

**BINDURA UNIVERSITY OF SCIENCE EDUCATION**  
**FACULTY OF COMMERCE**  
**GRADUATE SCHOOL OF BUSINESS**  
**MASTER OF BUSINESS LEADERSHIP**  
**FINANCIAL MANAGEMENT AND ACCOUNTING (MBL 504)**  
**EXAMINATION PAPER**  
**DURATION: 3 HOURS 30 MINUTES**

**Instructions and Information to Candidates**

1. Section A is compulsory and carries 40 marks.
  2. Answer 'Question 1' from Section A and any three (3) questions from Section B.
  3. The paper carries six questions.
  4. All Questions in Section B carry equal marks of 20 each.
  5. The use of cell phones is not allowed in the examination.
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OCT 2024

## **SECTION A: [COMPULSORY]**

### **QUESTION 1**

#### **MASH CENTRAL FARMING (Pvt) Limited**

You have just joined the business development team at Mash Central Farming (Pvt) Limited, a key player in horticultural produce in Bindura. The company is considering investing in a fleet of ten delivery trucks to enable the company to distribute its products directly to its customers. At present, Mash Central Farming (Pvt) Limited outsources the delivery of products to ABC a commercial carrier. The carrier is expected to charge a total of USD530,000 each year for the next six years to undertake this service.

If Mash Central Farming (Pvt) Limited invests in its own delivery trucks, they are expected to cost USD15 000 each to buy. The annual running costs are expected to total USD50 000 for each truck (including the driver's salary).

The delivery trucks are expected to operate successfully for six years. At the end of the six-year period they will all have to be sold, with disposal proceeds expected to be about USD3 000 for each delivery truck.

The acceptable payback period at Mash Central Farming (Pvt) Limited is 4 years. The cost of capital is 15 percent.

The Managing Director has requested that you provide guidance regarding this investment decision.

#### ***Required:***

Write a professional report in which the following issues are addressed:

- a) Determination of the Payback Period of the delivery trucks project and advice on the appropriate investment decision. **(15 marks)**
- b) Computation of the Net Present Value (NPV) of the delivery trucks project and advice on the appropriate investment decision. **(15 marks)**

- c) The reason the Net Present value is considered to be the most appropriate method of appraising investment decisions. (10 marks)

[Total: 40 marks]

**SECTION B: (Answer any three [3] questions from this section)**

**QUESTION 2**

You have just been appointed as Special Advisor to the Managing Director of ETV Resorts, a tourism venture in the Northern Province. There has been an increase in demand for accommodation and safari products and ETV Resorts would like to mobilize resources to expand the company. The cost of building new accommodation facilities and increasing working capital requirements is planned to be financed by a mixture of long-term and short-term borrowing. The Managing Director has requested that you provide guidance in this matter.

**REQUIRED**

- a) Discuss the major factors that ETV Resorts should take into account when deciding on the appropriate mix of long-term and short-term borrowing necessary to finance the expansion programme.
- b) Discuss the major factors that a lender would take into account when deciding whether to grant a long-term loan to ETV Resorts.
- c) Identify three conditions that might be included in a long-term loan agreement.

[Total: 20 marks]

**QUESTION 3**

You have just been engaged as the Finance Advisor to the Managing Director of MCK Holdings a company that specializes in the construction of roads and civil engineering projects. MCK has been a profitable business but has also experienced liquidity challenges and at times failed to pay salaries on time. The Managing Director has requested that you provide insights into the liquidity of MCK with the aid of a statement of cashflows.

The statements relating to financial performance and financial position provided below have been submitted to your office for consideration.



MCK Holdings

**Statement of Profit or Loss and other comprehensive income for the year ended 31 December 2023**

	<b>\$000'</b>
Sales	30,650
Cost of sales	26,000
<b>Gross profit</b>	<b>4,650</b>
Expenses	
Depreciation	450
Administrative and Selling expenses	910
Interest Expense	400
Foreign Exchange Loss	40
<b>Profit before tax</b>	<b>2,850</b>
Taxation	300
<b>Profit after tax</b>	<b>2,550</b>
<b>Other income</b>	
Investment income	500
<b>Profit</b>	<b>3,050</b>

MCK Holdings

**Statement of Financial Position for the two years ended 2023 and 2022.**

	<b>2023</b>	<b>2022</b>
	<b>\$000'</b>	<b>\$000'</b>
<b>Non-Current Assets</b>		
Property Plant and Equipment (at cost)	3,730	1,910
Accumulated Depreciation	-1,450	-1,060
Portfolio Investments	2,500	2,500
	<b>4,780</b>	<b>3,350</b>
<b>Current Assets</b>		
Inventory	1,000	1,950
Accounts Receivables	1,900	1,200
Cash and cash equivalents	230	160
<b>Total Current Assets</b>	<b>3,130</b>	<b>3,310</b>
<b>Total Assets</b>	<b>7,910</b>	<b>6,660</b>

<b>EQUITY AND LIABILITIES</b>		
Share capital	1,500	1,250
Retained Earnings	3,230	1,380
	<b>4,730</b>	<b>[20 marks]2,630</b>
<b>Liabilities</b>		
Trade payables	250	1,890
Interest payable	230	100
Income taxes payable	400	1,000
Long term debt	2,300	1,040
<b>Total liabilities</b>	<b>3,180</b>	<b>4,030</b>
<b>Total Equity and Liabilities</b>	<b>7,910</b>	<b>6,660</b>

**Required:**

Prepare a professional report in which the following issues are addressed:

- Discussions on why profitable businesses may face liquidity challenges. (8 marks)
- A statement of cashflows for MCK Holdings for the year ended 31 December 2023 prepared using the Indirect Method. (12 marks)

**[Total: 20 marks]**

**QUESTION 4**

The Managing Director for MCK Holdings has recently attended a conference in which he learnt that the performance of a business can be assessed using ratios. He has since requested that you provide guidance on how this is done.

**Required:**

Using the financial statements for MCK Holdings that are presented in Question 3, prepare a professional report in which the following issues are addressed:

- Computations and interpretation of two ratios within each of the following four categories:
  - Profitability (4 marks)
  - Liquidity (4 marks)

- (iii) Efficiency (4 marks)
  - (iv) Financial Gearing (4 marks)
  - b) Discussion on the limitations of ratio analysis (4 marks)
- [Total: 20 marks]**

### **QUESTION 5**

With the aid of specific examples from the manufacturing sector, evaluate the usefulness and challenges businesses face with the following management accounting practices:

- a) Job costing (6 marks)
  - b) Process costing (7 marks)
  - c) Batch costing (7 marks)
- [Total:20 marks]**

### **QUESTION 6**

You have just been engaged as a Business Adviser for HTK Holdings to help improve production efficiency. HTK produces a single product which is a high technology component used only by the construction industry. Owing to cyclical nature of the industry, sales volumes widely fluctuate from year to year. In 2023, the company sold 100 000 components at a price of \$400 each.

HTK Holdings has had difficulties in obtaining skilled labor and is considering introducing a new and automated production process. This decision will reduce annual fixed costs by 50%. However, the new production process will not change the maximum capacity of the plant which is 125,000 units per annum.

Two alternative methods of financing the net additional capital cost are available to HTK Holdings. These relate to the following:

- a) raising a long-term loan at an annual interest cost of \$2.8 million or
- b) issuing 800 000 new shares.

The Statement of Profit or Loss and Other Comprehensive Income of the company is as follows:



	\$000	\$000'
Sales		40,000
Variable costs	16,000	
Fixed costs	8,000	
		24,000
<b>Earnings before interest and tax</b>		<b>16,000</b>
Less interest		5,000
Net income before tax		11,000
Tax (30%)		3,300
<b>Net income</b>		<b>7,700</b>
Shares in Issue (in thousands)		4,000
Earnings per share		1.925

### REQUIRED

- a) Calculate the profit before tax and interest, and earning per share in respect of
  - i. The existing plant at annual sales level of 105,000 units **(4 marks)**
  - ii. The proposed new and automated production process financed by new capital at annual sales level of 100,000 units and 105,000 units respectively **(4 marks)**
  - iii. The proposed new and automated production process, financed by share capital at annual sales level of 100,000 and 105,000 units respectively. **(4 marks)**
- b) Determine the break-even unit sales for the three options in (a)i, (a)ii, and (a)iii. **(4 marks)**
- c) Provide guidance to the directors of HTK Holding as to whether or not they should introduce the new and automated production process. **(4 marks)**

**END OF EXAMINATION PAPER**