



**AFRICA  
UNIVERSITY**  
*A United Methodist-Related Institution*

***“Investing in Africa’s Future”***

**COLLEGE OF HEALTH, AGRICULTURE & NATURAL SCIENCES**

**NMAC 502: FINANCIAL MANAGEMENT**

**END OF SECOND SEMESTER FINAL EXAMINATIONS**

**APRIL/MAY 2023**

**LECTURER: DR W. MATAMANDE**

**DURATION: 3 HOURS**

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***INSTRUCTIONS***

Do not write your name on the answer sheet

Use Answer Sheets Provided

Begin your answer for Each Question on a New Page

Credit is Given for Neat Presentation

## INSTRUCTIONS TO CANDIDATES

### ANSWER ALL QUESTIONS

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#### Question 1(20 marks)

The following information is available for project X and Y for AU;

	Project X	Project Y
Initial investment	\$25 000	\$35 000
Estimated life	6 years	6 years
Scrap value	\$1 000	\$2 000

The profits before depreciation and after taxation (cash flows) are as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
	\$	\$	\$	\$	\$	\$
Project X	5000	10000	10000	3000	2000	2500
Project Y	20000	10000	5000	3000	2000	2000

Required:

- (a) Calculate the Net Present Value using a discount rate of 10% **(18 marks)**
- (b) Suggest which project should be accepted and provide reasons **(2 marks)**

#### Question 2(20 marks)

Explain in brief important factors which help in estimating requirements of working capital in a organization. Also explain effects of adequate, inadequate and excess working capital.

**Question 3(20 marks)**

- (a) A company is earning a sum of \$50,000 and the rate of return expected is 10%. This company will be said to be properly capitalized. Suppose the capital investment of the company is \$60,000, it will be over capitalization to the extent of \$100 000.

Required:

- What is the new rate of earning? **(8 marks)**
- (b) Discuss the effects of overcapitalization of a firm and the remedies thereof. **(12 marks)**

**Question 4(20 marks)**

- (a) Critically examine the advantages and disadvantages of equity shares. **(12 marks)**
- (b) Discuss the features of equity shares. **(8 marks)**

**Question 5(20 marks)**

- (a) Critically explain the factors affecting the requirement of working capital. **(5 marks)**

- (b) The following information was extracted from the books of a manufacturing company:

Period Covered	365 days
Average period of credit allowed by suppliers	16 days
Average Total of Debtors Outstanding	500
Raw Material Consumption	4,400
Total Production Cost	10,000
Total Cost of Sales	11,500
Sales for the year	16,000
Value of Average Stock maintained:	
Raw Material	320
Work-in-progress	350
Finished Goods	260

Required:

- (i) Compute the operating cycle in days **(10 marks)**

(ii) Compute the amount of working capital required (5 marks)

**End Of Examination Paper**