NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION
DEPARTMENT OF GOVERNANCE AND MANAGEMENT SCIENCES

QUALIFICATION: BACHELOR OF BUSINESS MANAGEMENT	
QUALIFICATION CODE: 07BBMN	**LEVEL:** 7
COURSE CODE: BBF612S	**COURSE NAME**: BUSINESS FINANCE
SESSION: NOVEMBER 2024	**PAPER:** PAPER 1/1
DURATION: 2 HOURS	**MARKS:** 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	**MS C KAUAMI** **MS B NDUNGAUA**
MODERATOR:	**MR ERNEST MBANGA**

INSTRUCTIONS

1. Answer ALL the questions, **<u>except</u>** question 4 where you may choose **<u>EITHER a. or b.</u>**
2. Show all formulae and calculations as marks will be awarded for them.
3. Write clearly and neatly.
4. Number the answers clearly.

PERMISSIBLE MATERIALS

1. Calculator.

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

SECTION A: MULTIPLE CHOICE QUESTIONS **[10 Marks]**

Question 1: Multiple Choice Questions – Choose the correct Answer

Please note that all questions carry 1 mark each.

1. The following are important considerations in financing assets, except:
   a. Inflation
   b. Suitability
   c. Control
   d. Timing

2. A good source of finance for a business that has difficulty in collecting debts is
   a. Factoring
   b. Debentures
   c. Trade credit
   d. Invoice discounting

3. Which of the following long-term financing methods is interest free?
   a. Debentures
   b. Bonds
   c. Equity
   d. Mortgage.

4. Bonds
   a. require monthly instalments, comprising an interest component and partial down payment of the principal.
   b. are forms of equity financing which may be used for an indefinite period.
   c. may be converted into overdraft accounts.
   d. require interest payments every six months and repayment of the principal at maturity.

5. A firm can finance its long-term financing by means of the following:
   a. Equity, bank overdraft, debentures, bonds
   b. Mortgage loan, equity, trade credit, bonds
   c. Bonds, debentures, equity, mortgage loan
   d. Trade credit, equity, overdraft, mortgage loan

6. Financial plans _do not_ involve predictions of the economic outlook
   a. True
   b. False

7. Retailers have heavy reliance on short-term debt because of having higher proportion of temporary current assets.
   a. True
   b. False

8. Is it correct for you to advise a business to finance its short-term obligations using long-term debt, in order to secure its cash flow position?
   a. Yes
   b. No

9. If firms obtain funds from creditors or by means of preference shares, they....
   a. Sacrifice little or no share of control of management
   b. Sacrifice all share of control of management
   c. Gain no share of control of management
   d. None of the above

10. Financial leverage uses debt financing to:
   a. Decrease liabilities and therefore increase the firm's value
   a. Increase the EPS (earnings per share) and the value of the firm
   b. Increase the firm's cost of capital
   c. All of these
   d. None of these

SECTION B: SHORT QUESTIONS [57 Marks]

Question 2: Introduction to Financial Management (12 marks)

(1 marks per principle;3 marks for relevant explanations)

Explain the three fundamental principles of financial management.

Question 3: Users of Financial Statements (14 marks)

(1 mark per user and 1 mark for relevant explanation)

Name the main users of financial statements and indicate what information they are normally interested in.

Question 4: Profit planning and control (14 marks)

(1 mark per advantage/principle and 1 mark for relevant explanation)

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

a) Briefly summarise the advantages of budgeting.

OR

b) Briefly summarise the principles of budgeting.

Question 5: The Time Value of Money (9 marks)

The purpose of financial management is to increase the value of the firm. In this regard, the effect of time on the value of money is significant.

1. Briefly explain the concept of time value of money (TVM). (3)
2. Contrast the concepts of Future Values (FV) and Present Values (PV) as concepts of the time value of money. (6)

Question 6: The Management of Working Capital (8 marks)

(2 marks per correct answer)

Briefly explain a firm's motives for holding cash (8)

SECTION C: CALCULATIONS [33 Marks]

Question 7: Analysis of Financial Statement **(18 marks)**

(3 marks per correct answer)

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

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

Question 8: Capital Budgeting **(15 marks)**

(1 marks per PV inflows; a = 2 marks NPV, b = 2 marks; c = 1 mark)

You have the opportunity to invest in an income generating asset (machine) for an initial investment of N$ 70 000. It is expected that the annual return will be N$ 15 000 for the first five (5) years, and due to normal wear and tear, only N$10 000 for the next five (5) years. The machine can then be sold for N$ 5 000 to a scrap metal dealer. The cost of capital is 15%.

Determine:

a. the net present value (NPV), and
b. the discounted Payback Period
c. would you invest in this asset? Why or why not?

Additional Information

Interest factors @ 15%

YEAR	FVIF	FVIFA	PVIF	PVIFA
1.	1.150	1.000	0.870	0.870
2.	1.323	2.150	0.756	1.626
3.	1.521	3.473	0.658	2.283
4.	1.749	4.993	0.572	2.855
5.	2.011	6.742	0.497	3.352
6.	2.313	8.764	0.432	3.784
7.	2.660	11.067	0.376	4.160
8.	3.059	13.730	0.327	4.487
9.	3.518	16.790	0.284	4.772
10.	4.046	20.300	0.247	5.019

Statement of the financial performance of PATI Centre (Pty) Ltd for the period 1 July 2023 to 30 June 2024

Sales	N$	200 000
COS		120 000
Gross Profit		80 000
Fixed expenses		60 000
Net Profit before tax		20 000

Statement of the financial position for PATI Centre (Pty) Ltd as on 30 June 2024

EQUITY AND LIABILITIES

80 000 ordinary shares @ N$ 2.00 each		160 000
Retained earnings		<u>40 000</u>
Current liabilities: creditors		50 000
		<u>250 000</u>
TOTAL ASSETS		
Fixed assets at book value		90 000
<u>Current assets</u>:		160 000
Inventory/stock	60 000	
Debtors	50 000	
Cash	<u>50 000</u>	
		<u>250 000</u>

<u>Additional Information:</u>

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