



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ACCOUNTING, FINANCE AND HUMAN CAPITAL MANAGEMENT

COURSE CODE : CAC209
COURSE TITLE : FINANCIAL MANAGEMENT
DURATION : 3 HOURS
LEVEL : 2.1
DATE : 12 JUN 2024
SPECIAL REQUIREMENTS :

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **all** questions
3. Begin each question on a new page.
4. The number of marks for each question or part question is shown in brackets []

Question One

The following information relates to three possible capital expenditure projects. Because of capital rationing only one project can be accepted:

	Project		
	A	B	C
Initial Cost	\$200 000	\$230 000	\$180 000
Expected Life	5 years	5 years	4 years
Scrap value expected	\$10 000	\$15 000	\$8 000
Expected profits	\$	\$	\$
End of year: 1	42,000	57,000	12,000
2	32,000	27,000	22,000
3	27,000	23,000	42,000
4	28,000	7,000	57,000
5	17,000	7,000	-

The company estimates its cost of capital at 12% p.a.

Calculate and indicate which decision you would make based on:

- Payback method (6)
- Net present value (10)
- Which project must be accepted and why? (3)
- Clearly outline the benefits and drawbacks of the net present value method. (6)

Question Two

A redundant manager who received compensation of \$80 000 decides to commence business on 4 January, manufacturing a product for which he knows there is a ready market. He intends to employ some of his former workers who were also made redundant but they will not all commence on 4 January. Suitable premises have been found to rent and second-hand machinery costing \$60 000 has

been bought out of the \$80 000. This machinery has an estimated life of five years from January and no residual value.

Additional Information

1. Production will begin on 4 January and 25% of the following month's sales will be manufactured in January. Each month thereafter the production will consist of 75% of the current month's sales and 25% of the following month's sales.
2. Estimated sales are

	(Units)	(\$)
January	Nil	Nil
February	3200	80 000
March	3600	90 000
April	4000	100 000
May	4000	100 000

3. Variable production cost per unit

	(\$)
Direct materials	7
Direct wages	6
Variable overhead	2
	15

4. Raw material stocks costing \$10 000 have been purchased (out of the manager's \$80 000) to enable production to commence and it is intended to buy, each month, 50% of the materials required for the following month's production requirements. The other 50% will be purchased in the month of production. Payment will be made 30 days after purchase.

5. Direct workers have agreed to have their wages paid into bank accounts on the seventh working day of each month in respect of the previous month's earnings.
6. Variable production overhead: 60% is to be paid in the month following the month it was incurred and 40% is to be paid one month later.
7. Fixed overheads are \$4000 per month. One quarter of this is paid in the month incurred, one half in the following month, and the remainder represents depreciation on the second-hand machinery.
8. Amounts receivable: a 5% cash discount is allowed for payment in the current month and 20% of each month's sales qualify for this discount. 50% of each month's sales are received in the following month, 20% in the third month and 8% in the fourth month. The balance of 2% represents anticipated bad debts.

Required:

- a) (i) Prepare a cash budget for each of the first four months, assuming that overdraft facilities will be available; **(17 marks)**
 (ii) State the amount receivable from customers in May; **(4 marks)**
- b) Describe briefly the benefits to cash budgeting from the use of a particular type of software package. **(4 marks)**

[Total: 25 marks]

Question Three

The current average weekly trading results of the Traditional Restaurant in Bindura are shown below:

	\$	\$
Turnover		2 800
Operating costs: Materials	1 540	
Power	280	
Staff	340	
Building occupancy costs	460	2 620
Profit		180

The average selling price of each meal is \$4; materials and power may be regarded as a variable cost varying with the number of meals provided. Staff costs are semi-variable with a fixed cost element of \$200 per week; the building occupancy costs are all fixed.

Required

- a. Calculate the number of meals required to be sold in order to earn a profit of \$300 per week. **(5 marks)**

- b. The owners of the restaurant are considering expanding their business and using under-utilized space by diversifying into either (1) take-away foods, or (2) high quality meals. The sales estimate for both proposals is rather uncertain and it is recognized that actual sales volume could be up to 20% either higher or lower than that estimated. The estimated sales and costs of each proposal are:

	Take-away foods	High quality meals
Sales volume, per week	720 meals	200 meals
	\$	\$
Average selling price per meal	1.60	6.00
Variable costs per meal	0.85	4.66
Incremental fixed costs, per week	610.00	282.00

If either of the above proposals were implemented it has been estimated that the existing restaurant's operations would be affected as follows:

- As a result of bulk purchasing, material costs incurred would be reduced by \$0.10 per meal. This saving would apply to all meals produced in the existing restaurant.
- Because more people would be aware of the existence of the restaurant it is estimated that turnover would increase. If the 'take-away food' section were opened then for every ten take-away meals sold the existing restaurant's sales would increase by one meal, alternatively if the 'high quality meals' section were open then for every five such meals sold the existing restaurant's sales would increase by one meal.

A specific effect of implementing the 'take-away food' proposal would be a change in the terms of employment of the staff in the existing restaurant, the result of which would be that the staff wage of \$340 per week would have to be regarded as a fixed cost.

Required

Calculate, for each of the proposed methods of diversification:

- The additional profit which would be earned by the owners of the restaurant if the estimated sales were achieved. **(5 marks)**
 - The sales volume at which the owners of the restaurant would earn no additional profit from the proposed diversification. **(5 marks)**
- c. Describe the assumptions underlying cost-volume-profit analysis. **(10 marks)**

Question Four

Lorus Ltd is a manufacturer of premium hand-crafted jewellery. Estimated jewellery sales, production and usage for the next period are as follows:

	Available Units	Lorus Executive	Lorus Middle	Lorus Average
Labor	150 000 hrs	\$500 (50 hrs)	\$400(40 hrs)	\$300 (30 hrs)
Executive input material	220 Kg	\$5000 (200g)		
Middle input material	300 Kg		\$4000 (150g)	

Average input material	200 Kg			\$1000 (100g)
Stainless Steel	2500 Kg	\$500 (500g)	\$400 (400g)	\$600 (600g)
Variable Overheads		\$300	\$100	\$200
Total Variable Overheads		\$6,300	\$4,900	\$2,100
Fixed Overheads Absorption		\$100	\$80	\$60
Total Cost Per Unit		\$6,400	\$4,980	\$2,160
Selling Price		\$10,000	\$8,000	\$5,000
Sales Demand		1,000 units	2,000 units	2,500 units

Required:

- (a) Explain the term limiting factor. (2 marks)
- (b) Identify the limiting factor in the above scenario. (6 marks)
- (c) Calculate the optimal sales mix for Lorus Ltd. (12 marks)
- (d) Calculate the optimal net profit to be made. (5 marks)

END OF EXAMINATION QUESTION PAPER

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