

**BOTSWANA COLLEGE OF DISTANCE AND OPEN LEARNING**

**Bachelor of Business Entrepreneurship**

**Financial Management**

**FM231**

**Sessional Examination**

**Time: 3 Hours**

**Marks: 100**

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**Instructions to candidates:**

1. This examination consists of three sections: A, B and C.
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. Which one of the following statements about wealth maximisation is **not** true?
  - A Maximising the market price of a firm's shares would maximise shareholders' wealth.
  - B profit maximisation is a long-term approach, whereas wealth maximisation focuses on short-term prospects.
  - C Wealth maximisation takes risk into consideration when evaluating alternative investments.
  - D Profit maximisation is a short-term approach, whereas wealth maximisation focuses on long-term prospects.
  
2. An increase in assets will lead to \_\_\_\_\_
  - A A decrease in liabilities
  - B An increase in owner's equity
  - C An increase in liabilities
  - D An increase in owner's equity and / or liabilities
  
3. Firm X has an average age of inventory of 60 days, an average collection period of 20 days and an average payment period of 30 days.  
Firm X's cash conversion cycle is \_\_\_\_\_
  - A 10 days



- B 50 days
- C 70 days
- D 110 days
4. Which of the following stakeholders in a firm has the lowest priority claim on the income of the firm?
- A Creditors
- B Ordinary shareholders
- C Debtors
- D Preference shareholders
5. Which of the following is **not** an example of a financial intermediary?
- A Commercial banks
- B Central bank
- C Pension funds
- D Mutual funds
6. A market where financial securities are traded for the first time is called a \_\_\_\_\_
- A Spot market
- B Capital market
- C Primary market
- D Secondary market



7. Which of the following financial statements is **not** important for gauging the company by both managers and investors?

- A Statement of Cash flows
- B Statement of Financial Position
- C Statement of Comprehensive income
- D Statement of Equity

8. XYW manufacturing is customised pencil manufacturer and is projecting sales of P200 000 for 2016. The company's supplier charges it P100 per order of pencils. The selling price per unit for the firm is P10, while the purchase price per unit is P5. The carrying cost of inventory is 10% of its value.

The economic order quantity for XYW Manufacturing is \_\_\_\_\_

- A 8 944 units
- B 2 000 units
- C 6 325 units
- D 2 828 units

9. Which of the following are **all** money market instruments?

- A Bills, certificates of deposit and deposits
- B Bills, certificates of deposits and cash
- C Cheques, certificates of deposits, deposits
- D Cash, cheques and bills

10. Which of the following is the order of cash flow statement components?

- A Investment, financing and operating
- B Financing, operating and investment
- C Operating, investment and financing
- D Operating, financing and investment

**SECTION B – SHORT ANSWER QUESTIONS**

**[30 MARKS]**

**Answer ALL questions in this section**

1. Financial markets can be divided into primary and secondary markets. What is the distinction between the two markets? **(4 marks)**
2. Outline any four functions of the Bank of Botswana **(4 marks)**
3. Explain with examples the difference between Spot and Forward Exchange rates **(4 marks)**
4. Briefly explain three motives for holding cash by organisation. **(6 marks)**
5. Differentiate Aggressive financial strategy from Conservative financial strategy **(6 marks)**
6. Discuss any three duties of the financial manager in an organisation **(6 marks)**

**SECTION C – ESSAY TYPE AND CALCULATION QUESTIONS**

**[60 MARKS]**

**Answer any three questions in this section**

Question 1

(20 marks)

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

**Blueprint Corporation**

**Income statement for the year ended 31 December 2015**

	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

**Blueprint Corporation**

**Comparative statement of financial position 31 December**



	Year-end 2014	Year- end 2015
	P	P
<b><u>Assets</u></b>		
<b>Noncurrent assets</b>		
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
<b>Current assets</b>		
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	<b><u>870 000</u></b>	<b><u>1 000 000</u></b>
<b><u>Equity and liabilities</u></b>		
<b>Equity</b>		
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
<b>Long term liabilities</b>		



Bonds payable, 2022	40 000	90 000
<b>Current liabilities</b>		
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
<b>Total equity and liabilities</b>	<b><u>870 000</u></b>	<b><u>1 000 000</u></b>

**Required:**

Use the indirect method to prepare a cash flow statement for the year ended 31 December 2015  
(20 marks)

**Question 2** (20 marks)

Anita and Lorato are partners in a business. Their comprehensive income statement for the year ended 31 December 2015 and statement of financial position of their business at 31 December 2015 are as follows:

**Comprehensive Income Statement**

Turnover	P80 794 000
Operating income	P 9 707 000
Interest paid	P 1 584 000
<b>Attributable earnings (net profit)</b>	<b>P 7 365 000</b>
Dividend	P 1 969 000
Price per share	70 thebe
EPS	23.6 thebe



**Statement of Financial Position**

Current assets	P66 402 000
Receivables (debtors)	P25 805 000
Inventory	P19 227 000
<b>Total assets</b>	<b>P78 533 000</b>
Current liabilities	P26 694 000
Long term debt	P3 884 000
<b>Total debt</b>	<b>P14 818 000</b>
<b>Equity</b> (ordinary shareholders funds)	P47 955 000
Number of ordinary shares	31 207 628 shares

**Required:** Calculate the following ratios for Anita and Lorato

- |                            |                  |
|----------------------------|------------------|
| (i) Net profit margin      | <b>(2 marks)</b> |
| (ii) Return on equity      | <b>(3 marks)</b> |
| (iii) Return on assets     | <b>(3 marks)</b> |
| (iv) Quick ratio           | <b>(3 marks)</b> |
| (v) Earnings per share     | <b>(3 marks)</b> |
| (vi) Price earnings ratio  | <b>(3 marks)</b> |
| (vii) Debt to equity ratio | <b>(3 marks)</b> |

**Question 3** **(20 marks)**

The treasury of Partner Ltd is interested in finding out whether there have been any changes in the cash operating cycle. The following information has been collected for calculating cash operating cycle:

	31 December	
	2014	2015
	P	P
Sales	3 240 000	3 600 000
Purchase of raw materials	1 125 000	1 687 500
Cost of goods manufactured	1 080 000	1 440 000
Cost of goods sold	2 160 000	2 880 000
Debtors	540 000	800 000
Creditors	156 250	375 000
Inventory: Raw materials	90 000	60 000
Work-in-progress	60 000	120 000
Finished goods	25 000	75 000

**Required:** Calculate the following for both 2014 and 2015

**Note:** Assume that there are 360 days in a year

- (i) Raw materials conversion time **(3 marks)**
- (ii) Creditors conversion time **(2 marks)**
- (iii) Work-in- progress conversion time **(3 marks)**
- (iv) Finished goods conversion time **(3 marks)**
- (v) Debtors conversion time **(2 marks)**
- (vi) Cash operation cycle for 2014 **(3 marks)**
- (vii) Cash operation cycle for 2015 **(3 marks)**
- (viii) Comment on the cash operating cycle **(1 marks)**

**Question 4**

Boitumelo supplies golf equipment. 10% of her sales are on cash basis, the remainder is on one month's credit. She receives one month's credit on all purchases. Sales and purchases are as follows:

	<b>Sales</b>	<b>Purchases</b>
	<b>P</b>	<b>P</b>
December 2015	30 000	16 000
January 2016	25 000	14 000
February	18 000	20 000
March	22 000	25 000
April	28 000	30 000

Boitumelo pays wages of P2 000 per month. She pays rent of P10 000 per year; she paid one year's rent in advance on 1 January 2016. Other expenses, P1 500 per month are paid currently. On February 2016 Boitumelo plans to sell a van for P11 500 and to buy a new one for P30 000 on 15 March 2016.

Boitumelo draws P1 000 a month for living expenses.

At 31 December 2015, Boitumelo's bank balance was P10 500 (in hand). Her mother will lend the business P9 500 on 1 April 2016

Required:

- (a) Prepare Boitumelo's cash budget for the four months to 30 April 2016. **(16 marks)**
- (b) List two uses and benefits of budgets? **(4 marks)**

**END OF EXAMINATION**