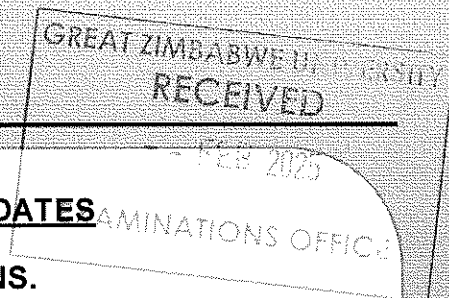




MUNHUMUTAPA SCHOOL OF COMMERCE
DEPARTMENT OF ECONOMICS AND FINANCE

FINAL EXAMINATION

BACHELOR OF COMMERCE	PART 2 SEMESTER 2
COURSE	DEVELOPMENT FINANCE
CODE	HBF 228
DATE	2025
DURATION	3 HOURS



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 IN THE EXAMINATION.
5. CANDIDATES WILL OBTAIN CREDIT FOR SHOWING ALL WORKINGS.

Question 1

1.1 Examine some of the major sources of development finance that countries such as Zimbabwe can employ in their quest to grow towards sustainable development. [10 Marks]

1.2 Kundai Private Limited is a Zimbabwean Corporation that is contemplating making a 4 year capital investment project in Botswana for diamond production. The following Pula (BWP) cash flows are expected to be generated by the project if it is to be undertaken (BWP 000) as indicated above:

Period (in Years)	1	2	3	4
Revenues	25 000	40 000	64 000	72 000
Costs	12 800	18 600	24 800	36 500
Salvage				8 860

It is also given that the current exchange rate between the two countries is \$0.6250/ZAR. The following exchange rates are projected for the 4 year investment period given above (\$/BWP):

Period (in Years)	1	2	3	4
Exchange Rate \$/BWP	0.6248	0.6250	0.6240	0.6256

Given that the project needs an estimated total capital of BWP 9 600 000 plus BWP7 200 000 working capital to commence, determine the viability of the project based on a foreign corporate tax rate of 40% and a cost of capital of 22% in:

3.1 Foreign currency terms. [14 marks]

3.2 Domestic currency terms. [6 marks]

[Total 30 Marks]

Question 2

2.1 Define, compare and contrast the concepts of economic growth and development. [10 marks]

2.2 Tigris Private Limited is a foreign firm that has developed interest in sugar production business in the Middle Sabi Area of Manicaland Province, Zimbabwe. The machinery and equipment that the company intends to use in its sugar production business will cost \$100 000 000 and must be replaced at least every four years. The initial capital outlay and other costs that the firm will incur in running the tea project according to its age are as shown in the table below:

Projected Cash Flows (\$000)

Age in Years	0	1	2	3	4
Capital Outlay	(100 000)				
Maintenance Costs	-	(10 000)	(20 000)	(25 000)	(32 000)

Cost of Repairs	-	-	(4 000)	(8 000)	(16 000)
Net Realisable Value (NRV)	-	64 000	40 000	32 000	24 000

It is also given that future replacements of the machinery and equipment will be by means of identical machines. The revenues to be generated by the firm over the years will not be affected by the ages of the machinery and equipment. 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

Examine some of the policy and non-policy explanations and strategies that are behind the success story of the Pacific Basin Model (Four East Asian Tigers) Model. [20 marks]

[Total 20 Marks]

Question 4

Sanyanga Private Limited's Comprehensive Statement of Income financial statement for the year ended December 31, 2016 stood as demonstrated below: (\$000)

Total Annual Sales	93 200
Total Annual Cost of Sales	(60 000)
EBIT	33 200
Less Interest	(6 400)
EBT	26 800
Less Corporate Tax at 40%	(10 720)
EAT	16 080

Given that the cost of capital of a similar ungeared firm is 24% and cost of debt is 16%:

4.1 Calculate the value of the levered firm and its cost of capital according to MM propositions without taxes. [9 Marks]

4.2 Determine the value of the levered firm and its cost of capital according to MM propositions with taxes. [6 Marks]

4.3 Comment on the implications of the tax burden on the cost and market value of the firm. [5 Marks]

[Total 20 Marks]

Question 5

Mallon Limited is a corporation listed on the Zimbabwe Stock Exchange (ZSE) with total capital for investment limited to \$20 000 000 (\$20 million). The company is considering five capital projects, A to E with the following capital requirements and total present values (TPVs) (in \$ million):

Project	Capital	Total Present Value	NPV	NPV Rank	Profitability Index (PI)	PI Rank
A	5	6.25				
B	4	5				
C	8	10				
D	10	12.4				
E	6	7.2				

5.1 What is meant by the term capital rationing? [2 marks]

5.2 Copy and complete the table above. [6 marks]

5.3 Appraisal the projects using the net present value (NPV) appraisal methods. [4 marks]

5.2 Appraisal the projects using the profitability index appraisal method [4 marks]

5.3 Comment on the criteria used when evaluating capital projects using the NPV and PI Investment appraisal methods. [4 marks]

[Total 20 Marks]

END OF EXAMINATION