NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

Faculty of Management Sciences

Department of Management

QUALIFICATION: Bachelor in Business Management	
QUALIFICATION CODE: 07BBMA	**LEVEL: 7**
COURSE: Business Finance	**COURSE CODE: BBF612S**
DATE: January 2019	**SESSION: 2nd Opportunity**
DURATION: 2 hours	**MARKS: 100**

2nd OPPORTUNITY EXAMINATION QUESTION PAPER	
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THIS QUESTION PAPER CONSISTS OF 6 PAGES
(Including this front page)

INSTRUCTIONS

1. Answer all questions except for question 4 where you should only answer either (a) or (b).
2. Show all formulae and calculations as marks will be awarded for them.
3. Write clearly and neatly.
4. Number the answers clearly.
5. Use the financial statements and other additional information on pages 5 and 6 for interest factors calculations and ratio analysis.

PERMISSIBLE MATERIALS

1. Calculator.

Section A: [14 Marks]

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

Please note that all numerical and some non-numerical questions carry 2 marks.

1. Choose *all the correct phrases* to fill in: Profit planning and control.... (2 marks)
   a. Starts by estimating the expected sales of the firm
   b. A firm must simply use the previous year's actual expenditure as the point of departure
   c. Compares actual results with the planned results periodically/ on continuous basis
   d. Effect major adjustments to make provision for inflation

2. Break-even analysis provides a framework for understanding interrelationships between: (1 mark)
   a. Fixed costs, Direct costs, Variable costs, Sales volume
   b. Variable costs, Fixed costs, Sales volume, Selling prices
   c. Sales volume, Sunk costs, Variable costs, Fixed costs
   d. Opportunity costs, Fixed costs, Sales volume, Selling prices

3. The term which refers to management being held responsible for those items, and only those items, that management can actually control: (1 mark)
   a. Control budgeting
   b. Control accounting
   c. Personal accounting
   d. Responsibility accounting

4. A bank has granted you a loan of N$20 000. It has to be repaid at the end of each year over a period of 10 years. The bank charges 14% interest per year on the loan. What is the amount payable at the end of each year in order to pay back the loan? (2 marks)
   a. N$2 280,00
   b. N$3 834,36
   c. N$4 847,22
   d. N$7 414,44

5. The following are important considerations in financing assets, except: (1 mark)
   a. Suitability
   b. Control
   c. Flexibility
   d. Timing
   e. All of the above

6. Owners of a limited company are called (1 mark)
   a. Members
   b. Shareholders
   c. Sole traders
   d. Partners

7. AABS is the proprietor of AABS Manufacturing. On 25 June 2018 the business has the following assets, liabilities and equity: (2 marks)

Equipment	N$ 680 000
Inventory	N$ 340 000
Cash	N$ 88 500
Equity	N$ 660 500
Debtors	N$ 90 000

Which one of the following amounts reflects the liabilities at 25 June 2018?

a. N$1 198 500
b. N$1 020 500
c. N$ 538 000
d. N$ 448 000

8. The more the financial leverage a firm has (1 mark)

a. the higher the risk and possible return
b. the higher the return on owners' equity
c. the greater the probability of shareholders financing assets without losing control of firm
d. a, b, c
e. a) and c)

9. In time value of money investment decision initial outlay refers to (1 mark)

a. Cash inflow
b. Cash outflow
c. Cash deposited for interest return
d. the number of years required to recover the initial investment

10. Which of the following is not a time-adjusted method of ranking investment proposals?

a. Net Present value method (1 mark)
b. Payback method
c. Internal rate of return
d. All of the above are time-adjusted methods

11. 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)

a. Going concern
b. Accrual
c. Relevance
d. Matching

Section B: Short Questions [52 Marks]

Question 2: Financial goal of a firm (6 marks)

Name and briefly explain the short-term financial goals of a firm

Question 3: Understanding financial statements (16 marks)

List and briefly explain the different financial statements and reports.

Question 4: Profit planning and control (14 marks)

Answer only one question, either **a) OR b)**

a) An integrated budgeting system for a manufacturing business consists of two main types of budgets. Briefly discuss the financial budgets.

OR

b) Name and briefly explain the principles of budgeting that may contribute to meaningful budgets.

Question 5: Financing (16 marks)

Name the characteristics that distinguish debt from equity as a source of finance

Section C [34 Marks]

Question 7: Break-even analysis (12 Marks)

WBS is a stapler producer in Namibia. Business has been performing well over the last quarter with the X1 staplers. They now want to introduce the XX1 version and they would like to thus determine the envisaged breakeven. Their expected sales turnover is 40 000 units with an envisaged selling price per unit of N$44; the Total fixed costs is N$350 000; Total Variable costs is N$ 550 000. Kindly use this Budget information to determine:

i) The break-even point in units (3 marks)

ii) The break-even value (3 marks)

iii) The margin of safety (2 marks)

iv) If a special discount of N$5.00 for every product purchased is introduced, what will the BEP in units be? Would a special discount be an advisable strategy? Please elaborate briefly. (4 marks)

Question 8: Ratio Analysis (22 marks)

Using the financial statements on page 6, calculate the following ratios, interpret their meaning and compare with industry standards , where applicable.

i) Profitability ratios: Net Profit Margin (4 marks)
ii) Inventory turnover (4 marks)
iii) Debt (solvency) ratio: Debt/Equity Ratio (4 marks)
iv) Liquidity ratio: Acid Test ratio (3 marks)
v) Average Payment Period (APP) (4 marks)
vi) Securities market/shareholders ratios: Earnings per share & Earnings yield (3 marks)

Interest Factors: Additional information

	20%	
	FVIF	FVIFA
1	1.200	1.000
2	1.440	2.200
3	1.728	3.640
4	2.074	5.368
5	2.488	7.442
6	2.986	9.930
7	3.583	12.916
8	4.300	16.50
9	5.160	20.80
10	6.192	25.96

TAB Statement of financial performance for the year ended 28 February 2017

Sales		5,500,000
Less: cost of goods sold		2,700,000
Gross profit		2,800,000
Less: operating expenses		1,150,000
Operating profit		1,650,000
Less: interest expense		33,000
Net profit before tax		1,617,000
Less: tax (28%)		452,760
Net profit after tax		1,164,240
Net profit distributed as follows:		
Dividends to ordinary shareholders		232,848
Retained earnings		931,392
		1,164,240

TAB Statement of financial position as at 28 February 2017

Fixed assets	2 000 000	Shareholders' interest:	
Current assets:		Ordinary shares	900 000
Cash	100 000	Retained earnings	650 000
Accounts receivable	130 000	Long-term debt	700 000
Inventory	320 000	Current liabilities:	
		Accounts payable	300 000
Total assets	**2 550 000**	**Equity and liabilities**	**2 550 000**

Additional information:

- Number of ordinary shares issued: 500 000 at 180 cents each
- Current market price of the share: 380 cents
- Opening inventory is 140 000
- Credit purchases: 2 880 000
- 365 days a year

<u>**Industry Estimates**</u>

- Net Profit margin = 35%
- Inventory turnover = 10
- Debt/Equity ratio = 52%
- APP = 60 days; Supplier credit terms: 60 days

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