



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF COMMERCE, HUMAN SCIENCES, AND EDUCATION

DEPARTMENT OF ECONOMICS, ACCOUNTING, AND FINANCE

QUALIFICATION: BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: 07BOAG	LEVEL: 7
COURSE CODE: MFN710S	COURSE NAME: MANAGERIAL FINANCE 320
SESSION: DECEMBER 2025	PAPER: THEORY AND CALCULATIONS (PAPER 2)
DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINERS	Lameck Odada, Dr Moses Nyakuwanika and Laban Nashinwe
MODERATOR	Alfred Makosa

INSTRUCTIONS
<ol style="list-style-type: none">1. This examination question paper consists of FOUR (4) questions2. Answer ALL the questions in blue or black ink only. NO PENCIL.3. Start each question on a new page and number the answers correctly and clearly.4. Write clearly and neatly, showing all your workings/assumptions.5. Round off only final answers to two (2) decimal places.6. Questions relating to this examination may be raised in the initial 30 minutes after the start of the examination. Thereafter, candidates must use their initiative to address any perceived errors or ambiguities, and any assumptions they make should be clearly stated.

PERMISSIBLE MATERIALS

1. Silent, non-programmable calculators

THIS QUESTION PAPER CONSISTS OF 5 PAGES (including this front page)

QUESTION 1**[25 MARKS]**

You are an investor considering an investment in Bidvest Empowerment Systems. As part of your investment decision, you are currently investigating the capital structure of this company.

Your research has indicated the following so far:

Bidvest Empowerment Systems

Bidvest Empowerment Systems is an active investment company focusing on high-growth investments. They also have significant mining interests. Bidvest has been in the news recently due to concerns about its potential liquidation. They currently have secured debt to the value of N\$1 billion, but Bidvest still urgently needs to raise funding in order to continue trading as a solvent company.

REQUIRED	MARKS
a) Explain the meaning of the following concepts: i.) Leverage (gearing) ii.) Business risk and how it is measured iii.) Financial risk and how it is measured	 3 4 4
b) What will happen to the cost of equity if Bidvest raises more debt funding?	4
c) What are the indirect costs associated with impending bankruptcy, as in the case of Bidvest?	4
d) Identify and briefly describe any other three (3) sources of finance available to Bidvest	6

QUESTION 2**[25 MARKS]**

It is December 31, 2024, and 35-year-old Johannes is reviewing his retirement savings and planning for retirement at age 60. He currently has N\$55 000 saved (which includes the deposit he made today) and invests N\$2 000 per year (at the end of the year) in a retirement account that earns approximately 10% annually. He has decided that he is comfortable living on N\$40 000 per year (in today's dollars) and believes that he can continue to live on that amount as long as it is adjusted annually for inflation. Inflation is expected to average 3% per year for the foreseeable future.

After researching the average life expectancy for males of his background, his plan will assume that he lives to the age of 88. He will withdraw the amount needed for each year during retirement at the beginning of the year. So, on December 31, at the age of 60, he will

make his last deposit of N\$2 000, and the following day (January 1), he will withdraw his first instalment for retirement. Assume that the investment will earn 10%.

REQUIRED		MARKS
a)	If Johannes continues with his current plan, will he be able to accomplish it? Justify your answer with appropriate and detailed workings. Work to the nearest N\$	21
b)	How would the situation change if Johannes were to start placing his N\$2 000 annual savings into the retirement account on January 1st rather than December 31 of each year? Assume that the retirement still pays interest at the end of each year	1
c)	If Johannes resumes making his deposits at the end of the year, how much will he have to save each year to accomplish his objective?	2
d)	If Johannes wishes to leave a N\$50 000 perpetuity to his alma mater, starting one year from the year he turns 88, then how much extra money would he need to have on December 31 of the year he turns 88?	1

QUESTION 3

[25 MARKS]

Caprivi Ltd is an established high street retailer. Over the years, it has developed considerable expertise in developing software solutions for retail problems. It has recently decided to leverage this expertise by offering software solutions to other high-street retailers. This resulted in software sales that far exceeded expectations. The company's success in this area prompted a strategic review, which, in turn, led to a decision to sell off the retail outlets and refocus the company on providing software solutions. The sell-off is due to take place in one month.

The company employs net present value analysis to appraise all its investment projects. The board of directors believes that the proposed change of direction requires a review of the company's weighted average cost of capital, which is used as the appropriate discount rate.

The following extracts have been taken from the Statement of Financial Position of the company for the year that has just ended:

	Millions (N\$)
Equity	
\$1 share capital	500
Accumulated profits	2 000
	2 500
Loan capital	
Debentures	1 000
Term loan	300
	1 300

The existing capital structure will remain the preferred capital structure of the business following its strategic direction change.

The ordinary shares have a current market value of N\$4.80 per share, and the equity beta is 1.1. The market return is 6.8%, and the risk-free rate is 3.5%. The debentures are irredeemable and are currently trading at N\$120 per N\$100 nominal value. It can be assumed that all the company's debt capital is risk-free.

Currently, only one listed company, Amos Ltd, specialises in providing software solutions to the retail trade. The company is financed 60% by equity and 40% by debt capital, based on market values, and it has an equity beta of 1.8.

The effective corporation tax rate is 20%.

REQUIRED		MARKS
a)	Briefly explain why Caprivi Ltd may wish to review its cost of capital	4
b)	Explain the meaning of WACC in your own words	4
c)	Using Modigliani and Miller, calculate the weighted average cost of capital for Caprivi Ltd that should be used as the appropriate discount rate when evaluating new investment proposals.	7
d)	Describe any THREE (3) problems in using CAPM to calculate a project-specific discount rate.	6
e)	The company has warrants in issue that can be used to subscribe for share capital in the company on a one-for-one basis in six months, at an exercise price of N\$4.50. The warrants are currently quoted at N\$1.20, and the current share price is N\$5.40. Calculate the warrant conversion premium and the intrinsic value of the warrant.	5

QUESTION 4**[25 MARKS]**

Scott Stores Ltd ("Scott") sells furniture in the Namibian market. Total gross sales for the current year amount to N\$5 million (before discount), of which 70% is on credit. The customers who purchase and pay cash receive a 5% cash discount. Scott's debtors' department is currently experiencing problems with collecting its accounts receivable. Scott's directors are considering changing their credit terms.

Scott's current debtors' policy is 3/20 net 90. Scott is considering changing this policy to 4/10 net 30. Furthermore, Scott is considering increasing the cash discount offered to cash-paying customers to 6%. Total gross sales are expected to decrease to N\$4.5 million, with 45% of sales under the new terms anticipated to be cash-based.

The gross profit percentage is 25% on sales and will remain the same. Under the proposed new credit policy, the bad debt written off is expected to decrease from the current 6% of credit sales to 4% of credit sales. Under the new policy, the average debtors' collection period is expected to decrease from an average of 65 days to an average of 18 days. Scott pays an interest rate of 17% on its bank overdraft.

Under the old policy, 40% of credit sales had to be paid on time to qualify for the settlement discount. Under the new policy, 60% of credit sales are expected to be paid on time to qualify for the settlement discount.

REQUIRED:		MARKS
a)	Calculate the expected effect on the net profit of Scott Limited if the new credit policy were to be implemented. Show all calculations. Assume 365 days per year.	23
b)	List any two factors that Scott needs to consider when assessing the creditworthiness of its debtors.	2

END OF EXAMINATION QUESTION PAPER