



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ECONOMICS AND BUSINESS SCIENCES

EXAMINATION PAPER

COURSE CODE	:	CBM204
COURSE TITLE	:	BUSINESS FINANCE
SPECIAL REQUIREMENTS	:	DAL Calculator, Financial Tables (if not attached)
DURATION	:	3 Hours
LEVEL	:	2:1
DATE	:	2022

**INSTRUCTIONS TO CANDIDATES:**

1. **No** cell phones are allowed in the examination venue.
2. Answer any **FOUR (4)** questions, each question carries **25 marks**.
3. **Begin** each question on a new page.
4. **The** number of marks for each question or part question is shown in brackets [ ]
5. **Reading** time is 15 minutes **OR** as shall be advised by the invigilator(s).

### Question 1

Eaerospace Ltd is assessing an investment project in the supply of aeroservices. The estimated cash flows are as follows:

Year	\$m	
0	10	Outflow
1	5	Inflow
2	4	Inflow
3	3	Inflow
4	2	Inflow

The business's cost of finance is 15 per cent p.a. and it seeks projects with a three year maximum discounted payback period.

*Should the project be undertaken on the basis of*

- a) ARR,
- b) PBP
- c) NPV,
- d) PI, and
- e) IRR (25 marks)

### Question 2

Metro Peach and Zapalala wholesalers, have the following accounting ratios for the year 2021

	<i>Metro peach</i>	<i>Zapalala</i>
Return on capital employed (ROCE) (%)	28.25	13.51
Return on ordinary shareholders' funds (ROSF) (%)	51.95	18.35
Gross profit margin (%)	50.00	40.00
Operating profit margin (%)	20.00	10.00
Settlement period for trade receivables (days)	73	91
Settlement period for trade payables (days)	37	46
Current ratio	1.63: 1	1.37: 1
Acid test	0.72	0.60
Gearing (%)	56.31	58.55

*On the basis of these ratios, comment on the performance of metro peach in 2021 as compared with Zapalala (25 marks).*

### Question 3

- a) T&T Ltd's capital structure (taken from the balance sheet) is as follows:

	\$m
Ordinary shares of \$0.50 each	8
10% preference shares of £1.00	5
12% loan notes	10

The business pays corporation tax at the rate of 50 per cent and is expected to earn a consistent annual profit, before interest and tax, of \$9 million.

The current market prices of the business's shares are:

Preference shares	\$0.65
Ordinary shares	\$0.80

The loan notes are irredeemable and have a market value of \$100 per £100 nominal value.

*What is the weighted average cost of capital? (10 marks)*

b) T&T Ltd uses a component, which it buys in from a supplier, in its manufacturing process. The estimated annual usage is 23,000 units, and these are used fairly steadily throughout the year. It is estimated that the various inventories holding costs amount to \$1.50 per unit per year. Investigation indicates that it costs about \$50 to process each order for the component. Experience shows that delivery always occurs within one week of placing an order.

*(a) What is the economic order quantity for the component? (5 marks).*

*(b) At what inventories level should the order be placed to be confident that delivery would occur before the existing inventories of the components is all used? (5 marks).*

c) What is the difference between shareholders and stakeholders? Give examples. (5 marks).

*Total 25 marks*

#### Question 4

Kitchnet public limited company has a net working capital of \$70 000, non-current assets of \$50 000, and equity equal to \$80 000 in its annual report.

a) Define working capital. (2 marks)

b) What are the non-current liabilities of Kitchnet plc.? Show all workings and formula (5 marks)

c) what are the 3 sources of cash flow in a business (3 marks)

d) Who reads the annual reports for corporations or public limited companies and why? (15 marks)

*Total 25 marks*

#### Question 5

Tina & Taka Ltd, operates a bakery. The bakery equipment broke down a week ago and needed some spares to resume operations to meet the current demand. The bakery was advised by a local bank to get a loan to buy the spares. The bakery eventually applied for a five year loan of Z\$200 000.

The loan carried a 12% annual interest compounded annually

**Required**

- a) Calculate the annual instalment Tina & Taka Ltd would pay on the loan (**5 marks**)
- b) Prepare and present the Loan Amortisation Schedule for Tina & Taka Ltd (**15 marks**)
- c) How else could Tina & Taka Ltd have raised such an amount without going to the bank? (**5 marks**).

**End of Paper**