NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF ACCOUNTING, ECONOMICS & FINANCE

QUALIFICATION: BACHELOR OF ACCOUNTING (CHARTERTED ACCOUNTANCY)	
QUALIFICATION CODE: 07BACC	LEVEL: 6
COURSE CODE: FAM601Y	COURSE NAME: FINANCIAL MANAGEMENT 200
SESSION: JANUARY 2019	PAPER: PRACTICAL AND THEORY
DURATION: 3.45 HOURS	MARKS: 150

ASSESSMENT OPPORTUNITY 6 REPLACEMENT QUESTION PAPER	
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MODERATOR:	Mahlatsi M

INSTRUCTIONS

- This question paper is made up of four (4) questions.
- Start each question on a new page.
- Answer All the questions and in blue or black ink.
- You are advised to pay due attention to expression and presentation. Failure to do so will cost you marks.
- 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 11 PAGES (Including this front page)

Question 1 **(40 Marks)**

Chineke Ltd manufactures and sells coin operated electricity meters and has a maximum production capacity of 40 000 units per annum. Chineke Ltd's domestic market has been declining for the last two years, and management are now considering three options for the forthcoming financial year 1 June 2016 to June 2017 to improve the company's financial position.

Option 1 – Continue as is

The data for the forthcoming year assuming that the company continues with current production and sales strategy is as follows:

	N$
Selling price per unit	2 100
Direct material per unit	1 000
Direct labour per unit	200

Estimated total sales is 22 000 units.

Annual total production overheads (fixed and variable costs):

Units	20 000	40 000
Overheads	N$ 10 000 000	N$ 12 000 000

Total annual administration and marketing overheads (all fixed and not included above) would amount to N$ 8 300 000.

Option 2 – Export

Chineke Ltd have never exported. Recently, however, they have received some encouraging export enquiries from the Far East. The sales mix of the domestic sales to export would be in the same ratio 2:1, and Chineke Ltd would be able to fulfil all estimated domestic sales orders as per Option 1. The current cost structure would remain the same as Option 1, except the company would be able to negotiate a 5% volume discount on all direct material cost as a result of production volumes being above 30 000 units, and Chineke Ltd would incur additional fixed administration and marketing overheads of N$ 2 000 000 due to establishment of foreign sales offices.

The export selling price would be U$135.48 per unit and the current rate of exchange is U$1 = N$13.84. The domestic selling price would be unchanged at N$ 2 100 per unit.

Option 3 – Downsize

This option would result in the maximum production capacity being reduced from 40 000 units to 25 000 units per annum and the company would focus exclusively on the domestic market. Chineke Ltd would also acquire a new stamping machine, which would reduce the direct labour cost per unit form N$ 200 to N$ 100. The selling and cost data for Option3, is as follows:

	N$
Selling price per unit	2 300
Direct materials per unit	1 000
Direct labour per unit	100

Estimated total annual sales would be 20 000 units.

Due to the reduction of production capacity, cost savings would be generated. The revised total annual production overheads (fixed and variable costs) would be:

Units	15 000	25 000
Overheads	N$ 9 000 000	N$ 10 000 000

Any overhead costs pertaining to the new stamping machine are included in the above.

The total annual fixed administration and marketing overheads would be reduced by N$ 500 000.

Required:		
(a)	Calculate the Profit volume (P/V) Ratio, Break-even sales in Unit and in value, Net profit, Profit ratio and percentage of Margin of safety for each of Options 2 and 3 only.	(28)
(b)	Recommend to management which of Option 2 and 3 you consider should be implemented. (In your answer, briefly interpret the P/V ratio and percentage margin of safety, which have been computed and indicate why they might be useful to management).	(7)
(c)	Discuss the situations that must be available for CVP analysis to be applied.	(5)
TOTAL		**40**

Question 2 **(40 marks)**

Part A

Yakima provides personal training service and sells clothing products to its clients. Yakima also generates some revenue from protein drink sales. The net realizable value from drink sales is accounted for as a reduction in the joint cost assigned to the personal training service and clothing products. Protein drink sells for N$12.50 per bottle. The cost associated with making and packaging the drinks is N$11.00 per bottle.

Joint cost is to be allocated to personal training service and clothing products based on net realizable values. For May, total revenues were N$753 000 from personal training service and N$289 000 from clothing products. The following joint cost were incurred:

	N$
Rent	36 000
Insurance	43 750
Utilities	3 000

Separate costs beyond the split-off point were as follows:

	Personal Training N$	Clothing N$
Labour	231 000	33 250
Supplies	151 300	700
Equipment depreciation	165 000	1 200
Administration	103 000	3 700

For the year, 2 500 bottles of protein drinks were sold.

Part B

Sunshine Travel is a travel agency specialising in organising flights between Windhoek and Johannesburg. It books passengers on Namibian Airways, who charges passengers N$2 300 per return ticket. Sunshine receives a commission of 10% of the ticket price paid by the passenger. Sunshine's fixed costs are N$20 140 per month. Its variable costs are N$2 110 per ticket, including a N$150 delivery fee charged by KT Express. Assume each ticket purchased is delivered in a separate package. The delivery fee therefore applies to each ticket.

REQUIRED:		
(a)	**PART A**	
	a. Explain to Yokima management, which of its products (if any) are joint products and which are by products.	(3)
	b. Prepare Yakima's Profit or Loss Statement for the month of May. Each product & service's information should be shown.	(18)
	c. Explain the factors that should influence the choice of method when allocating joint costs to products.	(5)
	d. With an example, provide two industries that produce both joint products and by-products	(2)
(b)	**PART B**	
	Calculate the following:	
	a. The number of tickets Sunshine must sell per month to break even.	(3)
	b. Assume another company, TPH Express, offers to charge Sunshine only N$110 per ticket delivered. How would accepting this offer affect your answers in (a)?	(3)
	c. Refer to (a) above. What will the margin of safety ratio be if Sunshine Travel sells 125 tickets? Interpret the margin of safety ratio.	(6)
TOTAL		**(40)**

Question 3 **(30 marks)**

Nam-plastic company manufactures a plastic gasket that is used in automobile. The gaskets go through three processing departments: mixing, forming and stamping. The company's accountant has prepared a summary of production and costs for the forming department as follows for May:

Work in progress on 1 May (40% complete)	8 000kg
Previous period costs with regard to WIP:	
Mixing department	N$84 000
Direct material cost	N$132 000
Conversion cost	N$108 000
Transferred in from Mixing department	22 000kg
Completed and transferred to Stamping department	21 500kg
Work in progress on 31 May (75% complete)	5 500kg
Costs incurred during the month:	
Transferred from Mixing department	N$231 000
Direct material	N$546 000
Conversion cost	N$315 150

All materials are added at the beginning of the process and conversion costs are incurred evenly throughout the process. Normal wastage is estimated at 5% of good units past the point of inspection and occurs when the process is 50% complete.

After mulling over the data above, Nam-plastic company's president comment, "I can't understand what's happening here. Despite a concentrated effort at cost reduction, our unit cost actually went up in the forming department last month. With that kind of performance, year-end bonuses are out of the question for the people in that department."

<u>Note</u>: **1kg = 1 unit**

Round off all unit costs to two decimals and all totals to the nearest dollar.

REQUIRED:		
	Calculate the following with regard to Forming department for May by using the weighted average method of inventory valuation (show all calculations): A. The cost per equivalent unit of production B. The value of finished goods, work in progress and abnormal losses (if applicable)	 (15) (15)
TOTAL		**(30)**

Question 4 **(40 MARKS)**

Old Mutual is a leading independent financial services group in Namibia, with an extensive national footprint and both a Namibian and Mauritian presence. In operation since 1998, they offer a value-orientated approach to their clients' financial needs, from asset and wealth management to insurance. Old Mutual has close to 200 offices throughout South Africa, two offices in Namibia and one in Mauritius. Their business consists of three operating divisions: Old Mutual Wealth, Old Mutual Asset Management and Old Mutual Insurance. Each applies its own dedicated focus to their clients' financial wellbeing.

Old Mutual's investments include a 58.3% shareholding in private school group Amazing Kids Holdings, a 28.3% stake in banking group Capitec, a 64.7% stake in financial services firm Old Mutual Consult, a 42.4% stake in Agribusiness NamAgri and a 100% holding in Old Mutual Private Equity.

Amazing Kids Holdings

Amazing Kids is a listed entity that has been a provider of school education to children since 1998 and believes that education of the youth is a cornerstone for the development of quality leaders, and good citizens, that will positively impact society. From humble beginnings, Amazing Kids today is the largest for profit independent school group in Africa and provides education services to approximately 42 000 learners in 110 schools across South Africa (and most recently Namibia). They have 4 350 employees, of which 2 637 are educators, dedicated to developing the leaders of tomorrow. Amazing Kids' vision is to provide tuition on 80 campuses (or 200 schools) that can accommodate approximately 90 000 learners by 2020. They call this their 80@20 vision. Amazing Kids has embarked on an aggressive growth strategy of acquiring as many schools as possible and attaching their values to those schools to make it a "Amazing Kids" private school in order to reach their 2020 vision. Amazing Kids is intending to raise N$2 billion in 2018 in order to commence with phase one of this expansion strategy.

Extracts from the annual financial statements and the associated notes are below:

	Notes	2017 N$ '000	2016 N$ '000
Assets			
Non-Current Assets			
Total Non-Current Assets		3 929 751	3 045 741
		3 929	**3 045**
Current Assets			
Trade and other receivables	6	222 452	134 352
Cash and cash equivalents		166 616	157 406
		389	**291**
Total Assets		**4 318**	**3 337**
Equity and Liabilities			
Equity			
Share capital	1	2 877	2 067
Reserves		38	8
Retained income		115	64
		3 031	2 141
		3 031	**2 141**
Liabilities			
Non-Current Liabilities			
9.5% Corporate Bonds	2	968 510	849 638
Preference Shares	3	97	97
		1 066	**947**
Current Liabilities			
Trade and other payables	4	192 633	222 658
Bank Overdraft	5	28 183	26 299
		220	**248**
Total Liabilities		**1 287**	**1 196**
Total Equity and Liabilities		**4 318**	**3 337**

NOTES:

1. Amazing Kids issued shares in 1998 at inception. On implementing their initial growth strategy, Amazing Kids recently had a rights issue and issued additional shares. The average issue price of total shares is N$11.20. The current share price of Amazing Kids as quoted on the Namibian Stock Exchange (NSX) was N$40.00 on 31 May 2018.

   Amazing Kids has not yet declared a dividend; however, the market is expecting the first dividend from Amazing Kids at the end of the current year (31 December 2018). The expected dividend yield is 5% of the 31 May 2018 share price.

Amazing Kids' beta co-efficient has been quoted on the Reuters website as 0.35. The average return from the NSX over the past 10 years has been documented as 14.64%.

2. Corporate bonds were issued on 1 June 2014 and have annual coupon payments. These have a maturity date of 31 May 2022. At the most recent bond auction conducted by National Treasury, the N$208 bond traded at a yield of 8.87%. It has been calculated that the yield of corporate bonds trades at a premium of 3% over the N$208. The bonds will be redeemed at par.

3. Preference shares are non-participating, non-cumulative and non-redeemable. The preference shares were issued on 31 May 2016. Preference share dividends are paid annually in arrears. The preference dividend is 13% of the par value of the preference shares. Similar preference shares are trading at a yield of 14.25%.

4. Trade and other payables relate to the purchase of school furniture and general expenses related to establishing the infrastructure of the schools. 10% of the trade creditor balance comes from one supplier who has given Amazing Kids credit terms of 45 days, however the supplier is offering a settlement discount of 5% if Amazing Kids pays within 15 days of the purchase of the goods. Generally, Amazing Kids pays within the credit terms but do not pay suppliers early to take advantage of discounts. The goods were purchased on 1 December 2017.

5. Amazing Kids has obtained an overdraft facility from their bank. This is a revolving facility but is generally settled at least every four months. The annual effective interest rate for the overdraft is 24%.

Additional information

- The statement of financial position has been prepared on the historical cost basis.
- The expected growth rate has been estimated to be equal to the current CPI of 6%. This is expected to be the constant growth for Capitec for the foreseeable future. Amazing Kids will increase declared dividends in line with the CPI growth rate.
- Assume a corporate tax rate is 28%.

REQUIRED		
(a)	Calculate the weighted average cost of capital of Amazing Kids as at 31 May 2017. Explain why you have included or omitted the different sources of finance in the calculation.	(30)
(b)	Explain whether investment and financing decisions should be considered separately, or together.	(10)
TOTAL		**40**

THE END