



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF HUMANITIES, EDUCATION AND SOCIAL SCIENCES

DEPARTMENT OF DEVELOPMENT STUDIES

EXAMINATION PAPER

Bachelor of Science (Hons) in Development Studies: Part 2 Semester 2

COURSE CODE : ADS 208
COURSE TITLE : Financial Management for Development
DURATION : 3 Hours
DATE : 28 JUN 2022

INSTRUCTIONS TO CANDIDATES:

1. Answer Question and any TWO questions only from Section B.
2. Each question carries 25 Marks.
3. Start each question on a new page of your answer sheet.

SECTION A (compulsory)

1. You are given two projects that have the following information.

Project A.

An initial amount of \$500 000 was invested, and the expected annual revenues are as follows:
\$100 000 for the first 2 years,
\$200 000 for the next 3 years.
Planning horizon is 5 years.

Project B.

A sum of \$25 000 was invested in a project.
Expected annual cashflows are as follows;
\$5 000 in year 1; \$ 9 000 in year 2; \$10 000 each in years 3 & 4; and \$ 3 000 in year 5.

Using the payback method, determine which project is better than the other and why? (10 marks)

B. The cost of a project is \$1 000.

It has a time horizon of 5 years and the expected cashflows are;

- Year 1 -\$200
- Year 2 - \$300
- Year 3 - \$300
- Year 4 - \$400
- Year 5 - \$500

Compute the IRR of this project. (10 marks)

If the opportunity cost of capital is 12%; should we accept this project? (5 marks)

SECTION B (Answer any 2 questions from this section)

2. Describe the various methods/ways by which a project is appraised. (25 marks)

3. An investor borrowed \$5 000 to invest in a project with the following average cash flows;

- Yr 1- \$4000
- Yr 2- \$3500
- Yr 3- \$2100
- Yr 4- \$2200

Calculate the Net Present Value (NPV) of the project, and make a decision about the project. (25 marks)

4. Write brief notes on any 5 of the following terms:

- Opportunity cost
- Break even point
- Balance sheet
- Equity
- ISALS

Debt financing (25 marks)

5. a) A project has the following information:

The selling price of items is \$24 while the variable cost for 18 units is \$180.

Given that the fixed costs for this project amount to \$2800; determine the BEP for this project (12 marks)

b) Discuss agency problems and agency theory. (13 marks)

End of Question Paper !!