FACULTY OF COMMERCE

GRADUATE SCHOOL OF BUSINESS

MASTER OF BUSINESS LEADERSHIP

FINANCIAL MANAGEMENT AND ACCOUNTING (MBL 504)

EXAMINATION PAPER

DURATION: 3 HOURS 30 MINUTES

MAR 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. The use of cell phones is not allowed in the examination.

SECTION A: [COMPULSORY]

QUESTION 1

CHICK GIANTS PRIVATE LIMITED

You have just joined Chick Giants (Private) Limited as an investment adviser to the Managing Director. The company is a key player in poultry production in Zimbabwe.

The national decentralization agenda of Government has witnessed the strengthening of regional economies, and increased demand for poultry products. Chicken Giants (Private) Limited has established the existence of demand for day-old chicks in the Central Region and management is considering investing in a hatchery project.

The project would require investment in a hatchery machine that would cost USD100 000, which is payable immediately. This is a five-year project, and the sale of day-old chicks would take place throughout the next five years. At the end of the five-year period, it is estimated that the hatchery machine could be disposed for USD20 000.

Presented in Table 1 are the forecasted cashflows from the Hatchery Project.

Table 1: Chick Giants (Private) Limited Hatchery Project Cashflows

Time	0	1	2	3	4	5
	"000"	"000"	"000"	"000"	"000"	"000"
Outlay	(100)					
Operating profit before depreciation		20	40	60	60	20
Disposal proceeds from the machine						20

*It is assumed that depreciation on the Hatchery machine is on straight line basis.

The Managing Director has assigned the task of evaluating this proposed project.

You are aware that Chick Giants (Private) Limited can alternatively invest its money at a rate of 20 per cent a year. In addition, the Board of Directors has set the acceptable payback period for any new projects at 4 years.

Required :

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

a) Determination of the Payback Period of the hatchery project and advice on the appropriate investment decision. **(15 marks)**

b) Computation of the Net Present Value (NPV) of the hatchery 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

BNB Beverages has proposed that one of its subsidiaries establishes a new venture that produces Zimbabwean ethnic beverages from indigenous fruits. They have proposed that the subsidiary considers specialising in three brands that are all targeted at the domestic market. The three products are Masau Juice, Tsubvu Extract and Hute Fruit. These products will be produced by the same brewery team. The following are estimates for next year:

	Ethnic Beverage Brands		
	Masau Juice	Tsubvu Extract	Hute Fruit
Selling price ($/unit)	30	39	20
Variable material cost ($/unit)	15	18	10
Other variable costs ($/unit)	6	10	5
Share of fixed costs ($/unit)	8	12	4
Staff time required (hours)	2	3	1

Fixed costs for next year are expected to amount to $40 000.

BNB Beverages is hopeful that they will be able to gain significant market share in Bindura and the surrounding urban areas. They have received projections regarding demand for their ethnic juices for the next financial year from market analysts. The statistics are as follows:

	Ethnic Brand	Demand in Units
1	Masau Juice	3 000
2	Tsubvu Extract	2 000
3	Hute Fruit	5 000

BNB has requested that you assist them with the evaluation of the proposed business venture using the Break-Even Point Framework.

Required:

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

a) A discussion on the usefulness of breakeven analysis and breakeven point in this case. **(4 marks)**

b) The number of units that the new venture would need to produce in order to break even if the business were to produce just the Masau Juice next year and assuming there is no limit to market size and staffing level. **(4 marks)**

c) Guidance on the order of preference or ranking for the three beverages, in the event that the new venture has limited staff hours available next year. **(6 marks)**

d) The quantities the business should produce for each product and the profit the new venture would earn, in the event that the staff hours available next year are limited to a maximum of 10,000. **(6 marks)**

[Total: 20 marks]

QUESTION 3

Discuss the usefulness and limitation of the following techniques as tools for assessing the financial health of a business.

a) Horizontal analysis **(6 marks)**

b) Vertical analysis **(6 marks)**

c) Ratio Analysis **(8 marks)**

[Total: 20 marks]

QUESTION 4

Evaluate the usefulness of the following management practices in Small to Medium Enterprises in Zimbabwe:

a) Job costing **(4 marks)**

b) Process costing **(4 marks)**

c) Batch costing **(4 marks)**

d) Budgeting **(8 marks)**

[Total: 20 marks]

QUESTION 5

You have just joined a new company, XYZ as financial advisor to the Chief Executive Officer. Your first assignment is to review the following set of financial statements that an intern within the Finance division had prepared.

XYZ

Statement of Profit or Loss and other Comprehensive Income for the year ended 31 December 2023

	$000
Revenue	1 456
Cost of sales	(768)
Gross profit	**688**
Salaries	(220)
Depreciation	(249)
Other operating costs	(131)
Operating profit	**88**
Interest payable	(15)
Profit before taxation	**73**
Taxation at 30%	(22)
Profit for the year	**51**

XYZ

Statement of financial position as at 31 December 2023

	$000
ASSETS	
Non-current assets	
Property, plant and equipment Cost	1,570
Depreciation	(690)
	880
Current assets	
Inventories	207
Trade receivables	182
Cash at bank	21
	410
Total assets	**1 290**
EQUITY AND LIABILITIES	
Equity	
Share capital	300
Share premium account	300
Retained earnings at beginning of year	104
Profit for year	51
	755

Non-current liabilities	
Borrowings (10% loan notes repayable 2025)	300
Current liabilities	
Trade payables	88
Other payables	20
Taxation	22
Borrowings (bank overdraft)	105
	235
Total equity and liabilities	**1 290**

From an earlier meeting with the Head of Internal Audit, the following information that the finance intern had overlooked had been brought to your attention:

1. Depreciation has not been charged on office equipment with a net book value of $100,000. This class of assets is depreciated at 12 per cent a year using the reducing balance method.
2. A new machine was purchased, on credit, for $30,000 and delivered on 29 December 2023 but has not been included in the financial statements. (Ignore depreciation.)
3. A sales invoice to the value of $18,000 for December 2023 has been omitted from the financial statements. (The cost of sales figure is stated correctly.)
4. Dividends amounting to $25,000 had been approved by the shareholders before 31 December 2023 but was unpaid at that date. This is not reflected in the financial statements.
5. The interest payable on the loan notes for the second half-year was not paid until 1 January 2024 and has not been included in the financial statements.
6. Bad debts representing 2 per cent of trade receivables outstanding at the year-end are to be written off.
7. An invoice for electricity to the value of $2,000 for the quarter ended 31 December 2023 arrived on 4 January 2024 and has not been included in the financial statements.
8. The charge for taxation will have to be amended to take account of the above information. You should make the simplifying assumption that tax is payable shortly after the end of the year, at the rate of 30 per cent of the profit before tax.

Required:

a) Discuss the significance of each of the two financial statements that you have been requested to review. **(8 marks)**

b) Effect corrections to the figures submitted by the finance intern and prepare a revised set of financial statements for the year ended 31 December 2023. (Work to the nearest $1,000.)

(12 marks)

[Total: 20 marks]

QUESTION 6

You are the investment advisor to BND. One of the companies they invested in is LMH which is listed on the Zimbabwe Stock Exchange. LMH has just issued its financial results. BND's main concerns is cash generation capacity at LMH.

The extracts from the financial statements of LMH for the years ended 2022 and 2023 are provided in Tables 3 and 4.

Table 2: Extract from the Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2023

	$000
Profit before taxation	112 000
Taxation paid	(33 600)
Net profit after tax	78 400
Dividend paid	(35 800)
Retained profit	42 600

Additional notes indicate that Net profit before tax is stated after deducting interest paid of USD 6 500 and crediting interest received USD 13 000.

Table 3: Extract from the Statement of Financial Position as at 31 December

	2022	2023
	$000	$000
Non-current assets		
Patents	8 000	42 200
Land and buildings*	116 000	120 000
	124 000	**162 200**
Stock	112 000	110 000
Debtors	18 000	11 000
Cash	7 000	10 000
	137 000	131 000
Creditors	(45 000)	(20 000)
Accruals	(4 000)	(5 000)
	(49 000)	(25 000)
Long-term creditors	(16 000)	(28 000)
	196 000	**240 200**
Share capital	177 000	178 600
Profit and loss	19 000	61 600
	196 000	**240 200**

* The following information regarding non-current assets was provided.

Non-Current Assets	**2022**	**2023**
	$000	$000
Cost	144 000	164 000
Depreciation	(28 000)	(44 000)
Net book value	116 000	120 000

There were no sales of non-current assets during the year.

Required:

With the aid of a cashflow statement, prepared in accordance with the provisions of International Accounting Standard (IAS) 7 Statement of Cash Flows, prepare a professional report on the performance of LMH with regard to cash generation.

END OF EXAMINATION QUESTION PAPER