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: JANUARY 2025	PAPER: PRACTICAL AND THEORY
DURATION: 3 HOURS 8 Minutes **COMPRISING:** READING TIME: 25 MINUTES WRITING TIME: 2 HOURS & 43 MINUTES	MARKS: 125

JANUARY 2025 ASSESSMENT 2nd Opp QUESTION PAPER	
EXAMINER:	Mr. S. Nghiwilepo
MODERATOR:	Mr. H. Namwandi

INSTRUCTIONS

- This question paper is made up of **four (4) 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 5 PAGES (Including this front page)

QUESTION 1 **[34 MARKS]**

Kaizer Ltd, established in 1994, is the leading manufacturer of spare parts that are used in the industry. The company produces five products which are manufactured in three separate production departments – Engine parts, Electric parts and Brake parts.

The products produced by Kaizer Ltd are supplied to the African retail motor market.

The Engine parts department and the Electric parts department are machine intensive while the brake parts department is labour intensive. The company operates with two service departments – Mnyama and Mhlophe.

The accountant has carried out an overhead cost allocation to the production and service departments as follows:

		N$'000
Production departments	Engine parts	66 000
	Electric parts	50 000
	Brake parts	32 000
Service departments	Mnyama	28 000
	Mhlophe	24 000
Total		**200 000**

The service departments' costs are to be apportioned as follows:

	Production Departments			**Service department**	
	%	%	%	%	%
	Engine	Electric	Brake	Mnyama	Mhlophe
Mnyama	30	30	20	-	20
Mhlophe	40	20	20	20	-

Question 2 **[37 MARKS]**

Squash (Pty) Ltd (Squash) grows, processes, cans, and sells three main pineapple products:

- Sliced pineapple
- Crushed pineapple and
- Pineapple juice

The outside skin is cut off in the cutting department and processed as animal feed. The skin is treated as a by- product.

Squash's production process is as follows:

1. Pineapples are first processed in the cutting department, where they are washed and the outside skin is cut away. Then the pineapples are cored and trimmed for slicing. The three main products (sliced, crushed, juice) and the by- product (animal feed) are recognizable after processing in the cutting department. Each product is then transferred to a separate department for final processing.
2. The trimmed pineapples are forwarded to the slicing department, where they are sliced and canned. Any juice generated during the slicing process is packed in the cans with the slices.

3. The pieces of pineapple trimmed from the fruit are diced and canned in the crushing department. Again, the juice generated during this operation is packed in the can with the crushed pineapple.
4. The core and surplus pineapple generated from the cutting department are pulverished into a liquid in the juicing department. There is an evaporation loss equal to 8% of the weight of the good output produced in this department. This loss occurs as the juices are heated.
5. The outside skin is chopped into animal feed in the feed department.

Squash Ltd uses the net realisable value method to assign the costs of the joint process to its main products. The by-product income / expenditure is charged to the joint product costs.

A total of 310 000 kilograms (kg) of pineapple entered the cutting department during May. The scheduled presented below shows the costs incurred in each department, the proportion by weight transferred to the four final processing departments, and the selling price of each end product.

Processing data and costs May 2024

Department	Cost Incurred (N$)	Proportion of product by weight transferred to departments	Selling price per kg of final product
Cutting	900 000	-	-
Slicing	70 500	35%	N$9
Crushing	158 700	28%	N$8.25
Juicing	48 750	27%	N$4.50
Animal Feed	10 500	10%	N$1.50
Total	**N$1 188 450**	**100%**	

QUESTION 3 **[20 MARKS]**

Kalkrand Meat (Pty) Ltd (KM) is a wholesale family butchery and deli, selling grain-fed beef, chicken and pork to both wholesale and retail customers. For the past five years, the company followed an aggressive working capital management policy. The company's forecasted end-of-year financial outcomes if they continue with this type of policy follow:

	N$'000
Debtors	7 800
Inventory	3 225
Cash	525
Non-current assets	21 750
Current liabilities	6 750
Sales	26 250
Operating costs	21 000
Operating profit	5 250
Earnings after tax	3 780

There are 2.5 million ordinary shares in issue, assume that the tax rate is 28%.

The company experienced a series of problems relating to the aggressive working capital management policy and is considering an alternative approach to working capital management.

If a more conservative policy is adopted, it is anticipated that the above forecast will change as follows:

- Sales are expected to decrease with 3% while the operating profit and earnings after tax are expected to increase by 5%.
- The change in working capital will be as follows:

  Debtors – decrease of 35%

  Inventory – increase of 15%

  Current liabilities – decrease of 25%

  Cash will increase to N$1 000 000
- The change in policy will have no effect on the non-current assets.

Source: NWU

QUESTION 4 **[20 MARKS]**

Wishbone (Pty) Ltd "Wishbone or the holding company" is a holding company with investments in various industries. Its directors are currently considering several projects which will increase the range of the business activities undertaken by Wishbone. The directors would like to use discounted cash flow techniques in their evaluation of these projects, but as of yet, no weighted average cost of capital has been calculated.

Wishbone has an authorized share capital of 10 million 25 cent ordinary shares, of which 8 million have been issued. The current ex div market price per ordinary share is R1.10, a dividend of R0.10 per share having been paid recently. The company's project analyst has established the following information:

1. The current long therm gilt yield is 12% per annum.
2. Wishbone's historic beta has been calculated at 1.5
3. The Johannesburg Stock Exchange market required return is 16%.

Extracts from the latest statement of financial position (SOFP) for both the group and the holding company are given below:

	Wishbone (Pty) Ltd consolidated SOFP	Wishbone (Pty) Ltd
	R'000	**R'000**
Issued share capital	3 000	3 000
Share premium	500	500
Reserves	7 400	900
Total Equity	**10 900**	**4 400**
4% non-redeemable preference shares	2 800	1 400
10% non-redeemable debentures	3 600	1 500
12% bank loans	3 200	2 000
Overdraft	800	50
Total liabilities	**10 400**	**4 950**

All debt interest is payable annually, and all the current year's payments will be made shortly. The current market yield on preference shares and debentures is 8% and 14% respectively.

The 12% bank loans are not traded on the open market, but the analyst estimates that the effective pre-tax cost is 2% above the overdraft rate (which is currently 14%). The loans are repayable in 5years. The effective company tax rate is 50%.

The End

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JANUARY 2025 2nd Opp ASSESSMENT REQUIRED

QUESTION 4 **[20 marks]**

Required:		
a)	**Calculate** the weighted average cost of capital as required by the directors.	**(14)**
b)	**Outline** the fundamental assumptions that are made whenever the weighted average cost of capital of a company is used as the discount rate to evaluate investments in new projects.	**(3)**
c)	**Discuss** what is meant by a “target WACC”. How should a company decide on how to finance an investment project that has a positive Net Present Value (NPV)?	**(3)**
	TOTAL MARKS FOR THE PAPER	**(125)**