



COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE

NMFN 501: FINANCIAL MANAGEMENT

END OF SECOND SEMESTER EXAMINATION

APRIL 2022

LECTURER: DR DUMISANI RUMBIDZAI MUZIRA

DURATION: 3 HOURS

INSTRUCTIONS

You are required to answer questions as instructed

Answer **any four** questions

Start **each** question on a new page in your answer booklet

Credit will be awarded for logical, systematic and neat presentations

QUESTION ONE

Mr. Moyo has three projects under construction. The cash flows for each of them are shown in the following table. The firm has a 16% cost of capital.

	Project A	Project B	Project C
Initial investment (CF_0)	\$40 000	\$40 000	\$40 000
Year(t)	Cash inflows (CF_t)		
1	\$13 000	\$7 000	\$19 000
2	\$13 000	\$10 000	\$16 000
3	\$13 000	\$13 000	\$13 000
4	\$13 000	\$16 000	\$10 000
5	\$13 000	\$19 000	\$7 000

- a) Calculate the projects payback period. **[3 marks]**
- b) Calculate the projects discounted payback period. **[6 marks]**
- c) Calculate the projects net present value (NPV). **[12 marks]**
- d) Comment on your findings in parts **a**, **b**, and **c** above and recommend the best project. **[4 marks]**

QUESTION TWO

Discuss the relevance of the agency theory in modern day business. **[25 marks]**

QUESTION THREE

Evaluate debt and equity as sources of financing business. **[25 marks]**

QUESTION FOUR

a) XYZ Co is considering using the Miller-Orr model to manage its cash flows. The minimum cash balance would be \$20 000 and the spread is expected to be \$7 500.

Using the Miller-Orr model, calculate the following:

- i) The upper limit. **[3 marks]**
- ii) The return point. **[4 marks]**
- iii) Explain how the upper limit, the lower limit, the spread, and the return point would be used to manage the cash balances of XYZ Co. **[12 marks]**

b) ABC, a manufacturer who makes clothes out of herbs, must maintain a minimum cash balance of \$10 000, and the variance of its daily cash flows has a standard deviation of \$2 000. The cost of buying/ selling securities is \$100 & the yearly interest rate is 9.125%.

Calculate the spread. **[6 marks]**

QUESTION FIVE

Discuss the economic implications brought by the Corona (Covid-19) virus pandemic for your organisation and the strategies to manage them. **[25 marks]**

END OF EXAMINATION