

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF BUSINESS MANAGEMENT
DIPLOMA IN MANAGEMENT
FINANCIAL MANAGEMENT - MDP 1003**

**FINAL EXAMINATION - DECEMBER 2006
TIME ALLOWED 3 HOURS**

INSTRUCTIONS TO CANDIDATES

- *Answer any four questions.*
 - *All questions carry equal marks.*
 - *All workings must be clearly shown.*
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QUESTION 1

- (a) What is the principal-agent problem? [5]
- (b) Why is it important to specify goals for corporations? [10]
- (c) Define the term time value of money. [5]
- (d) Define working capital policy. [5]

QUESTION 2

Proast PLC is considering two investment projects whose cash flows are:

PERIOD	PROJECT A \$	PROJECT B \$
0	-120 000	-120 000
1	60 000	15 000
2	45 000	45 000
3	42 000	55 000
4	18 000	60 000

The company's required rate of return is 15%.

- (a) Advise the company whether to undertake the two projects [20]
- (b) What other factors must be considered? [5]

QUESTION 3

- (a) Why do firms hold cash? [6]
- (b) Describe the working capital cycle and the cash operating cycle. [12]
- (c) What is the economic order quantity? [7]

QUESTION 4

Black wide uses 10 000 items of stock per year. It costs \$7 to hold an item of stock for a year and the recorder costs are \$50 regardless of quantity.

- (a) Calculate the EOQ. [6]
- (b) Calculate the Total Ordering Costs. [6]
- (c) Calculate the Total Holdings Costs. [6]
- (d) What other factors might need to be considered in using this model. [7]

QUESTION 5

Describe the following ratios:

- (a) Acid test ratio. [5]
- (b) Stock turnover ratio. [5]
- (c) Asset turnover ratio. [5]
- (d) Debt equity ratio. [5]
- (e) Dividend cover. [5]

QUESTION 6

Briefly discuss each of the following terms:

- (a) Diversification. [5]
- (b) Systematic Risk [5]
- (c) Financial Markets. [5]
- (d) Liquidity. [5]
- (e) Money Market. [5]