NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES & EDUCATION
DEPARTMENT OF ECONOMICS, ACCOUNTING & FINANCE

QUALIFICATION: BACHELOR OF ACCOUNTING (CHARTERED ACCOUNTANCY)	
QUALIFICATION CODE: 07BACC	LEVEL: 6
COURSE CODE: FAM601Y	COURSE NAME: FINANCIAL MANAGEMENT 200
DATE: NOVEMBER 2024	PAPER: PRACTICAL AND THEORY
DURATION: 3 HOURS 8 Minutes **COMPRISING:** READING TIME: 25 MINUTES WRITING TIME: 2 HOURS & 43 MINUTES	MARKS: 125

NOVEMBER 2024 ASSESSMENT QUESTION PAPER	
EXAMINER:	Mr. S. Nghiwilepo
MODERATOR:	Mr. H. Namwandi

INSTRUCTIONS
• This question paper is made up of **five (5) questions**. • Answer **All** the questions in blue or black ink. • **Show all your workings in the answer sheet**. • Start each question on a new page in your answer booklet and show all your workings. • Questions relating to this paper may be raised in the initial 30 minutes after the start of the paper. Thereafter, candidates must use their initiative to deal with any perceived error or ambiguities and any assumption made by the candidate should be clearly stated.

PERMISSIBLE MATERIALS

Non-programmable calculator/financial calculator

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

QUESTION 1 **[25 MARKS]**

PART A **15 MARKS**

You have just completed your studies and have started working in a company called NX Investments (Pty) Ltd ("NX"). This company has been in operation for over 10 years in the financial services industry.

NX is an asset management company. They currently manage R12 billion worth of investment assets, with their clients being mainly government institutions and pension funds. The main products of the company are listed global equity funds. NX has a main office in the business hub of Sandton, Johannesburg. The company culture and ethos is about stakeholder inclusivity and sustainability. This culture has formed a reputation that most industry players admire and envy, which is why you feel elated to have been selected from all the students in your graduation class, to join the company.

In your second year of work, the chief financial officer (CFO) was allocated as your mentor and a part of that entails her providing you with exposure to some of her daily tasks and responsibilities. She invited you to attend one of the executive committee meetings where the other four executive directors were in attendance. The following decisions were proposed:

Investing decision

There is an opportunity for the company to grow its market share by buying another company -Nazzare Investments (Pty) Ltd ("Nazzare"). The company is also in the financial services industry, but is a smaller player and has a good management and operations team. The negotiations are currently underway to determine whether the offer is well priced and if the executive committee should go ahead with the acquisition. They have provided the expected cash flows from the transaction below:

Purchase price/ Offer: R10 000 000
Discount rate: 6%

Expected cash inflows

Year 1 R'000	Year 2 R'000	Year 3 R'000	Year 4 R'000	Year 5 R'000
1 000	3 000	2 000	4 000	5 000

Financing decision

The company needs to raise funding for the investments. Each director offers to loan the company R2 000 000 their personal capacity in order to finance this investment and the terms of the loans are as follows:

The loans are payable in annual instalments over a period of four years. The interest rate is 7% per annum (compounded annually). The directors suggested that the interest rate should be lower than the market related rate as this is a related party transaction. The board decided to reduce the rate from the beginning of year three to 5% per annum (compounded annually).

PART B **10 MARKS**

You decided it would be wise to invest a lump sum in a savings account so that when your child (who has just been born) starts school, you want to receive annual payments of R30 000 for a period of 14 years. You decide it best to invest the money for three years before you start receiving the R30 000 annual payments, which works as that is when you expect your child to start school. The bank gives you a nominal rate of 6% per annum (compounded annually).

Source: NWU

Question 2 **[35 MARKS]**

You have recently joined MVP (Pty) Ltd as an assistant financial manager. MVP (Pty) Ltd is a retail company selling electronic gadgets. The company has warehouses and retail stores in all the major cities across South Africa, with the head office situated in Rustenburg, North West. You have been asked by Mr Kero, the financial manager, to assist in the review of the risk management processes of the company. With some research conducted by a reputable external company, it was noted that competitors of MVP (Pty) Ltd in the industry have an average degree of operating leverage of 1.9. Mr Kero had invited you to the previous board meeting, and during the meeting, there was a debate about whether there is still goal congruence in creating shareholder value within the company; one of the divisional managers (Mr George) made the following comment:

"To create shareholder value, we need to cut costs where we can so the company can remain profitable as increasing shareholder value is the same as increasing profits. We need to cut our advertising costs and lay off some workers in our Secunda branch, as we have too many there and cut back our corporate social funding we pay out to communities, because we are not getting anything in return."

Mr Kero recently identified two potential companies that MVP (Pty) Ltd could invest in, however, he is unsure about the decision he has to make. The following information of the respective companies was gathered:

	Laav (Pty) Ltd	**Otch (Pty) Ltd**
Expected return	12%	15%
Standard deviation	7,20%	9,60%
Revenue for the current year	R8 000 000	R9 000 000

The following extract information for MVP (Pty) Ltd, for the current financial year, was also presented to you:

MVP (Pty) Ltd	
Income and expenses	**R**
Revenue	800 000
Variable costs	(480 000)
Contribution	320 000
Fixed operating costs	(21 000)
Earnings before interest & taxation	***299 000***
Interest expense	(16 500)
Taxation expense	(54 000)
Profit for the year	***228 500***

Assets and liabilities	R
Land and buildings	12 000 000
Plant and equipment	5 200 000
Motor vehicles	1 200 540
Inventory	210 000
7% Long term loan	(8 450 000)
Account payables	(199 000)

QUESTION 3 **[20 MARKS]**

PART A

Reptron Limited sells small appliances to hardware stores. The financial manager is considering changing the firm's credit policy in order to attract customers away from competitors.

The current policy charges 2/15 net 30, and the new policy will charge 5/10 net 60. Currently, 20% of the customers take the discount by paying within 15 days after purchases and the rest (excluding bad debts) pay within 30 days after purchases.

Under the new policy it is expected that 50% of customers will take the discount by paying within 10 days and the rest (excluding bad debts) wil pay within 60 days. Bad debts comprise 4% of credit sales and it is expected to change to 2% under the new policy. It is also expected that annual credit sales will increase from R400 000 to R500 000 as a result of the change in credit policy.

The increased sales will also have an effect on the inventory level that Reptron is carrying. The average inventory that Reptron is carrying, is based on determining a EOQ. Unit sales of small appliances will increase from 16 000 to 20 000 units. The order cost of each order is R100 and the annual carrying cost per unit is R2. The company does not carry any buffer stock. Each unit in stock has an average cost of R15.

Cost of sales is equal to 60% of sales. The increase in accounts receivable has an opportunity cost of 12%.

PART B

A company is currently buying a specific item in order quantities of 1 250. The annual use of this item is 6 250 units. Order costs are R200 per order, and carrying costs are R10 per unit per year.

QUESTION 4 **[20 MARKS]**

Basics Ltd is a manufacturing company situated in the Kunene Region. The company manufactures several products which pass through three manufacturing departments.

The company also has a service department that charges its costs to the production departments in the following ratio:

- Machining 50%
- Assembly 30%
- Finishing 20%

You have been given the following information relating to the three manufacturing departments and service department:

	Machining	**Assembly**	**Finishing**	**Service**
Value of Machinery (N$'000)	2 500	500	1 000	nil
Floor area occupied (Square meters	2 600	1 200	800	400
Machine power consumption	60%	10%	30%	nil
Labour hours	100 000	200 000	60 000	40 000
Machine Hours	250 000	60 000	180 000	nil

Budgeted manufacturing and service department overheads:

	N$
Machine insurance	160 000
Machine depreciation	400 000
Factory rent	5 400 000
Municipal levies	600 000
General overheads	400 000
Indirect wages and salaries	2 400 000
Total	**9 360 000**

Service department costs: N$280 000

Direct manufacturing and service costs have been budgeted as follows:

	N$
Machining	1 520 000
Assembly	980 000
Finishing	640 000
Service	220 000
Total	**3 360 000**

Actual Results for the period were as follows:

The actual direct and indirect overheads incurred by the company for the period under review amounted to N$13 800 000.

Actual labour and machine hours for the three production departments were as follows:

	Machining	Assembly	Finishing
Labour hours	120 000	160 000	80 000
Machine hours	280 000	40 000	160 000

QUESTION 5 **[32 MARKS]**

Pipes (Pty) Ltd manufactures plastic pipes and is in its fourth year of trading. Management feels the time is right to consider changes in the business but doesn't want profits to decrease. The marketing manager feels that the selling price would directly influence sales volumes and that a properly structured marketing and advertising campaign should increase sales volumes. Management just received the latest management accounts from the accountant and want to use this as a base to do planning for 2025.

Actual statement of profit or loss for 2024:

	N$	**N$**
Sales		72 000 000
Less: Cost of Sales		49 143 000
• Raw materials	14 400 000	
• Other materials	3 600 000	
• Labour	23 143 000	
• Overheads	8 000 000	
Gross Profit		**22 857 000**
Less: Administrative and selling costs		3 700 000
Profit before taxation		**19 157 000**
Taxation at 28%		5 364 000
Net profit after taxation		**13 793 000**

Only the costs of all materials and 70% of labour costs can be regarded as variable. As a result of inflationary trends, it is expected that prices of all costs will rise by 7% on average in 2025.

During 2024, 450 000 units were sold. Production capacity can be readily extended without incurring any further fixed costs. Assume a taxation rate of 28% in all years.

The End

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NOVEMBER 2024 ASSESSMENT REQUIRED

QUESTION 1 **[25 marks]**

	REQUIRED	**Marks**
	USE THE INFORMATION IN PART A ONLY TO ANSWER THE FOLLOWING QUESTIONS	
(a)	Calculate the net present value of the investment opportunity of Nazzare Investments. Round off all amounts to the nearest R'000.	**(3)**
(b)	Assuming that one director has paid the loan amount into the company account already, what is the capital portion of the instalment repaid on his loan at the end of the third year? Round off all amounts to two decimal places. *(Use the amortisation schedule)*	**(12)**

	REQUIRED	**Marks**
	USE THE INFORMATION IN PART B ONLY TO ANSWER THE FOLLOWING QUESTIONS	
(c)	How much should you invest today in order to be able to receive those annual payments of R30 000 in the future?	**(8)**
(d)	Assuming the annual payments would be received indefinitely and expected to increase annually by inflation (5%) - what would the value be of those annual payments when your child starts school?	**(2)**

QUESTION 2 [18 marks]

REQUIRED		Marks
(a)	**Calculate** and **interpret** the following indicators for the current financial year for MVP (Pty) Ltd: i. Degree of Operating Leverage ii. Degree of Financial Leverage iii. Degree of Combined Leverage	 **(4)** **(2)** **(2)**
(b)	Based on risk and return principles, advise Mr Kero on which investment should be undertaken between Laav (Pty) Ltd and Otch (Pty) Ltd. Give reasons and show calculations (if any).	**(4)**
(c)	Based on the main objective of financial management, comment on the statement made by Mr George during the board meeting on creating shareholder value.	**(6)**

QUESTION 3 [20 marks]

Using the information in **(Part a)**		
a)	**Advise** with relevant calculations whether or not the new cash discount policy should be implemented.	(10)
Using the information in **(Part b)**		
b)	**Determine** the economic order quantity.	(1)
c)	**Determine** the amount of annual cost savings if they change from an order quantity of 1 250 units to the economic order quantity.	(5)
d)	The supplier offers a discount of R0.70 per unit on the purchase price in quantities of 1 875 units or more. **What do you recommend**?	(4)
	TOTAL MARKS	**(20)**

QUESTION 4 **[30 marks]**

a)	**Prepare** a schedule allocating all overheads to the production departments and **determine** the appropriate pre-determined recovery rate for each department. You are required to **justify** the recovery basis that you use for each department.	(22)
b)	**Calculate** the under or over recovery of overheads for the period under review and **state** how the company should make the adjustments to the financial accounts.	(8)
	TOTAL MARKS	**(30)**

QUESTION 5 **[32 marks]**

a)	**Calculate** the break even sales units in 2025, assuming no changes in selling prices.	(9)
b)	**Calculate** the break even sales units for 2025 if the selling prices also increase by 7%.	(5)
c)	**Determine** at what unit selling price 2024 profits can be maintained in 2025, assuming a 5% increase in physical units sold, and the 7% increase in costs as stated above.	(5)
d)	Assuming that for every 1% increase in 2025 prices over 2024 there is a 1% fall on the 2024 unit sales, how many units will be sold if the selling price determined in part c above is applicable, and what will the profit or loss be at this level of turnover?	(5)
e)	Taking the situation in part d above as a basis for the three levels of advertising set out below, comment on what should be spent to restore profits to 2024 levels: **Advertising cost** / **Increase in unit sales** N$1 500 000 / 10% N$2 000 000 / 15.5% N$2 500 000 / 22%	(7)
	Communication and clarity of expression	(1)
	TOTAL MARKS	**(32)**