



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ECONOMICS, MARKETING AND ENTREPRENEURSHIP

EXAMINATION PAPER

COURSE CODE : CBM 223
COURSE TITLE : Business Finance
SPECIAL REQUIREMENTS : Non-programmable calculator
Graph paper.
DURATION : 3 Hours
LEVEL : 2.2
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 in Section A and any three (3) questions in Section B.**
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets []

SECTION A: ANSWER ALL QUESTIONS [25 MARKS]

a) Marufu Capital wants to invest in two projects which have the following information:

State of the economy	Probability	Project A cashflow	Project B Cashflow
Strong	0.28	8 250	587
Normal	0.61	15	333
Weak	0.11	53	149

Required

- i) Calculate the expected values of projects A and B. **[6 marks]**
- ii) Calculate the variance and the standard deviation of A and B. **[10 marks]**
- iii) Calculate the Coefficient of variation of projects A and B. **[8 marks]**
- iv) Draw a conclusion about the projects based on the calculated expected values, variance, standard deviation and coefficient of variation. **[1 mark]**

SECTION B: ANSWER ANY THREE QUESTIONS [75 MARKS]**Question 1**

a) A firm invested in a portfolio of three securities with the information contained in the table below.

Security	Weight	Expected Return
A	31%	19%
B	52%	17%
C	17%	9%

Calculate the expected portfolio return. **[5 marks]**

b) Write short notes on the capital asset pricing model, highlighting its assumptions, strengths and weakness. **[8 marks]**

c) Capital structure means the arrangement of capital from different sources so that the long-term funds needed for the business are raised. Explain the key features of sound capital structure of an organisation.

[12 marks]

Question 2

a) A company has total assets of £11 900 700, current liabilities of £2 700 005 and non-current liabilities of £6 300 700. Calculate the company's equity?

[5 marks]

b) Recording financial activities based on the International Accounting Standard follows a set of principles. Explain the matching principle and realization principle as used in International Accounting Standards (IAS).

[10 marks]

c) Shaftmine Publishers Limited pays \$9 216 per month in fixed costs. It also pays \$16.72 per book it produces and on the market, the selling price of each book is \$28.24.

i) Calculate the total costs when Shaftmine Publishers Limited produces 1 200 books per month.

[4 marks]

ii) Calculate the break-even quantity of books for Shaftmine Publishers Limited.

[6 marks]

Question 3

A company issues US\$ 200 000 debenture with a 11% interest. The company is in a 25% tax bracket.

a) You are required to calculate the cost of debt after tax, if:

i) debentures are issued at par.

[3 marks]

ii) debentures are issued at 8.5% discount.

[4 marks]

iii) debentures are issued at 4.4 % premium.

[4 marks]

b) If brokerage cost is at 4%, what will be the cost of debt after tax if:

i) debentures are issued at par.

[4 marks]

ii) debentures are issued at 7% discount.

[5 marks]

iii) debentures are issued at 10% premium.

[5 marks]

Question 4

a) Sensitivity analysis and scenario analysis both help to understand the impact of the change in input variable on the outcome of the project. However, there are certain basic differences between the two. Compare and contrast sensitivity analysis and scenario analysis .

[15 marks]

b) Capital rationing is a commonly employed strategy among investors and companies to guarantee that only the most viable investments are pursued. Explain the two forms of capital rationing. [10 marks]

20/23 (AM)