



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND
ECONOMICS

DEPARTMENT OF ACCOUNTING, FINANCE AND HUMAN CAPITAL
MANAGEMENT

EXAMINATION PAPER

COURSE CODE : CAC 423
COURSE TITLE : Financial Management
SPECIAL REQUIREMENTS : None
DURATION : 3 Hours
LEVEL : 4.2
DATE : 12 JUN 2024

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 []

Questions 1

The directors of ZEGU plc wish to expand the entity's operations. However, they are not prepared to borrow at the present time to finance capital investment. The directors have therefore decided to use the company's cash resources for the expansion programme.

Three possible investment opportunities have been identified. Only \$400 000 is available in cash, and the directors intend to limit their capital expenditure over the next 12 months to this amount. The projects are not divisible (i.e. cannot be scaled down) and none of them can be postponed. The following cash flows do not allow for inflation, which is expected to be 10% per annum constant for the foreseeable future. Expected net cash flows (including residual values):

PROJECT	INITIAL INVESTMENT	YEAR 1	YEAR 2	YEAR 3
	\$	\$	\$	\$
A	(350 000)	95 000	110 000	200 000
B	(105 000)	45 000	45 000	45 000
C	(35 000)	(40 000)	(25 000)	125 000

Company shareholders currently require a return of 15% nominal on their investment. Ignore taxation.

REQUIRED:

(a) (i) Calculate the expected Net Present Value (NPVs) and Profitability Index (PIs) of the three projects. [20marks]

(ii) Comment on which project(s) should be chosen for investment, assuming the entity can invest surplus cash in the money market at 10%. [15marks]

Note: You should assume that the \$400 000 expenditure limit is the absolute maximum the entity wishes to spend.

(b) Discuss whether the entity's decision not to borrow, thereby limiting investment expenditure, is in the best interests of its stakeholders. [10marks]

Questions 2

In the beginning of 2016, the directors of Cosmas Corporation decided that plant facilities will have to be expanded in a few years. The company plans to invest: 50,000 every year, starting on June 30, 2016, into a trust fund that earns 11 per cent interest compounded annually. How much money will be in the fund on June 30, 2020, after the last deposit has been made? [10marks]

Questions 3

Prepare a loan amortization schedule of Rutendo when she borrowed \$100 000 at the interest rate of 6% for 5 years and payment is \$23 739.64. (15marks)

Questions 4

- (a) Explain the concept of operating cycle in determining working capital requirement of a firm? (15marks)
- (b) Differentiate between Gross working capital and Net working capital? (15marks)

END OF EXAMINATION QUESTION PAPER

12/0 (pm)