

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

HE OCT 2023

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

PRIVY Farming (Private) Limited is a Zimbabwean company that is listed on the Zimbabwe Stock Exchange. The company is one of the dominant producers of agricultural products for both the domestic and exports markets.

During the last half of 2022, the company had participated in a number of trade promotion fairs that were organised by ZimTrade in collaboration with the Ministry responsible for Foreign Affairs and International Trade. PRIVY Farming (Private) Limited has made a decision to take advantage of the opening up of the European market and is considering investing in three horticulture projects namely, Blueberries, Sweet Potato and Chillies.

The Board of Directors for PRIVY Farming (Private) Limited has requested management to undertake investment appraisals for the three projects. The Board of Directors also made a resolution that restricts the amount that the company can spend on new capital projects to \$9.5 million. The information submitted by Management with regard to the initial capital investment required, the Net Present Value (NPV), life span and payback period for each of the three projects is presented in Table 1.

Table 1: PRIVY Farming (Private) Limited Investment Opportunities

	Initial Investment of the Project (\$m)	NPV of the Project (\$m)	Life Span of the project (Years)	Payback Period of the Project (Years)
1. Sweet Potato	4.85	0.80	5	2
2. Blueberries	3.95	0.95	10	7
3. Chillies	5.25	0.78	4	1.5
Total	14.05			

The Board of Directors have approached you for advice on the decision that they should make and the projects they should invest in.

The Board has provided you the following additional information regarding the three projects.

- a) The projects are not divisible.

- b) PRIVY Farming (Private Limited) has used its cost of capital of 14% to appraise all the three projects.
- c) PRIVY Farming (Private) Limited could invest any surplus cash in the money market at a rate of 6%.
- d) The Board of Directors have set the acceptable payback periods for investments in horticulture products as follows:
 - i. Sweet potato 2 years
 - ii. Blueberries 6 years
 - iii. Chillies 2 years
- e) All rates are assumed to be net of tax.

Required:

Write a professional report to the Board of Directors of PRIVY Farming (Private) Limited in which the following issues are addressed:

- (a) A discussion on the usefulness of the two techniques used in the appraisal of the three projects. (6 marks)
- (b) The investment decision that the company should make on the basis of the Payback Period of each project. (8 marks)
- (c) The investment decision that the company should make on the basis of the Net Present Value of each project. (8 marks)
- (d) A discussion on why the Net Present Value is considered more superior to the payback period when appraising capital projects. (8 marks)
- (e) The investment decision on the basis of the initial investment requirements and given the limiting factor of \$9.5 million and the fact that the projects are indivisible. (10 marks)

[Total: 40 marks]

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

QUESTION 2

With the aid of specific examples from the manufacturing industry in Zimbabwe, evaluate the distinguishing features of job costing; process costing; and batch costing and the challenges businesses are likely to face with each approach. **[20 marks]**

QUESTION 3

Mary Jane has decided to invest in an established business in the Arts and Crafts industry in Zimbabwe. She has seen the published financial statements of two companies Mamoyo Ceramics and Maposa Pottery. The core business of both firms is the manufacturing of clay products for the export market. Mary Jane has requested that you advise her on the business that she should consider investing in based on the financial information presented below.

Statements of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2022

	Mamoyo Ceramics	Maposa Pottery
	\$m	\$m
Revenue	1 478.1	1 790.4
Cost of sales	1 018.3	1 214.9
Gross profit	459.8	575.5
Operating Expenses	308.5	408.6
Operating profit	151.3	166.9
Interest payable	19.4	27.5
Profit before taxation	131.9	139.4
Taxation	32	34.8
Profit for the year	99.9	104.6

Statements of financial position as at 31 December 2022

	Mamoyo Ceramics	Maposa Pottery
	\$m	\$m
ASSETS		
Non-current assets		
Property, plant and equipment (cost less depreciation)		
Land and Buildings	360	510
Fixtures and Fittings	87	91.2
	447	601.2
Current assets		
Inventories	592	403
Trade receivables	176.4	321.9
Cash at bank	84.6	91.6
	853	816.5
Total assets	1 300	1 417.7
EQUITY AND LIABILITIES		
Equity		
\$1 ordinary shares	320	250
Retained earnings	367.6	624.6
	687.6	874.6
Non-current liabilities		
Borrowings-Loan notes	190	250
Current liabilities		
Trade payables	406.4	275.7
Taxation	16	17.4
	422.4	293.1
Total equity and liabilities	1 300	1 417.7

Additional Information

The two business have also proposed that Mary Jane should take into account the human talent (crafts persons) as they constitute one of the key assets in their line of business. They therefore urged MJ to incorporate the crafts persons on the Statements of Financial position (Balance Sheets) of the businesses. As at 31 December 2022 Mamoyo Ceramics' payroll had 300 craftsmen on payroll whilst Maposa Pottery employed 350.

Required:

- a) Advise Mary Jane on the appropriateness of treating craftsmen as assets in statement of financial position. (4 marks)
- b) Discuss Mary Jane on the three methods that are normally used to analyse the financial performance of businesses. (6 marks)
- c) With the aid of five (5) key financial ratios, provide Mary Jane guidance on the attractiveness of each business. (10 marks)

[Total: 20 marks]

QUESTION 4

Evaluate the usefulness of budgeting and strategic planning to business managers in Small to Medium Enterprises in Zimbabwe. [20 marks]

QUESTION 5

The BUSE MBL Class of 2023 has to create a new venture that produces Zimbabwean herbal teas. They are considering investing in three brands that are all targeted at the domestic market. The three herbal teas are Masawu Infusion, Zumbani Brew and Mapfura Tea. These will be produced by the same staff. The following are estimates for next year:

	Herbal Tea Brands		
	Masawu Infusion	Zumbani Brew	Mapfura Tea
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.

The team is hopeful that they will be able to gain significant market share in Bindura and Harare. They have received projections regarding demand for their herbal teas in the next financial year from market analysts. The statistics are as follows:

	Herbal Tea	Demand in Units
1	Masawu Infusion	3 000
2	Zumbani Brew	2 000
3	Mapfura Tea	5 000

The BUSE MBL Class of 2023 has requested that you help them to assess the proposed business venture using the Break-Even Point Framework.

Required:

- Discuss the usefulness of breakeven analysis and breakeven point in this case. **(4 marks)**
- Determine the number of units of the herbal teas that the business would need to produce in order to break even if the business were to produce just the Masawu Infusion next year and assuming there is no limit to market size and staffing level. **(4 marks)**
- In the event that the business has limited staff hours available next year, provide guidance on the order of preference or ranking for the three herbal teas. **(6 marks)**
- Determine the quantities the business should produce for each product and compute the profit the venture would earn, in the event that the business only has a maximum of 10,000 staff hours available next year. **(6 marks)**

[Total: 20 marks]

QUESTION 6

You have just joined a new company, Mambo Safaris 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.

Mambo Safaris

**Statement of Profit or Loss and other Comprehensive Income for the year ended 31
December 2022**

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

Mambo Safaris

Statement of financial position as at 31 December 2022

\$000

ASSETS

Non-current assets

Property, plant and equipment Cost	1,570
Depreciation	<u>(690)</u>
	<u>880</u>

Current assets

Inventories	207
Trade receivables	182
Cash at bank	21
	<u>410</u>
Total assets	<u>1 290</u>

EQUITY AND LIABILITIES

Equity

Share capital	300
Share premium account	300
Retained earnings at beginning of year	104
Profit for year	<u>51</u>
	<u>755</u>

Non-current liabilities

Borrowings (10% loan notes repayable 2025)	300
Current liabilities	
Trade payables	88
Other payables	20
Taxation	22
Borrowings (bank overdraft)	105
	<u>235</u>
Total equity and liabilities	<u>1 290</u>

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 2022 but has not been included in the financial statements. (Ignore depreciation.)
3. A sales invoice to the value of \$18,000 for December 2022 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 2022 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 2023 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 2022 arrived on 4 January 2023 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 2022. (Work to the nearest \$1,000.)

(12 marks)

[Total: 20 marks]

END OF EXAMINATION PAPER