



"Investing in Africa's Future"

FACULTY OF MANAGEMENT AND ADMINISTRATION

MAC403 FINANCIAL MANAGEMENT 1

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER/DECEMBER 2016 (2)

LECTURER: I. RARAMI

DURATION: (3 HRS)

PARALLEL

INSTRUCTIONS

Answer all four questions

The marks allocated to each question are shown at the end of the question

Show all your workings

Credit will be given for presentations that are neat, logical and grammatically well constructed.

QUESTION ONE [25 MARKS]

a) (i). Define Capital Budgeting.

[2 marks]

(ii). You are the Finance Manager of Zimbabwe Fine-Products Ltd, heavily involved in the manufacturing of export products. Your have been told that the Board of Directors are planning to acquire new plant and equipments to meet the expanding export market.

State any four activities that are involved in the Capital Budgeting Process.

[5 marks]

b). Zimbabwe Fine-Products Ltd's project of acquiring new plant and equipment has the following estimated cash flows. Cumulative positive cash flows have also been calculated and the acceptable payback period is three years.

Years	Cash Flows	Cumulative Cash Flow
0	-100 000	-----
1	40 000	40 000
2	45 000	85 000
3	50 000	135 000
4	60 000	195 000
5	55 000	250 000

i). Calculate the payback period.

[4 marks]

ii). State with a reason whether the Board of Directors should accepted or rejected the project.

[1 mark]

c). Zimbabwe Fine-Products Ltd also want to start another project with a cost of capital of 20% and is expected to have the following cash flows:

Years	Cash Flows.
0	-\$750 000
1	200 000
2	250 000
3	300 000
4	320 000
5	350 000

i). Calculate the Internal Rate of Return.

[12 marks]

ii). State with a reason whether the Board of Directors should accepted or rejected the project.

[1 marks]

QUESTION TWO [35 MARKS]

a). You are the finance manager of Tommie Tommie Manufacturers and you are given the following two repeatable projects of the company with the following cash flows to analyse.

Year	Cash flow A	Cash flow B
0	-\$80000	-\$60000
1	45000	45000
2	50000	60000
3	60000	

Cost of Capital	30%	30%
N.P.V	\$11511	\$10116

You are told that, it is expected that each time that a project is repeated, the initial investment will have increased by 10% and each annual cash flow by 20% for both projects. This is regardless of the period between the repetitions.

i). Calculate the N.P.V of the two projects using the lowest common multiple. (L.C.M) [10 marks]

ii). Calculate the annuity amount using uniform annual series. U.A.S [6 marks]

iii). State with a reason which project is acceptable. [2 marks]

b). You the finance manager of Diva Diva Ltd and you are asked to analyse the following investments which are independent of each other and infinitely divisible and the cost of capital is 24%.

Yr	0	1	2	3	4	NPV
A	-\$20000	10000	10000	10000	10000	4043.00
B	-\$65000	25000	30000	30000	40000	7329.50
C	-\$30000	10000	14000	18000	20000	5071.60
D	-\$50000	15000	20000	25000	25000	-1207.00
E	-\$30000	14000	14000	14000	14000	3660.20

i). Calculate the profitability index of the projects and rank them. [8 marks]

ii). Allocate the available funds to projects. [6 marks]

iii). On which investments the company should invest. [3 marks]

QUESTION THREE [25 MARKS]

The following information relate to Make Money Make Sense Ltd, an Ari-based manufacturing company.

Source	Book Value	Face value	Price	No of Shares	Market value
Current liabilities	75000				75000
Long term Liablit	180000	100	150	1800	270000
Preference stock	135000	1	0,70	135000	94500
Common stock	<u>240000</u>	0,50	2,50	480000	<u>1200000</u>
Total	<u>630000</u>				<u>1639500</u>

The long term debt and the current liabilities have a before tax cost of 26% and 24% respectively. Make Money Make Sense Ltd's preference stock dividend rate is 20%, the beta of the firm's stock is 1.30, the average market return is 34% and the risk free rate is 16%. Tax rate is 35%.

Required:

- i). Calculate WACC using book values [15 marks]
- ii). Calculate WACC using the market values [10 marks]

QUESTION FOUR [15 MARKS]

From the following information relate to Zimbabwe Products Ltd's investment.

State of investment	Probability	Return X	Return Y
Excellent	0.1	30%	18%
Good	0.5	20%	27%
Bad	0.4	-5%	8%

Required:

- i). Calculate the covariance [13 marks]
- ii). Calculate the expected return, if investment is 60% in X and 40% in Y [2 marks]

End Of Paper