



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ECONOMICS, MARKETING AND ENTREPRENEURSHIP

EXAMINATION PAPER

COURSE CODE : MTSM523
COURSE TITLE : STRATEGIC FINANCIAL MANAGEMENT
AND COSTING
DURATION : 3 Hours
LEVEL : 1.2
DATE : June exams

29 JUL 2024

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **All FOUR (4)** questions.
3. The number of marks for each question or part question is shown in brackets []
4. Use of non-programmable calculators is allowed.
5. Show all your workings in order to gain full marks.
6. Begin each answer on a new page.
7. **DO NOT OPEN THIS PAPER UNTIL THE INVIGILATOR INSTRUCTS YOU.**

Question 1

Critically evaluate the reasons why the actions of the managers are in conflict with the interest of shareholders. (12marks)

You are aware that there could be a possibility of conflict arising in your bid to help relationships from various stakeholders, discuss what could cause such conflict between shareholders and and creditors, shareholders and the Government and show these could be resolved

(13 marks)

[Total: 25 marks]

Question 2

Mapere ltd is a company that owns popular Jazz clubs in Harare and Bindura. The Chief Executive Officer (CEO), Mr. Jazzy Jeff, is keen to take the jazz movement to Bindura and would like to start by introducing an annual jazz festival to the city. Market research costing \$200 000 that was undertaken last year indicated that there is a growing jazz consciousness in the city and a demand for live jazz entertainment . The Department of Arts and Culture can grant JJ a license to run the festival for 5years, beginning in 2018.

Mr. Jeff has requested your help with the investment appraisal and has provided you with the following information. The annual contribution from the festival is expected to be \$1 500 000 increasing by 8% each year. An investment in working capital of \$ 400 000 is required at the beginning of the project in addition to the initial capital outlay of \$1 000 000. Rental of the festival grounds amounts to \$100 000 payable annually in arrears and will increase by 5% p.a . A one-time deposit of \$30 000 is required upfront and will be returned at the end of the project. Interest payments on borrowings for the project are \$100 000 p.a. The tax rate is 28%. The WACC is 12%

Mapere ltd calculation :

Year	2018	2019	2020	2021	2020
Contribution	1 500 000	1 620 000	1 749 600	1 889 568	2 040 733
Market research	- 200 000				
Working capital	-400 000				
Rental expense	-100 000	-105 000	-110 250	-115 762.5	-121 551
Security deposit	-30 000				

Interest payments	<u>-100 000</u>	<u>-100 000</u>	<u>-100 000</u>	<u>-100 000</u>	<u>-100 000</u>
Cash flows	<u>-330 000</u>	1 415 000	1 539 350	1 673 805.5	1 819 182,8
Net Present Value	<u>4 025 052</u>				

Conclusion

The Net present value is positive; therefore Mapere ltd should accept the project.

Required:

- a) Critically evaluate Mr Jeff's calculation (you are NOT required to perform a correct calculation. (10 marks)
- b) Critically evaluate the any three capital structure theories you are familiar with giving relevant examples where possible (15 marks)

[Total 25 marks]

]

Question 3

- a) Critically evaluate stages in investment appraisal (10 marks)
- b) A company is considering an investment of \$100 000 in a project which is expected to last for 4 years. Scrap value of \$20 000 is estimated to be available at the end of the project. Profits (before depreciation) are estimated at:

Year 1	\$50 000
Year 2	\$50,000
Year 3	\$30,000
Year 4	\$10 000

Calculate the accounting rate of return (AAR) and show benefits of using this approach of investment appraisal. (6 marks)

- a) A company is considering a project, which is expected to last for 4 years, and requires an immediate investment of \$20 000 on plant. Inflows are estimated at \$7 000 for each of the first two years and \$6 000 for each of the last two years. The company's cost of capital is 10% and the plant would have zero scrap value at the end of the 4 years. Calculate the NPV and recommend if the project should be accepted. (9 marks)

[Total 25 marks]

Question 4

Makudo Ltd manufactures three products using the same plant and similar processes. The following information relates to September 2023.

Products			
	X	Y	Z
Production Volume(units)	5 500	600	7 000
Material cost per unit	\$50	\$160	\$170
Component cost per unit	\$21	\$3	\$12
Direct labour cost	\$30	\$120	\$90
Direct labour hours per unit	½ hour	2 hours	1 ½ hours
Machine hours per unit	¼ hours	1 hour	1 ½ hours
Selling price per unit	\$150	\$380	\$400

Fixed manufacturing overhead costs for the month are as follows:

Item description	\$
Machine related overheads	349 300
Set up costs	44 800
Ordering costs	20 900
Material handling costs	75 060
Component administration	8 940
Fixed manufacturing overheads	499 00

At present, manufacturing overhead costs are allocated to products based on machine hours at a cost driver rate of \$40 per machine hour.

Makudo Ltd is considering a change to activity –based costing and for this purpose, has estimated activity levels as follows:

	X	Y	Z
Number of set ups	6	2	8
Number of orders	5	1	4
Number of material handlings	12	3	12
Number of components	7	1	4

Makudo ltd has received a special order from Zambia for 200 units of Y, 320 of Z per unit (1 kwacha = (1.50). The direct labour hours available are fully utilized and no further capacity is available. The order must be accepted in full and delivered within 14 days of accepting the order.

Required:

- a) Advise Makudo ltd whether or not to accept the order. Your advice must address both quantitative and qualitative issues. (15 marks)
- b) Explain fully factors that influence the cost of finance (10 marks)

[Total 25 Marks]