MANICALAND STATE UNIVERSITY OF APPLIED SCIENCES

FACULTY OF AGRIBUSINESS AND COMMERCE

DEPARTMENT: ACCOUNTING

MODULE: FINANCIAL ANALYSIS

CODE: AEDT 123

SESSIONAL EXAMINATIONS
AUGUST 2022

DURATION: 3 HOURS

EXAMINER: MR T MACHAKA

INSTRUCTIONS

1. *This paper contains* ***five*** *questions*
2. *Answer* ***all questions****.*
3. *Start a new question on a fresh page*
4. *Total marks 100*

Additional material(s): *Calculator, Future & present value Tables, Formula Sheet*

QUESTION 1 [20 Marks]

a. What do you think explains the popularity of the limited liability company as the legal form of so many firms in Zimbabwe?

QUESTION 2 [20 Marks]

a. Explain briefly how stock markets operate and evaluate their usefulness as a source of long term finance to agricultural enterprises.

QUESTION 3 [20 Marks]

APX Pvt Ltd achieved a turnover of $16 million in the year that has just ended and expects turnover growth of 8.4% in the next year. Cost of sales in the year that has just ended was $10.88 million and other expenses were $1.44 million.

The financial statements of APX Pvt Ltd for the year that has just ended contain the following statement of financial position:

	$m	**$m**
Non-current assets		22.0
Current assets		
Inventory	2.4	
Trade receivables	2.2	
		4.6
Total assets		
		26.6

	$m	$m
Equity finance:		
Share capital	5.0	
Reserves	7.5	
		12.5
Long-term bank debt		10.0
		22.5
Current liabilities		
Trade payables	1.9	
Overdraft	2.2	
		4.1
Total liabilities		26.6

The long-term bank loan has a fixed annual interest rate of 8% per year. APX (Pvt) Ltd pays taxation at an annual rate of 30% per year.

The following accounting ratios have been forecast for the next year:

Gross profit margin:	30%
Operating profit margin:	20%
Dividend payout ratio:	50%
Inventory turnover period:	110 days
Trade receivables period:	65 days
Trade payables period:	75 days

Overdraft interest in the next year is forecast to be $140,000. No change is expected in the level of non-current assets and depreciation should be ignored.

Required:

(a) Prepare the following forecast financial statements for APX (Pvt) Ltd using the information provided:

(i) an income statement for the next year; and
(ii) a statement of financial position at the end of the next year. (16 marks)

b) Analyse and discuss the forecast financial performance of APX (Pvt) Ltd in terms of working capital management. (4 marks)

QUESTION 4 [20 Marks]

Tee Ltd expects annual demand for product X to be 255,380 units. Product X has a selling price of $19 per unit and is purchased for $11 per unit from a supplier; MKR Co. Tee Ltd places an order for 50,000 units of product X at regular intervals throughout the year. As the demand for product X is to some degree uncertain, Tee Ltd maintains a safety (buffer) inventory of product X which is sufficient to meet demand for 28 working days. The cost of placing an order is $25, and the storage cost for Product X is 10 cents per unit per year.

Tee Ltd normally pays trade suppliers after 60 days, but MKR has offered a discount of 1% for a cash settlement within 20 days.

Tee Ltd has a short-term cost of debt of 8% and uses a working year consisting of 365 days.

Required:

(a) Calculate the annual cost of the current ordering policy. Ignore financing costs in this part of the question. (4 marks)

(b) Calculate the annual saving if the economic order quantity model is used to determine an optimal ordering policy. Ignore financing costs in this part of the question. (4 marks)

(c) Determine whether the discount offered by the supplier is financially acceptable to Tee Ltd. (4 marks)

(d) Explain how the economic order quantity (EOQ) model can assist in reducing inventory costs, and the assumptions it is based upon. (2 marks)

(e) Discuss the advantages and disadvantages of using just-in-time inventory management methods. (6 marks)

QUESTION 5 [20 Marks]

Tawanda Ltd is reviewing investment proposals that have been submitted by divisional managers. The investment funds of the company are limited to $800 000 in the current year. Details of three possible investments, none of which can be delayed, are given below.

Project 1

An investment of $300 000 in work station assessments. Each assessment would be on an individual employee basis and would lead to savings in labour costs from increased efficiency and from reduced absenteeism due to work-related illness. Savings in labour costs from these assessments in money terms are expected to be as follows:

Year	**1**	**2**	**3**	**4**	**5**
Cash flows ($000)	85	90	95	100	95

Project 2

An investment of $450 000 in individual workstations for staff that is expected to reduce administration costs by $140 800 per annum in money terms for the next five years.

Project 3

An investment of $400 000 in new ticket machines. Net cash savings of $120 000 per annum are expected in current price terms and these are expected to increase by 3·6% per annum due to inflation during the five-year life of the machines.

Tawanda Ltd has a money cost of capital of 12% and taxation should be ignored.

Required:

(a) Determine the best way for Tawanda Ltd to invest the available funds and calculate the resultant NPV:

(i) On the assumption that each of the three projects is divisible;

(ii) On the assumption that none of the projects are divisible.

(12 marks)

(b) Explain how the NPV investment appraisal method is applied in situations where capital is rationed. (2 marks)

(c) Explain the various stages in the project evaluation process. (6 marks)

END OF EXAMINATION