



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 : NONE
DURATION : 3 Hours
DATE : 29 JUN 2022

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.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets.

7. Which of the following is not the responsibility of financial management?
- allocation of funds to current and capital assets
 - obtaining the best mix of financing alternatives
 - preparation of the firm's accounting statements
 - development of an appropriate dividend policy
8. The beta coefficient measures
- the return relative to the risk-free rate
 - the return relative to the market return
 - the historical volatility relative to the market's volatility
 - the required return on a financial asset
9. Risk in financial management may be defined as
- the chance the firm won't be able to meet its debt obligations
 - the possibility of the firm losing its competitive position
 - the variability of possible outcomes from a given investment
 - the possibility that the firm can't obtain funds needed to finance the desired asset
10. Business risk relates to
- the ability of the firm to hold its competitive position
 - the ability of the firm to maintain growth in its earnings
 - the ability of the firm to maintain stability in the earnings
 - all of the above are correct

[Total 20marks]

Section B

Answer all questions from this section

Question One

Best Ltd is evaluating the following three investment projects:

	0	1	2	3	4
Project A	-10 000	4 000	4 000	3 000	3 000
Project B	-10 000	2 000	2 000	6 000	6 000
Project C	-20 000	7 000	8 000	8 000	6 000

The company is subject to capital rationing and the company's capital budget is limited to R20 million for the year. The company is unable to defer any of the projects. The cost of capital is 12%.

Required:

- a) Calculate the Profitability Index of each project? [14 marks]
- b) Which projects should be selected assuming that the company is subject to stringent capital rationing? [5 marks]
- c) Describe the relationship between the Capital Market Line and the Security Market Line. [6 marks]
- d) A dictionary defines risk as 'the chance of bad consequences', and uncertainty as 'not to be depended on'.

Required:

- i. Discuss these terms in the context of financial management. [5 marks]

[Total 30marks]

Question Two

The following information on annual returns is available for two shares listed on the ZSE

Year	Hifli	Lowfli
2011	18	16
2012	22	12
2013	36	10
2014	12	18

Despite the limited number of readings, a normal distribution of returns may be assumed. In addition, past performance is considered to reflect expected future performance.

Required:

- a) Calculate the average return and standard deviation of each share. [6 marks]

- b) Calculate the covariance of returns for a portfolio comprising shares in both Hifli and Lowfli. [4 marks]
- c) Calculate the correlation co-efficient of returns in a portfolio of shares of Hifli and Lowfli. [4 marks]
- d) Assume you have \$10 000 available to invest. If you wanted to buy either Hifli or Lowfli, which one would you buy? Explain your conclusion. [3 marks]
- e) If you choose to invest \$3 000 in Hifli and \$7 000 in Lowfli, calculate your expected return from the portfolio and a measure of risk. [5 marks]
- f) Explain briefly the rationale for investors choosing to hold portfolios of shares rather than individual shares. [3 marks]

[Total 25marks]

Question Three

- a) Discuss the major sources of external financing for business firms? [13 marks]
- b) A company has maximum capital to invest of \$800 000. Five capital projects have been identified which are of similar of risk. The initial step analysis shows the following:

Project	Required initial outlay	NPV	Profitability index
No 1	\$298,000	\$128,000	1.4295
No 2	\$240,000	\$100,000	1.4166
No 3	\$400,000	\$160,000	1.40
No 4	\$160,000	\$ 60,000	1.375
No 5	\$798,000	\$239,000	1.300

Projects cannot be postponed and multiples of the same project are not allowed.

Required:

What is the optimal combination of projects to maximise NPV assuming?

- i. projects are divisible? [6 marks]
- ii. projects are not divisible? [6 marks]

[Total 25marks]

END OF EXAMINATION QUESTION PAPER