



DEGREE
July – December

SESSIONAL EXAMINATION
FM231 Financial Management

BOTSWANA OPEN UNIVERSITY

Bachelor of Business Entrepreneurship

FINANCIAL MANAGEMENT

FM231

SESSIONAL EXAMINATION

Time: 3 Hours

Marks: 100

Instructions:

1. The examination consists of THREE sections: A, B, and C.
2. Answer questions according to instructions given in each section.
3. Write answers in the answer book provided.
4. Write in grammatical English.



SECTION A. Multiple Choice Questions.

[20 MARKS]

Answer ALL questions in this section. Each question carries 2 marks.

1. Working capital is determined by _____
 - A. Current assets – Current liabilities
 - B. Capital – Drawings
 - C. Current assets + Current liabilities
 - D. Fixed assets – Current liabilities

2. Which of the following is not a component of a cash flow statement?
 - A. Financial activities
 - B. Investing activities
 - C. Operating activities
 - D. Budgeting activities

3. Which of the following is the most liquid asset of a business?
 - A. Profitability ratio
 - B. Liquidity ratio
 - C. Acid test ratio
 - D. None of the above

4. Which of the following is **not** important for gauging the health of the company by both the managers and investors?
 - A. Statement of comprehensive income



- B. Changes in equity
- C. The statement of financial position
- D. The statement of cash flow

5. A company with an operating cycle of 75 days and a cash conversion cycle of 45 days has an average payment period of _____ days.

- A. 120
- B. 30
- C. -120
- D. -30

$$CCC = (AAT + ACP) - APP$$
$$45 = 75 - ACP$$
$$75 - 75 = 45 - 75 - ACP$$
$$-45 = -45 - ACP$$
$$30 = ACP$$

6. The _____ of a firm is measured by its ability to satisfy its short-term obligations as they fall due.

- A. Activity
- B. Liquidity
- C. Debt
- D. Profitability

7. Statement of a financial position of a public company consists of _____

- A. Assets, liabilities and shareholders' equity.
- B. Sales cost of goods sold and operating expenses.
- C. Cash flow from operating, financing and investment activities.



D. Net income earned, cash dividends paid and change in retained earnings.

8. A bank is offering 6% interest on a deposit account. Inflation is currently 3%

What is the real rate of return on the account?

- A 2.91%
- B 6%
- C 9%
- D 3%

9. Which of the following costs is an example of a variable cost?

- A Rent
- B Vehicle payment
- C Permanent staff salaries
- D Cellphone bills

10. A _____ is a market where financial securities are traded for the first time.

- A Spot market
- B Primary market
- C Capital markets
- D Secondary market



SECTION B – SHORT ANSWER QUESTIONS

[30 MARKS]

Answer ALL questions in this section.

1. Do It Yourself Clothing Limited's annual demand for materials Y is 50 000 units, and the ordering cost is P10 000 per order and each unit costs P3 000. The estimated cost of holding unit of stock is 15% of the purchase cost.

Handwritten notes:
R K D X
Holding =

Required:

Calculate the economic order quantity (EOQ) of material Y. **(4 marks)**

2. Distinguish between the operating cash flow and the free cash flow of a business. **(6 marks)**

3. Outline any four the roles of commercial banks in Botswana. **(4 marks)**

4. Distinguish Public offering market from Private offering market. **(6 marks)**

5. What is the difference between money markets and capital markets? **(4 marks)**

6. Outline three motives for holding cash by a businesses **(6 marks)**

Handwritten notes:
Transaction
Precautional
Speculative

SECTION C – ESSAY TYPE QUESTIONS

[50 MARKS]

Answer any TWO (2) questions in this Section.

Question 1:

(25 marks)

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(a) Profit and Cash flow (Pvt) Ltd provided you with the following figures for the financial year ending 30 June 2018.

	P
Sales revenue	240 000
Cost of sales	204 000
Opening inventory	14 400
Payables at the start of the year	13 200
Receivables at the start of the year	18 000
Closing inventory	25 200
Payables at the end of the year	16 800
Receivables at the end of the year	28 800

Required: Calculate the profit and the operational cash flow resulting from the year's trading figures for Profit and Cash flow (Pvt) Ltd (10 marks)

(b) White Waters (Pty) Ltd intends to expand its Gaborone based operations by acquiring a new plant. The Finance Manger has been asked by the owners of the company to prepare cash flow forecasts for the business for the period December 2017 to May 2018. The marketing department has prepared the following forecasts.

Month	Sales (BWP)
October 2017 – Actual	180 000
November	180 000
December	360 000
January 2018	450 000
February	500 000
March	360 000 ✓



April	360 000
May	280 000

Collection estimates from the credit department are as follows:

- Collections within the month of sale (cash sales) – 10%
- Collection in the month following the sale – 75%
- Collection in the second month following the sale – 15%

Total labour and raw materials costs are estimated for each month as follows:

Month	BWP
December 2017	216 000
January 2018	270 000
February	300 000
March	250 000
April	216 000
May	168 000

General and administrative expenses will amount to approximately P27 000 per month, lease payments will amount to P9 000 per month; depreciation will be P34 000 per month; miscellaneous payments will be 2 700 per month; income tax payment of P300 000 will be due in March 2018 and a deposit of P180 000 on a new vehicle will be required in December 2017. The bank charges interest on overdraft of 7% (assume the interest is charged on closing balance for the previous month). The cash balance at the end of November will be P40 000.

Required:

Prepare a cash budget for the period December 2017 to May 2018

(15 marks)



Question 2:

(25 marks)

Bravo (Pvt) Ltd, a computer hardware manufacturer, has obtained accounting ratios relating to averages for similar organisations in the industry.

The average ratios for the period 1 January 2017 to December 2017 are as follows:

Return on capital employed	21.6%
Net assets turnover ✓	1.6 times
Gross profit margin ✓	25%
Net profit (before tax) margin ✓	10.5%
Current ratio ✓	1.5:1
Quick ratio ✓	0.8:1
Inventory holding period	42 days
Trade receivable collection days ✓	41 days
Trade payables payment period ✓	59 days
Debt to equity ✓	35%
Dividend yield	5%
Dividend cover ✓	4 times

The summarised financial statements for Liquidity for the period 1 January 2017 to 31 December 2017 are as follows:

Income statement

	P
Sales revenue	4 850 000
Cost of sales	(3 740 000)
Gross profit	1 110 000
Other operating expenses	(430 000)
Operating profit	680 000



Interest payable		(68 000)
Loss on sale of obsolete stock		<u>(240 000)</u>
Profit before tax		372 000
Tax		<u>(180 000)</u>
Profit after tax		<u>192 000</u>
Changes in equity		
Retained profits 1 January 2017		358 000
Net profit for the period		192 000
Dividend paid		<u>(180 000)</u>
Retained profit 31 December 2017		<u>370 000</u>
Statement of financial position		
	P	P
Non-current assets		1 080 000
<u>Current assets:</u>		
Inventory	550 000	
Trade receivables	<u>640 000</u>	<u>1 190 000</u>
Total assets		<u>2 270 000</u>
<u>Share capital and reserves:</u>		
Ordinary 50p shares		300 000
Retained profits		<u>370 000</u>
		670 000
<u>Non-current liabilities:</u>		
7% loan note		600 000
<u>Current liabilities:</u>		
Bank overdraft	130 000	
Trade payables	700 000	

Sales
Receivables
4850000
640000
X 365
X 365



Tax	<u>170 000</u>	<u>1 000 000</u>
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Total equity and liabilities		<u>2 270 000</u>
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The following information is also relevant:

- The no-current assets cost P7 200 000 and accumulated depreciation as at 31 December 2017 is P6 120 000
- Liquidity’s ordinary shares averaged a market price of P12 throughout the period.

Required:

Calculate (to one decimal place) the ratios for Bravo (Pvt) Ltd equivalent to those for the industry averages. **(25 marks)**

Question 3: **(25 marks)**

The following are the financial statements for Patel Johnstone Corporation which was compiled by their chief accountant.

Patel Johnstone Corporation
Income statement for the year ended 31 December 2017

	P
Sales	2 000 000
Cost of goods sold	<u>1 500 000</u>
Gross profit	500 000
Selling and administrative expenses	200 000
Depreciation expense	<u>50 000</u>
Operating profit (EBIT)	230 000
Interest expense	<u>20 000</u>
Earnings before tax (EBT)	210 000



Tax	<u>99 500</u>
Earnings after tax (EAT)	110 000
Preference shares dividend	<u>10 500</u>
Earnings available for ordinary shareholders	<u>100 000</u>
Shares outstanding	100 000
Earnings per share	P1.00

Patel Johnstone Corporation

Comparative statement of financial position 31 December

	Year-end 2016	Year- end 2017
	P	P
<u>Assets</u>		
Noncurrent assets		
Plant and equipment, original cost	1 000 000	1 100 000
Less- accumulated depreciation	<u>550 000</u>	<u>600 000</u>
Net plant and equipment	450 000	500 000
Long term investment	20 000	50 000
Current assets		
Inventory	160 000	180 000
Accounts receivable	170 000	200 000
Marketable securities	10 000	10 000
Prepaid expenses	30 000	20 000
Cash	<u>30 000</u>	<u>40 000</u>
Total current assets	400 000	450 000
Total assets	<u>870 000</u>	<u>1 000 000</u>
<u>Equity and liabilities</u>		



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Equity		
Ordinary shares, P100 par value	50 000	50 000
Preference shares, P1 par value	100 000	100 000
Capital reserve	250 000	250 000
Retained earnings	<u>250 000</u>	<u>300 000</u>
Total equity	650 000	700 000
Long term liabilities		
Bonds payable, 2022	40 000	90 000
Current liabilities		
Accounts payable	45 000	80 000
Notes payable	100 000	100 000
Accrued expenses	<u>35 000</u>	<u>30 000</u>
Total current liabilities	180 000	210 000
Total equity and liabilities	<u>870 000</u>	<u>1 000 000</u>

Required:

Use the indirect method to prepare a cash flow statement for the year ended 31 December 2017

(25 marks)

END OF PAPER