



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**  

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**FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING**  

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**DEPARTMENT OF ECONOMICS AND BUSINESS SCIENCES**

**EXAMINATION PAPER**

**COURSE CODE** : CBM 223  
**COURSE TITLE** : BUSINESS FINANCE  
**SPECIAL REQUIREMENTS** : Non-Programmable Calculator,  
Formula Booklet  
Financial Tables  
**DURATION** : 3 Hours  
**LEVEL** : 2.2  
**DATE** : 20 JAN 2023

**INSTRUCTIONS TO CANDIDATES:**

1. No cell phones are allowed in the examination venue.
2. Answer **any four** questions
3. The number of marks for each question or part question is shown in brackets [ ]
4. Show all your workings in order to gain full marks.
5. Begin each answer on a new page.
6. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

**Question 1****[25 marks]**

ABC public limited company has a net income of \$66 000, total assets of \$500 000, total liabilities of \$250 000 and the company has declared a dividend of \$22 000, Assuming this dividend pay-out ratio is not likely to change in the future;

- a) With the aid of example (s), distinguish between internal growth rate (IGR) and sustainable growth rate (SGR) of a firm. [8]
- b) What is the IGR of ABC public limited company? [5]
- c) What is the SGR of ABC public limited company? [5]
- d) Explain the determinants of ABC public Limited's growth rate. [7]

**Question 2****[25 marks]**

- a) Zegu Agric department need to accumulate \$25,000 in 10 years in order to buy a piece of land for poultry project. How much will the department have to invest right now if the rate of return is 6% compounded semi-annually? [6]
- b) The Agric department has decided to accumulate \$10,000 for the construction of fowl run for the poultry project. To do so, the department plans to make deposits of \$1,500 per year, with the first payment being made one year from now. The investment earns 8% compounded annually. How large will the department's last deposit be? [15]
- c) Explain other possible ways of raising finance for the poultry project. [4]

**Question 3****[25 marks]**

- a) Firms A and B have debt/total asset ratios of 75% and 50% and returns on total assets of 10% and 15% respectively. Which firm has the greatest return on equity? (explain) [3]

- b) Terry Co. has a profit margin of 15 percent on sales of \$20,000,000. If the firm has debt of \$7,500,000, total assets of \$22,500,000, and an after-tax interest cost on total debt of 5 percent, what is the firm's ROA? [5]
- c) Terry Co. has had sales this year of \$1,000,000. Their selling and administrative expense was \$220,000, COGS was \$425,000, Interest Expense of \$20,000, outstanding debt was \$150,000 and depreciation was \$75,000. Timmons has a 40% corporate tax rate.
- i. What is Terry Co. Net Income for the year? [5]
  - ii. What is Terry Co. Operating Cash Flow for the year? [3]
- d) The Tina Construction Company has projected next year's sales to be \$6,000,000. Construct a pro forma balance sheet given the following information. COGS are 50% of sales and credit sales are 60% of total sales. Current Ratio 1.5 Debt Ratio 60% Inventory Turnover 6 Accts. Rec. Period 60 days Fixed Asset Turnover 2 Times Interest Earned 8.0 Profit Margin .27 Return on Assets 30%. [9]

#### Question 4

[25 marks]

- a) Distinguish between primary and secondary capital markets with reference to the Zimbabwean economy [5]
- b) Explain clearly what is meant by corporate governance and with reference to an organisation of your choice, give examples, where the governance structure of a corporate may result in costs to the corporate. Provide measures that can be put in place to reduce the costs. [20]

#### Question 5

[25 marks]

- a) What is an annuity? [3]
- b) Explain the concept of time value of money [3]

- c) What is the present value of 15 payments of \$100 each received annually (the first one occurring in 12 months from now), if the annual discount rate (compounded annually) is 9%? [4]
- d) Zegu pvt ltd company own a rental building in the city and are interested in replacing the heating system. The company is faced with the following alternatives:
- i. A solar system, which will cost \$12,000 to install and \$500 at the end of every year to run, and will last forever (assume that the building will too).
  - ii. A gas-heating system, which will cost \$5,000 to install and \$1,000 at the end of every year to run, and will last 20 years.
  - iii. An oil-heating system, which will cost \$3,500 to install and \$1,200 at the end of every year to run, and will last 15 years.

If the opportunity cost of capital (discount rate) is 10%, which of these three options is best for Zegu pvt ltd ? [15]

**End of paper**

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