



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 209
COURSE TITLE : FINANCIAL MANAGEMENT
SPECIAL REQUIREMENTS :
DURATION : 3 Hours
LEVEL
DATE

ZIMBABWE EZEKIEL GUTI UNIVERSITY
: 5/2
EXAMINATION
: 17 AUG 2021
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INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue
2. Use of silent, non-programmable calculators is allowed
3. Answer ALL questions in both Section A and Section B.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets []

SECTION A

Answer all questions in this section. Each question carries 2 marks.

Select the most appropriate answer

1. If a company does not pay dividends then the result will be

- A. More tax will be paid.
- B. Less profit will be made.
- C. More cash is available for investments.
- D. More debt will be required.

2. The following information has been calculated for A Co:

Trade receivables collection period	52 days
Raw material inventory turnover period	42 days
Work in progress inventory turnover period	30 days
Trade payables payment period	66 days
Finished goods inventory turnover period	45 days

What is the length of the working capital cycle?

- A. 103 days
- B. 131 days
- C. 235 days
- D. 31 days

JoJo Ltd are considering investing in a new project which will cost an initial \$375,000 and they expect the following cash to come in:

Year	Net Cash Profits (\$)
1	25,000
2	55,000
3	70,000
4	80,000
5	40,000
6	30,000

The investment will be depreciated to a scrap value of \$175,000 over the period of the project.

What is the Accounting Rate of Return (Return on Capital Employed) of the project?

- A. 6%
- B. 3%
- C. 18%
- D. 12%

4. Which of the following are assumptions that Modigliani and Miller made in their 'no tax' model?

1. No risk of bankruptcy no matter how much debt the company has.
2. High transaction charges.
3. The company is able to borrow at the risk free rate.
4. The company has no debt in its capital structure.

- A. 1 and 2 only
- B. 1 and 3 only
- C. 2 and 3 only
- D. 1 and 4 only

5. \$100 is received at the beginning of year 1, \$200 is received at the beginning of year 2 and \$300 is received at the beginning of year 3.

If the cash flows are deposited at 12% their combined future value at the end of year 3 will be

- A. \$672
- B. \$727
- C. \$1 245
- D. \$1 536

6. You have developed the following data on three shares

Share	Standard deviation	Beta
A	0,20	0,79
B	0,25	0,61
C	0,15	1,29

If you are a risk minimiser, you should choose share ___ if it is held in isolation, and share ___ if it will be held as part of a well-diversified portfolio.

- A. (A, A)
- B. (A, B)
- C. (C, A)
- D. (C, B)

7. The Mopani Company has two debentures outstanding which differ in their maturity date, Debenture A matures in four years while Debenture B matures in seven years. If the required return changes to 15%, then:

- A. Debenture A will have a greater change in price
- B. Debenture B will have a greater change in price
- C. The price of the debentures will be constant
- D. The price change for the debentures will be equal

8. As a financial manager of Choppies Ltd you are supplied with the following information concerning the institution:
- Beta coefficient = 1.1
 - Dividend $D_t = R1.50$
 - The firm's expected dividend growth rate = 12%
 - Risk-free rate of return = 10%
 - The market rate of return = 16%

Use this information to calculate Choppies Ltd's expected market price per ordinary share

- A. \$32.60
 - B. \$33.20
 - C. \$42.75
 - D. \$45.00
9. Which of the following statements relating to the capital asset pricing model is correct?
- A The equity beta of Par Co considers only business risk
 - B The capital asset pricing model considers systematic risk and unsystematic risk
 - C The equity beta of Par Co indicates that the company is more risky than the market as a whole
 - D The debt beta of Par Co is zero
10. Which of the following statements are problems in using the price/earnings ratio method to value a company?
- (1) It is the reciprocal of the earnings yield
 - (2) It combines stock market information and corporate information
 - (3) It is difficult to select a suitable price/earnings ratio
 - (4) The ratio is more suited to valuing the shares of listed companies
- A 1 and 2 only
 - B 3 and 4 only
 - C 1, 3 and 4 only
 - D 1, 2, 3 and 4

[Total 20 marks]

SECTION B

Answer all questions in this section

Question One

- a) Discuss factors about the raising and servicing the various sources of funds, may explain the order preference of most companies [20marks]
- b) Describe systematic and unsystematic risk [10marks]

[Total 30 marks]

Question Two

Mrs Leftfoot wishes to invest 50% of her savings in shares of Company A and 50% in shares of Company B. The expected returns and standard deviations for A and B are as follows:

company	expected return	standard deviation of returns
A	10%	15%
B	15%	20%

Required

- (a) Calculate the expected return of the portfolio? [5marks]
- (b) Calculate the variance and standard deviation of returns of the portfolio if the correlation between the returns of A and B is:

- i. +1.0 [3marks]
- ii. +0.0 [3marks]
- iii. -0.8? [3marks]

- (c) Assume that she wishes to invest 40% in Company A and 60% in Company B. How would this change the expected return of the portfolio? Recalculate the variance and standard deviation of the portfolio's returns, if the correlation of returns is zero. [6marks]

[Total 20 marks]

Question Three

- a) Discuss why conflicts of interest might exist between shareholders and the management. **[6 marks]**
- b) Distinguish between 'hard' and 'soft' capital rationing, explaining why a company may deliberately choose to restrict its capital expenditure. **[7 marks]**
- c) The risk and return of 5 securities are given below together with market and Treasury bill data.

SECURITY	EXPECTED RETURN	BETA
A	27%	1.6
B	28%	1.2
C	16%	0.8
D	30%	1.67
E	25%	0.9
TREASURY BILL	15	0
MARKET INDEX	24	1

Sketch a graph showing the security market line and indicate:

- i. Which securities are undervalued and overvalued? **[7 marks]**
- ii. Discuss the strategy you will advise giving reasons, that is buy, sell or hold for each security. **[5 marks]**

[Total 25 marks]

END OF EXAMINATION QUESTION PAPER