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: 07BOAC	**LEVEL:** 7
COURSE CODE: MFN710S	**COURSE NAME:** MANAGERIAL FINANCE 320
SESSION: JANUARY 2024	**PAPER:** THEORY AND CALCULATIONS
DURATION: 3 HOURS	**MARKS:** 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINERS	Alina Gustav and Lameck Odada
MODERATOR:	Alfred Makosa

INSTRUCTIONS

1. This examination question paper consists of **FOUR (4)** questions
2. Answer ALL the questions in blue or black ink only. **NO PENCIL.**
3. Start each question on a new page, number the answers correctly and clearly.
4. Write clearly, and neatly showing all your workings/assumptions.
5. Work with at least four (4) decimal places in all your calculations and 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 deal with any perceived errors or ambiguities and any assumptions made by the candidate should be clearly stated.

PERMISSIBLE MATERIALS

- Silent, non-programmable calculators

THIS QUESTION PAPER CONSISTS OF _6_ PAGES (excluding this front page)

QUESTION 1 [25 MARKS]

Choppies is the leading supermarket chain in Africa. The supermarket retail offering includes leading international food brands and fast-moving consumer goods (FMCG) products as well as Choppies' own private label for value-minded consumers. In 2008, Choppies introduced its footprint into South Africa opening a store in Zeerust Northwest. As part of their expansion drive, 2013 saw Choppies move into Zimbabwe where most of the Choppies stores were acquisitions of the existing Spar network. The first distribution centre in South Africa was opened in 2014 and is located in Rustenburg. Their foresight is to grow into East Africa, with an emphasis on Tanzania and Kenya. Choppies believes in the potential of the African market hence the continued growth.

Choppies is forty percent equity-funded. Checkers is a company that is also operating in the retail industry. Checkers is operating across Namibia and South Africa. Checkers is twenty percent equity-funded and has a beta of 0.7.

Additional information:

- The market rate of return is thirteen percent
- Choppies debt consists of a bank loan at 8.5% interest per annum
- Five-year Government Bonds are currently trading at seven percent
- The tax rate in Namibia is twenty-eight percent

REQUIRED		MARKS
a)	Calculate a suitable beta for Choppies to the nearest whole number	6
b)	Calculate the cost of equity of Choppies	3
c)	Calculate the after-tax cost of debt of Choppies	3
d)	Estimate the Weighted Average Cost of Capital (WACC) of Choppies	6
e)	Discuss the difference between systematic and unsystematic risks, giving an example of each and their impact on the beta of a company	7

QUESTION 2 [25 MARKS]

Game Stores (hereafter Game) is a promotionally driven discount retailer of predominantly general merchandise and non-perishable groceries for home, leisure, and business use. Some Game Stores also stock a select range of fresh food, including fruit and vegetables, pre-packed meats, and pre-baked goods. Game has multiple stores in 11 African countries and is continually opening new stores across the continent. Game also specializes in continuous and aggressive marketing of its innovative products. Game currently offers a Game card to customers, which enables consumers to purchase Game products on credit. Game does not currently offer any early settlement discounts.

You have also been provided with the following extracts from the Game Integrated report as at 29 February 2023:

	Notes	2023	2022
		N$	N$
Trade Receivables	2	61 969 784	64 072 399
Inventory	1	65 580 906	79 531 209
Trade payables		25 270 622	33 326 469
Bank Overdraft		9 929 334	13 284 957
Revenue	3	430 798 744	415,373,764
Cost of Sales		(257 862 994)	(246 502 223)
Gross Profit		172,935,750	168,871,541
Operating profit before finance income and finance expenses		17 829 811	18 108 223
Finance income		1 785 130	2 376 303
Finance expenses		(6 467 307)	(3 480 089)
Profit for the year from continuing operations		9 265 281	11 994 013

Note 1	2023	2022
Inventories	N$	N$
Merchandise	66 620 149	75 335 866
Merchandise in transit	2 966 753	8 350 022
Impairment of inventory	(4 005 996)	(4 154 679)
Inventory	65 580 906	79 531 209

Note 2	2023	2022
	N$	N$
Trade receivables	62 611 923	64 176 924
Impairment (Bad debts)	(642 139)	(104 525)
Trade & Other receivables	61 969 784	64 072 399

The impairment allowance has been raised against trade receivables that are considered to be impaired due to uncollectable amounts and credit claims.

Credit risk

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The group's most significant customer, a domestic retailer, accounts for N$50 681 081 (2022: N$51 199 656) of the trade receivables carrying amount at 29 February 2023. Even though Game has significant credit risk exposure to this client, it was noted that this retailer has a great attitude towards paying their debts, and currently always settles their accounts within the credit terms as stipulated. Normal trading terms are 50 days, these are however not always adhered to. Credit clients are not required to provide collateral for credit products purchased on credit.

The group has policies to ensure that sales of products are made to customers with an appropriate credit history. An established credit policy exists under which each new customer is analysed individually for creditworthiness before the group's standard payment and delivery terms and conditions are offered. The group's review of creditworthiness includes external ratings when available and in some cases bank references.

Note 3

27% of sales relate to cash sales, while the remaining 73% are conducted using the Game card. Game does not offer any early settlement discounts currently.

Future growth strategy

In order to improve their current cash flow position, Game is planning to actively start marketing the Game card to customers. In order to remain competitive in this market, they are pondering credit terms in line with the current RCS** card offering, and other related credit providers:

- 5% early settlement discounts, if accounts are settled within 7 days (which corresponds to the cooling off period for online purchase agreements). It is expected that 20% of credit sales will be paid within 7 days.
- 30 days credit if not taking the discount.
- It is expected that bad debts will increase to 5% of trade receivables.
- It is expected that credit sales will increase by 10% should the Game card be marketed more actively, whereas cash sales will remain unaffected.
- Gross profit percentages will remain constant.
- Money market investments in Namibia currently offer 6% interest per annum. It is expected that the increase in credit sales, as well as a quicker debt collection period, will result in a positive cash balance in the future.

Another alternative avenue for improving the current cash flow situation of Game is to consider factoring the company receivables with a banking institution. Game is hoping that by factoring their debtors' books, the collection of debt will also improve.

Assumptions

- Assume all payments on credit are received at the end of each month.
- Round all values to the nearest whole number.
- Assume that there are 365 days in a calendar year.

**RCS is a retail shopping network, which enables cardholders to purchase on credit from the following retailers who form part of the RCS store card network: Due South, Adidas, Outdoor Warehouse, Aldo, American Swiss, The Body Shop, Checkers, Incredible Connection, Builders Warehouse, Spar, MTN, Mica, Samsung to only list a couple

REQUIRED		MARKS
a)	Advise the Executive Management of Game on whether to adopt the new credit policy by determining the effect of the change in credit policy	20
b)	List any five (5) advantages of factoring a debtor's book to a financial institution from the perspective of Game.	5

QUESTION 3 **[25 MARKS]**

Shilongo Leather Works (hereafter SLW) is a family-owned business conceived out of a great passion for crafting durable products that would not only create an appreciated brand but also build the Shilongo family legacy. Launched in 1986 by Sakeus and Selma Shilongo; SLW is embedded with a rich history of tenacity and honesty that brought about the existence of a now renowned handcraft leatherworks company. Presently, the company has a workforce of over seventy (70) employees. SLW has also been a pioneer in starting a school shoe production line and entering the school shoe supply industry. Below is the summarized statement of the financial position of SLW and the statement of comprehensive income for the year ended 31 December 2022.

SLW Statement of financial position as of 31 December 2022

ASSETS	2022	2021
Non-current assets	9 450 000	8 640 000
Property, plant, and equipment	9 450 000	8 640 000
Investments	-	-
Current assets	36 045 000	29 632 500
Inventories	20 925 000	14 850 000
Receivables	12 150 000	9 990 000
Cash assets	2 970 000	4 792 500
TOTAL ASSETS	**45 495 000**	**38 272 500**
EQUITY AND LIABILITIES		

Share capital and reserves	16 335 000	15 120 000
Share capital	7 000 000	7 000 000
Other reserves	-250 000	-250 000
Retained earnings	9 585 000	8 370 000
Redeemable -preference shares	2 700 000	2 700 000
Non-current liabilities: Long-term borrowings	7 425 000	7 425 000
Current liabilities	**19 035 000**	**13 027 500**
Trade and other payables	4 860 000	4 320 000
Short term borrowings	14 175 000	8 707 500
TOTAL EQUITY AND LIABILITIES	**45 495 000**	**38 272 500**

SLW Statement of comprehensive income for the year ended 31 December 2022

	2022	**2021**
Sales	85 320 000	74 250 000
Cost of sales	63 990 000	54 945 000
Gross profit	**21 330 000**	**19 305 000**
Operating expenses	12 636 000	11 070 000
Depreciation	810 000	675 000
Profit before interest and tax	**7 884 000**	**7 560 000**
Finance costs	2 430 000	1 485 000
Profit before tax	**5 454 000**	**6 075 000**
Income tax expense	2 430 000	2 160 000
Profit from continuing operations	**3 024 000**	**3 915 000**
loss on discontinued operations	1 080 000	-
Profit for the year	**1 944 000**	**3 915 000**

SLW Statement of changes in equity for the year ended 31 December 2022

	2022	**2021**
Balance on 31 December	8 370 000	5 184 000
Comprehensive income for the year	1 944 000	3 915 000
	10 314 000	9 099 000
Dividends-preference shares	-324 000	-324 000
Dividends-ordinary shares	-405 000	-405 000
Balance on 31 December	9 585 000	8 370 000

REQUIRED		MARKS
a)	Compute the following ratios for 2021 and 2022. • Current ratio • Acid test ratio • Inventory turnover • Accounts receivable period • Accounts payable period	**10**

b)	Compute the relevant ratios for 2021 and 2022 required for an analysis of SLW's use of debt to finance its operations	4
c)	Compute three profitability ratios for 2021 and 2022, two of which will provide information regarding operating effectiveness, and one which will assist in establishing the effectiveness of the use of the assets.	6
d)	Compute the return on the shareholders' equity in 2021 and 2022	2
e)	Identify any three (3) limitations of ratio analysis	3

QUESTION 4 [25 MARKS]

Tunacor Fisheries is an established company that is looking to expand its fishing interests by purchasing a 100% interest in Etosha Fishing. The Management of Tunacor Fisheries believes that expected returns from the acquisition of Etosha Fishing are dependent on the state of the economy. There is an equal chance of favourable and unfavourable states of the economy occurring and a 40% chance that the state of the economy will be neutral. The risk-free rate is 5% and there is no company or personal taxation. The following information is made available.

	Estimated return %		
State of the economy	Tunacor Fisheries	Etosha Fishing	The Market
Favourable	16	20	14
Neutral	10	12	8
Unfavourable	2	0	6
Market value in million(N$)	8	12	-
Book value in million (N$)	12	8	-
Covariance with the market	0.0024	0.0023	-

REQUIRED		MARKS
a)	Calculate the standard deviation of Tunacor Fisheries, Etosha Fishing, and the Market	9
b)	Calculate the expected return together with the risk of the portfolio if Tunacor Fisheries purchases a 100% interest in Etosha Fishing.	7
c)	Determine whether Tunacor Fisheries should acquire Etosha Fishing in line with portfolio theory.	2
d)	Determine whether Tunacor Fisheries and Etosha Fishing are good investments in the context of the Capital Asset Pricing Model (CAPM)	7

END OF EXAMINATION QUESTION PAPER