

BINDURA UNIVERSITY OF SCIENCE EDUCATION
FACULTY OF COMMERCE
GRADUATE SCHOOL OF BUSINESS
EXECUTIVE MASTER OF BUSINESS LEADERSHIP
FINANCIAL MANAGEMENT FOR BUSINESS LEADERS (EMB 501)
EXAMINATION PAPER
DURATION: 3 HOURS 30 MINUTES

OCT 2024

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. Calculators are allowed, except programmable calculators
 6. The use of cell phones is not allowed in the examination.
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SECTION A: [COMPULSORY]

QUESTION 1

Read the article below and then answer the questions that follow:

The current assets and liabilities of Simukai Co at the end of March 2021 are as follows:

	\$'000	\$'000
Inventory.	5,700	
Trade receivables	<u>6,575</u>	12,275
Trade payables	2,137	
Overdraft	<u>4,682</u>	6,819
Net current assets		5,456

For the year to end of March 2021, Simukai Co had sales of \$40m, all on credit, while cost of sales was \$26m.

For the year to end of March 2022, Simukai Co has forecast that credit sales will remain at \$40m while cost of sales will fall to 60% of sales. The company expects current assets to consist of inventory and trade receivables, and current liabilities to consist of trade payables and the company's overdraft.

Simukai Co also plans to achieve the following target working capital ratio values for the year to the end of March 2022:

Inventory days:	60 days
Trade receivables days:	75 days
Trade payables days:	55 days
Current ratio:	1.4 times

Required

- (a) Calculate the working capital cycle (cash collection cycle) of Simukai Co at the end of March 2021 and discuss whether a working capital cycle should be positive or negative. (15 marks)
- (b) Calculate the target quick ratio (acid test ratio) and the target ratio of sales to net working capital of Simukai Co at the end of March 2022. (10 marks)
- (c) Outline the main features of equity shares and their relative advantages and disadvantages in a public company. (15 marks)

[Total: 40 marks]

SECTION B : Answer any three (3) questions from this Section.

QUESTION 2

Treasury management is the corporate handling of all financial matters. Discuss the five (5) main roles of treasury management. [20 marks]

QUESTION 3

Overtrading companies are often unable or unwilling to raise long-term capital and thus tend to rely more heavily on short-term sources such as overdraft and trade creditors. Discuss [20 marks]

QUESTION 4

Describe the concept of Efficient Market Hypothesis and its application using relevant examples in the Zimbabwean context. [20 marks]

QUESTION 5

XYZ is a distributor of compound d fertilizer. One 50 kg bag of fertilizer sells for \$100 000 and costs \$40 000 to purchase from its manufacturers. The ordering cost is \$31 250 and the carrying cost is \$12 500 per bag per annum. Seven (7) days lead-time is required from the time of ordering to the time of delivery. Annual demand for the fertilizer is currently 200 000 bags per annum.

Required:

Determine the Economic Order Quantity (EOQ) and the number of orders to be placed each year.

[20 marks]

QUESTION 6

Mambo Ltd is under review by an investor who intends to buy a block of its shares. The following information is provided:

Annual return	40%
Market Price per Mambo share	\$2.50
Beta (B)	0.8
Risk free rate of return	23%
Return on the market	35%

Required:

Advise the investor on the valuation of Mambo shares, and whether he should purchase the shares or not.

[20 marks]

END OF EXAMINATION PAPER