



"Investing in Africa's Future"

FACULTY OF MANAGEMENT AND ADMINISTRATION

MAC 204 BUSINESS FINANCE

END OF SECOND SEMESTER EXAMINATIONS

APRIL/MAY 2017 (2)

LECTURER: I. RARAMI

DURATION: (3 HRS)

CONVENTIONAL

INSTRUCTIONS

Answer ALL questions in Section A and B

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.

SECTION A

QUESTION ONE [40 MARKS]

1. Define business finance. [2 Marks]
2. What are the goals of the firm? [5 Marks]
3. a). What is a partnership? [2 Marks]
b). Give 2 advantages & 2 disadvantages of partnerships. [2 Marks]
4. a). what is the difference between compound interest and simple interest. [2 Marks]
b). What is future value? [2 Marks]
5. Define investment. [2 Marks]
6. a). Miracle Money invested \$2000 in Capital Base for a period of 15 days. Miracle Money received \$40 interest. Calculate the interest rate. Day base in the year is 365. [2 Marks]
b). A.B.C.D invested \$5000 in a bank that pays 5% interest annually. How much will he have in the account at the end of 10 years if he make no withdrawal, if
 - i). interest is compounded annually. [2 Marks]
 - ii). Interest is simple interest. [2 Marks]
- c). Read Well places \$1000 in Pass Well Bank for a period of 135 days. Read Well receives 39% per year. Calculate Read Well's interest amount based on the information given above. [2 Marks]
7. Dzidzai invested \$6000 in Graduate commercial bank which offers 16% interest per year compounded quarterly for two years. What is the future value of Dzidzai's investment? [2 Marks]
8. Calculate the future value of a deposit of \$500 invested at 30% per annum for 40 days. [2 Marks]
9. What is the present value of \$1000 to be received 5 years from now if the discount rate is 20% per annum. [2 Market]
10. Rugare Rugare Ltd has just made an investment from which it is expecting to receive the following cash flows:

Year	Cash Flow
1	4000
2	4500
3	5000
4	3500

If the discount rate is 20% per annum and the cash flows are expected at the end of each year. What is the present value of Rugare Rugare's investment. **[5 Marks]**

10. Mr Good Good is considering investing in Nice Product A with the following estimated outcome and associated probabilities.

Nice Product A

Probability of outcome	Possible outcome
0.10	0.30
0.30	0.25
0.40	0.20
0.20	0.10

Required:

i). Calculate the variance

[5 Marks]

SECTION B

QUESTION TWO [20 MARKS]

a) (i). Define Capital Budgeting.

[1 Mark]

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

[2 Marks]

b). AA Ltd's project has the following cash flows. Cumulative positive cash flows have also been calculated and the acceptable pay back 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 pay back period.

[4 Marks]

- ii). State with a reason whether the project should be accepted or rejected. **[0.5 Mark]**

c). A project with a cost of capital of 20% 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 project should be accepted or rejected. **[0.5 Mark]**

QUESTION THREE [20 MARKS]

The introduction of the USD has had a lot of effects on the working capital management of firms. The Finance manager of Think Big Ltd is interested in finding out whether there have been any changes in the operating cycle. The following information has been collected for the purpose of calculating the cash operating cycle:

	31 December	
	2015	2016
	\$	\$
Sales	3 240 000	3 600 000
Purchases of raw materials	1 125 000	1 687 500
Raw materials consumed	1 080 000	1 440 000
Cost of goods manufactured	2 160 000	2 880 000
Cost of goods sold	1 800 000	2 700 000
Debtors	540 000	800 000
Creditors	156 250	375 000
Inventory: Raw materials	90 000	60 000
Work in progress	60 000	120 000
Finished goods	25 000	75 000

- i). Use a 360 day year to calculate the cash operating cycle and discuss the change in the cycle. **[12 Marks]**

- ii). Explain what the cash operating cycle really means and its implications to working capital management especially in the current Zimbabwean environment. **[3 Marks]**
- iii). State and briefly explain any two short term and two long term sources of finance. **[5 Marks]**

QUESTION FOUR [20 MARKS]

Mr Business is considering two products, Product A and Product B, with estimated outcome and associated probabilities.

Product A		Product B	
<u>Probability of outcome</u>	<u>Possible outcome</u>	<u>Probability of outcome</u>	<u>Possible outcome</u>
25%	24%	10%	40%
50%	10%	30%	30%
25%	-4%	60%	-5%

Required:

- i). Calculate the expected return of each product. **[6 Marks]**
- ii). Calculate the variance of each product. **[12 Marks]**
- iii). Calculate the standard deviation of each product and advise Mr Business on the product which is less risk, between the two **[2 Marks]**

END OF PAPER