



MUNHUMUTAPA SCHOOL OF COMMERCE
DEPARTMENT OF ECONOMICS AND FINANCE

MAIN EXAMINATION

BACHELOR OF COMMERCE	PART 2 SEMESTER 2
COURSE	DEVELOPMENT FINANCE
CODE	HBF 228
DATE	2024
DURATION	3 HOURS

GREAT ZIMBABWE UNIVERSITY
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EXAMINATIONS OFFICE

INSTRUCTIONS TO CANDIDATES

- 1. THE PAPER COMPRISES 5 QUESTIONS.**
- 2. YOU ARE REQUIRED TO ANSWER FOUR QUESTIONS, BOTH QUESTIONS IN SECTION A AND ANY TWO FROM SECTION B**
- 3. BEGIN THE ANSWER TO EACH QUESTION ON A FRESH PAGE OF THE ANSWER BOOKLET.**
- 4. NON-PROGRAMMABLE FINANCIAL OR SCIENTIFIC CALCULATORS ARE ALLOWED INTO THE EXAMINATION.**
- 5. CANDIDATES WILL OBTAIN CREDIT FOR SHOWING ALL**

Section A

Answer both questions in this section. Each question carries 30 marks

Question 1

1.1 What are the arguments for the popularity of use of lease finance in financing Corporations and countries of the world? [10 marks]

1.2 Tomondo Corporation is into diamond mining business in Zimbabwe since the year 2000. It is however contemplating diversification of its business by going into lithium mining. Two sources available for the expansion project are lease finance and long term loan from CABS, Zimbabwe. The company can borrow USD 50 million at 16% for four years. If capital is borrowed special initial allowance (SIA) rates of 50% in year 1 and 25% in each of years 2 and 3 will apply. Boss Mine is also keen to lease plant and machinery to the Corporation for lithium mining in return for USD 15 million for 4 years. The corporate tax rate in Zimbabwe is currently 37.5%.

1.2.1 If capital is borrowed, demonstrate the loan repayment by means of a loan amortization schedule. [7 marks]

1.2.2 Determine the NPVs of the two financing options of the proposed project. [11 marks]

1.2.3 Appraise the project financing alternatives. [2 marks]

[Total 30 Marks]

Question 2

2.1 Discuss any four major sources of capital for MNCs and TNCs. [10 marks]

2.2 Alpha Private Limited is into diamond production line of business in the Eastern Highlands of Zimbabwe. The machine that the company uses in its diamond production line must be replaced at least every four years. The costs that the firm incurs in running the machine according to its age are as shown in the table below:

(S000)

Age (In years)	0	1	2	3	4
Capital Outlay	(25 000)				
Maintenance Costs	-	(8 000)	(12 000)	(16 000)	(20 000)
Cost of Repairs	-	-	(4 000)	(8 000)	(12 000)
Net Realisable Value (NRV)	-	16 000	12 000	8 000	6 400

It is also given that future replacements of the machine will be by means of identical machines with the same cash flows as outlined above.

The revenues to be generated by the firm over the years will not be affected by the age of the machine. The company's cost of capital is pegged at 15%.

Ignoring the impact of inflation and taxation on both costs and revenues to be generated by the firm, calculate the annual equivalent costs (AEC) of the possible replacement cycle of the machine using replacement periods of 1, 2, 3 and 4 years. [20 marks]

[Total 30 Marks]

Section B

Answer any two (2) questions in this section. Each question carries 20 marks

Question 3

It is argued that national debts, corruption and BOPs are some of the major challenges hindering the growth and development of most emerging economies of Africa. Discuss this statement using evidence drawn from Zimbabwe in the 21st century. [20 marks]

[Total 20 Marks]

Question 4

4.1 Discuss some of the reasons forwarded for the popularity of lease finance in the 21st century. [6 marks]

4.2 Maworesa Private Limited is a Zimbabwean Corporation that is contemplating making a 4 year copper investment project in South Africa. The following Rand cash flows are expected to be generated by the capital project if it is to be undertaken (ZAR 000):

Period (in Years)	1	2	3	4
Revenues	8 800	9 600	12 800	16 960
Costs	5 500	6 400	8 480	10 460
Salvage				2 280

It is also given that the current exchange rate between the two countries is \$0.175/ZAR. The following exchange rates are projected for the 4 year investment period given above (\$/ZAR):

Period (in Years)	1	2	3	4
Exchange Rate	0.180	0.178	0.182	0.188

Given that the project needs an estimated total capital of ZAR 4 800 000 plus ZAR 800 000 working capital to commence, evaluate the viability of the project based on a foreign corporate tax rate of 37.5% and costs of capital of 24% and 20% in foreign and domestic land respectively:

2.2.1 Foreign currency terms.

[10 marks]

2.2.2 Domestic currency terms.

[4 marks]

[Total 20 Marks]

Question 5

Examine the main tenets of the Harrod-Domar model and use them to explain some of the capital accumulation and developmental challenges that most emerging economies such as Zimbabwe are facing in the 21st century.

[20 marks]

[Total 20 marks]

END OF EXAMINATION