

**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**

Sessional 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 limited liability for corporate debts.
 - A. Partnership
 - B. Sole proprietor
 - C. Corporation
 - D. None of the above

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

3. The reserve system often known as the central bank of the country regulates the banking system. The central bank in Botswana is _____.
 - A. Standard Chartered Bank
 - B. Bank of Botswana
 - C. First National Bank
 - D. Barclays Bank

4. Mutual funds can be classified into the following categories except _____.
 - A. Money market mutual funds
 - B. Stock market mutual funds
 - C. Bond market mutual funds
 - D. None of the above

5. Financial markets that facilitate the flow of long-term funds that is the funds with maturities of more than 1 year are known as _____.
- A. Primary markets
 - B. Money markets
 - C. Capital markets
 - D. Secondary markets
6. A treasury bill is an example of a _____ market instrument.
- A. Primary market
 - B. Capital market
 - C. Futures market
 - D. Money market
7. Maun Ltd. purchased a 1-year Treasury bill with a par value of P200, 000 and paid P188, 000 for it, calculate the return for the period, if it holds the Treasury bill until maturity
- A. 6.38%
 - B. 94%
 - C. 6%
 - D. None of above
8. The following are examples of profitability ratios except _____.
- A. Gross profit margin
 - B. Markup ratio
 - C. Return on assets ratio
 - D. Return on capital employed
9. Acid test ratio formula deducts _____ from the current assets.
- A. Debtors
 - B. Stock
 - C. Cash
 - D. Creditors

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 secondary market is one that facilitates the trading of existing securities.
2. Treasury bills and stocks are the major capital market securities.
3. An aggressive 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. Commercial paper is an example of a money market security.
5. A business firm can be involved in a forward contract by ‘selling the currency forward’, if it anticipates the requirement of foreign currency in the future.
6. The accounting equation is also known as the balance sheet equation.
7. Sole proprietor business form has limited liability.
8. Operating Cash flow = Net profits after taxes+ Depreciation and other noncash charges.
9. The just-in-time model takes into consideration various costs associated with inventory and determines the order size that can minimise the total inventory cost.
10. The aggressive funding strategy is more risky than the conservative funding strategy.

SECTION C – SHORT ANSWER QUESTIONS

[30 marks]

Answer all questions in this Section.

1. Differentiate between the role of a treasurer and controller in the finance department. **(4 marks)**
2. Discuss the role of commercial banks as financial intermediaries. **(6 marks)**
3. State at least six types of financial markets. **(6 marks)**
4. Explain how the Over The Counter (OTC) market differs from the organized securities exchange? **(6 marks)**
5. Explain the following ratios and give at least two examples in each group.
 - i. Liquidity Ratios **(2 marks)**
 - ii. Debt Ratios **(2 marks)**
 - iii. Investment Ratios **(2 marks)**
 - iv. Efficiency Ratios **(2 marks)**

SECTION D ESSAY-TYPE QUESTIONS

[50 marks]

Answer any two questions

Question 1

You are to study the following financial statements for X stores and then answer the questions which follow.

Note. 90% of sales are on credit and all purchases are on credit.

Financial Statements

	P	P
Profit and loss accounts		
Sales		555,000
<i>Less</i> Cost of goods sold		
Opening stock	100,000	
<i>Add</i> Purchases	<u>200,000</u>	
	300,000	
<i>Less</i> Closing stock	<u>(60,000)</u>	<u>(240,000)</u>
Gross profit		315,000
<i>Less</i> Depreciation	5,000	
Wages, salaries and commission	165,000	
Other expenses	<u>45,000</u>	<u>(215,000)</u>
Net profit		<u>100,000</u>
Balance sheets		
<i>Fixed assets</i>		
Equipment at cost	50,000	
<i>Less</i> Depreciation to date	<u>(40,000)</u>	10,000
<i>Current assets</i>		
Stock	60,000	
Debtors	125,000	
Bank	<u>25,000</u>	
	210,000	
<i>Less Current liabilities</i>		
Creditors	<u>(104,000)</u>	<u>106,000</u>
		116,000
<i>Financed by:</i>		
Capitals		
Balance at start of year	76,000	
<i>Add</i> Net profit	<u>100,000</u>	
		176,000
<i>Less</i> Drawings		<u>(60,000)</u>
		<u>116,000</u>

Required:

- a Calculate the following ratios for X:
- (i) Gross Profit Ratio (2 marks)
 - (ii) Return on assets (2 marks)
 - (iii) Stock turnover ratio (3 marks)
 - (iv) Current Ratio (2 marks)
 - (v) Acid test Ratio (3 marks)
 - vi. Return on equity (3 marks)
 - vii. Trade debtors' collection period (2 marks)
 - viii. Debt collection period (2 marks)
- b Discuss any two-investment ratios. (6 marks)

Question 2

- a. Identify and explain two key aspects of financial planning. (4 marks)
- b. Discuss the simple approach to prepare a proforma balance sheet. (2 marks)
- c. State the key inputs for preparing pro forma financial statements. (2 marks)
- d. Explain the two assumptions to prepare the pro forma statements. (2 marks)
- e. Discuss the motives for holding cash. (6 marks)
- f. Discuss the two funding strategies that are used to fund a firm's permanent and seasonal funding needs. (6 marks)
- g. A large ship building company issued commercial paper with P500, 000 par value with 90-day maturity and sells for 490,000. The purchaser will receive P500, 000 at maturity (the end of 90 days). Calculate the effective interest rate paid. (3 marks)

Question 3

- i. Distinguish the different types of cash flows. (6 marks)
- ii. Use the income statement below to answer the questions that follow.

PTC Ltd: Income Statement for the year ended December 31, 2010

	P
Net sales	3,000
Operating costs excluding depreciation and amortisation	<u>2,612.2</u>
Earnings before interest, taxes, depreciation and amortisation	383.8
Depreciation	100
Amortisation	<u>0</u>
Depreciation and amortisation	100
Earnings before interest and taxes	283.8
Less interest	<u>88.0</u>
Earnings before taxes	195.8
Taxes (40%)	<u>78.3</u>
Net income before preferred dividends	117.5
Preferred dividends	<u>4.0</u>
Net income	<u>113.5</u>
Common dividends	57.5
Addition to retained earnings	56.0

Required:

- a. Calculate the following:
- i. Net cash flow (4 marks)
- ii. Net operating working capital (4 marks)
- iii. Net operating profit after taxes (4 marks)
- iv. Free cash flow (4 marks)
- b. Explain two spontaneous sources of unsecured short term financing. (4 marks)
- c. Discuss how a firm can minimise its cash conversion cycle. (5 marks)