

**BOTSWANA COLLEGE OF DISTANCE
AND OPEN LEARNING
In collaboration with
THE VIRTUAL UNIVERSITY
FOR SMALL STATES OF THE COMMONWEALTH
(VUSSC)**

Bachelor of Business and Entrepreneurship

**Financial Management
FM231**

Special Examination

Marks: 100

3 HOURS

Instructions

1. This examination consists of **Four** sections: A, B, C and D
2. Begin each answer to a new question on a new page.
3. Answer questions according to instructions given in each section
4. Write answers in the answer booklet provided
5. Write in grammatical English

SECTION A –Multiple Choice Questions

[10 marks]

Answer ALL questions. Each question carries ONE (1) mark.

Choose the best alternative answer

1. The stockholders in a _____ have unlimited liability for corporate debts.
 - A. Private corporation
 - B. Sole proprietorship
 - C. Public Corporation
 - D. None of the above

2. The _____ spends the largest portion of funds in financial institutions.
 - A. Individual consumers' savings.
 - B. Government
 - C. Corporations
 - D. None of the above

3. Below are examples of financial intermediaries except _____.
 - A. Commercial banks
 - B. Insurance companies
 - C. Mutual funds
 - D. Joint ventures

4. Current assets minus current liabilities equals to _____.
 - A. Working capital
 - B. Cost of goods sold
 - C. Gross Profit
 - D. Shareholders' funds

5. Financial markets that facilitate the flow of short-term funds that is the funds with maturities of less than 1 year are known as _____.
- A. Primary markets
 - B. Money markets
 - C. Capital markets
 - D. Secondary markets
6. Neo buys Choppies shares from the Botswana stock exchange. This is an example of a _____ transaction.
- A. Primary market
 - B. Futures market
 - C. Money market
 - D. Secondary market
7. The balance sheet of ABC Ltd shows current assets of P500, 000, current liabilities of P300, 000 and stock of P100, 000. What is the company's current asset ratio?
- A. 2
 - B. 200
 - C. 1.66
 - D. 300
8. Free cash flow is equal to _____.
- A. Change in net fixed assets + Depreciation
 - B. Operating Cash Flow - Net fixed asset investment - Net current asset investment
 - C. Net profits after taxes + Depreciation and other noncash charges
 - D. None of the above
9. In a cash flow statement, purchase and sale of fixed assets and business interests fall under _____.
- A. Investing cash flows
 - B. Operating cash flows
 - C. Financing cash flows
 - D. None of the above

10. _____ is **not** a component of the cash conversion cycle.
- A. Average Collection Period
 - B. Accounts Payment Period
 - C. Average Age of Inventory
 - D. None of the above

SECTION B – TRUE/FALSE QUESTIONS

[10 MARKS]

Answer ALL questions. Each question carries ONE (1) mark.

State whether each of the following statements is TRUE or FALSE.

1. A capital market is one that facilitates the trading of short-term securities.
2. Bonds and stocks are the major capital market securities.
3. A conservative funding strategy helps the business to meet its seasonal funding requirements using long term financing option to meet its seasonal and permanent requirements of funds.
4. The controller's focus tends to be more external and a treasurer's focus tends to be more internal.
5. A business firm can involve itself in a forward contract by 'buying the currency forward', if it anticipates the requirement of foreign currency in the future.
6. Financing decisions determine the mix and the type of assets held by the business.
7. A corporation has limited liability.
8. Liquidity ratios measure the company's ability to meet short-term obligations.
9. The investing flows are directly related to sale and production of the products and services.
10. The major input for preparing pro forma statements is the sales forecast.

SECTION C – SHORT ANSWER QUESTIONS

[30 marks]

Answer all questions in this Section.

1. Describe the role of mutual funds as financial intermediaries. **(5 marks)**
2. List the components of a statement of comprehensive income statement. **(5 marks)**
3. Distinguish between the spot market and forward market for foreign exchange **(4 marks)**
4. Discuss the ABC inventory management system and the just-in-time inventory management system. **(6 marks)**
5. Identify the minimum balance sheet items that should be included in financial reporting according to the International Accounting Standard 1. **(10 marks)**

SECTION D ESSAY-TYPE QUESTIONS

[50 marks]

Answer any two questions

Question 1

Explain the following ratios:

- i) Current Ratio (3 marks)
 - ii) Profit Margin (3 marks)
 - iii) Net Profit Ratio (3 marks)
 - iv) Stock Turnover Ratio (3 marks)
 - v) Return on Equity (2 marks)
 - vi) Trade debtor collection period (3 marks)
 - vii) Price to earnings ratio (3 marks)
- b. State any five components of the cash budget. (5 marks)

Question 2

Use the given information about XYZ Pty Ltd to answer the questions that follow:

Sales	P10, 000,000
Average inventories	P2, 000,000
Cost of goods sold	P8, 000,000
Receivables	P666, 667
Average Accounts payable	P666, 667

Required:

- a. Define the cash conversion cycle. (2 marks)
- b. Calculate XYZ's Average Age of Inventory. (4 marks)
- c. Calculate XYZ's Average Collection Period. (4 marks)
- d. Calculate the Accounts Payable Period. (4 marks)
- e. Calculate the XYZ's cash conversion cycle. (4 marks)
- f. Advise XYZ on what they should do to reduce their cash conversion cycle. (3 marks)

- g. Explain two strategies that XYZ can use to fund its cash conversion cycle requirements.
(4 marks)

Question 3

(25 marks)

Discuss how accounts receivable and inventory can be used as collateral for short term secured loan.