics of management accounting, except: (1 mark)
- Must follow externally imposed rules
  - Internally focused
  - No mandatory rules
  - Emphasis on the future
  - Broad, multidisciplinary
8. Which of the following is not a time-adjusted method of ranking investment proposals? (1 mark)
- Net Present value method
  - Payback method
  - Internal rate of return
  - All of the above are time-adjusted methods
9. The fundamental accounting concept that transactions are accounted for when they occur and not when cash is paid or received, is known as (1 mark)
- Going concern
  - Relevance
  - Accrual
  - Matching
10. Better liquidity may be achieved by the following except (1 mark)
- stocking a range of products that has seasonal demand
  - accelerating cash flows from accounts receivable (debtors)
  - delaying cash flows by paying creditors (accounts payable) as late as possible
  - not over-investing in inventory (stock)
11. A company sells its products on credit. It takes the firm an average of 24 days from buying stocks to selling it. The firm takes an average of 70 days to collect the money from debtors. What is the operating cycle? (3 marks)
- 94 days
  - 46 days
  - 70 days
  - 48 days

**Section B: Short Questions**

**[54 Marks]**

**Question 2: Financial goal of a firm**

**(12 marks)**

Explain the fundamental principles of financial management.

**Question 3: Understanding financial statements**

**(14 marks)**

List the principal users/stakeholders of financial statements and explain what information they are interested in.

**Question 4: Profit planning and control**

**(14 marks)**

Briefly explain/define budgets and summarize their main functions.

**Question 5: Management of working capital**

**(14 marks)**

Briefly discuss the factors that are essential in the management of accounts receivable

## Section C

[31 Marks]

### Question 6: Time Value of Money

(16 marks)

You have the opportunity to invest in an income generating asset for an initial investment of N\$ 80 000. It is expected that the annual return will be N\$ 20 000 for the first four years and only N\$10 000 for the next four years, due to a new competitor entering the market. The asset can be sold for N\$ 5 000 to a scrap metal dealer at the end of year eight. The cost of capital (discount rate) is 15%.

#### Determine:

- a) the NPV (net present value) (12 marks)
- b) the discounted Payback Period (2 marks)
- c) would you invest in this asset? Why or why not? (2 marks)

#### Additional information:

The PV discount factors, starting from year one are:  
0,870; 0,756; 0,658; 0,572; 0,497; 0,432; 0,376 and 0,327

The FV interest factors, starting from year one are:  
1,150; 1,323; 1,521; 1,749; 2,011; 2,313; 2,660 and 3,059

### Question 7: Financial Statement Analysis

(15 marks)

Make use of the Financial Statements on page 6 and solve the following:

- i) EBIT (earnings before interest and tax) (2 marks)
- ii) ROE (return on equity) (3 marks)
- iii) The Quick or Acid Test Ratio (2 marks)
- iv) The Inventory Turnover (3 marks)
- v) The Debt Ratio (3 marks)
- vi) EPS (earnings per share) (2 marks)

**Statement of the financial performance of Momo (Pty) Ltd for the period 1 July 2018 to 30 June 2019**

Sales	N\$	100 000
COS		60 000
Gross Profit		40 000
Fixed expenses		30 000
Net Profit before tax		10 000
Tax @ 30%		3 000
Net Profit after tax		7 000

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**Statement of the financial position for Momo (Pty) Ltd as on 30 June 2019**

**LIABILITIES**

50 000 ordinary shares @ N\$ 2.00 each	N\$	100 000
Retained earnings		<u>20 000</u>
Current liabilities: creditors		30 000
		<u>150 000</u>

**TOTAL ASSETS**

Fixed assets at book value		60 000
<u>Current assets:</u>		90 000
Inventory/stock	40 000	
Debtors	30 000	
Cash	<u>20 000</u>	
		<u>150 000</u>

**Additional Information:**

- 1) opening stock = N\$ 30 000
- 2) all purchases are on credit
- 3) 50% of sales are on credit
- 4) Market price of shares = N\$ 1.60 per share
- 5) One year = 360 days

**-END-**