F 9
Section One
Answer ALL Questions
Multiple Choice Questions (MCQs)
(Every Question Carries Two Marks)

1) **In Finance, it is better to receive a Sudanese pound today than tomorrow.**
   a) True
   b) False

2) **Any discount rate used is a good measure of investments.**
   a) True
   b) False

3) **The further in future finance calculations are carried the more its certainty becomes.**
   a. True
   b. False

4) **Annuity table calculations save time and correctness**
   a. True
   b. False

5) **Do you prefer Profit maximization to Share-holders wealth maximization?**
   a. Yes
   b. No

6) **Conflict of interests inside any entity is shown in Dits daily business decisions**
   a. True
   b. False

7) **In not-for-profit entities the issue of cost is used in measuring performance.**
   a. True

    b. False

8) **Risk, return, reinvestment and time value of money is reflected in any future discount rate.**
    a. True
    b. False

9) **The US dollar, the French Frank and the Sudanese Pound respond similarly to time.**
    a. True
    b. False

10) **Earnings per share (EPS) is an important measure of the entity's economic power to create revenues.**
    a. True
    b. False

11) **The Central Bank in any country is interested only in taking Fiscal policy decisions.**
    a. True
    b. False

12) **Bondholders face more risks than Shareholders.**
    a. True
    b. False

13) **Why in financial markets investors tend to buy securities of different risk levels?**
    a. To increase their market share.
    b. To have more Liquidity venues.
    c. To decrease risk.
    d. None of the above.

14) **CAPM can be used to calculate:**
    a. Business premiums.
    b. Financial Liquidity.
    c. Cost of Equity in Listed companies and its risk.
    d. Cost of Debt in private companies and its risk.

15) **From the following statements mark the correct one.**

a. Finance providers prefer low risk projects.
b. Finance providers demand more than full value collateral to their financing.
c. Finance providers prefer not to be part of the risk profile of their customers.
d. All of the above is correct.

16) Islamic finance principles are:

a. No Riba
b. No investments in alcohol and gambling and the like.
c. No investments in AL garar.
d. All of the above is correct.

17) Off Balance Sheet financing is ..

a. A normal business transaction.
b. A method of funding without being recorded.
c. A use of a quasi-subsidiary where liabilities are recorded.
d. One of the reasons why US company Enron has collapsed.
e. All of the above is correct.
f. All of the above is correct except a. and e.

18) Which of the following does not directly affect a company's cost of equity?

a. IRR.
b. Expected market return.
c. Risk free rate of return.
d. The company's beta.

19) The finance manager pays very much attention to …

a. Market capitalization, Liquidity, Budget deviations, idle potentialities.
b. Liquidity management including investment of surplus funds.
c. Theft, Liquidity, morality, idle inventory.
d. Investment follow-up.

20) Sukuk is an Islamic source of financing. It can be described as:

a. It is immune to inflation.
b. It carries its own risk characteristics.
c. Equity finance.
d. All of the above.

Section Two
Answer all questions in this section
Every Question Carries 15 Marks

Question One

The following information relates to **Barbar** co:

Statements of profit and loss

	2007	**2006**
	$"000"	**$"000"**
Sales (all on credit)	37,000	26,720
Cost of sales	(34,408)	(23,781)
Operating profit	2,992	2,939
Finance cost (interest payments)	(355)	(274)
Profit before taxation	2,637	2,665

Statements of financial position

	2007	**2006**
	$"000"	**$"000"**
Non-current assets	13,632	12,750
Current assets:		
Inventory	4,600	2,400
Trade Receivables	4,600	2,200
	9,200	4,600
Current liabilities:		
Trade payables	4,750	2,000
Overdraft	3,225	1,600
	7,975	3,600
Net current assets	1,225	1,000
	14,857	13,750
8% bonds	2,425	2,425
	12,432	11,325
Capital and reserves		
Share capital	6,000	6,000
Reserves	6,432	5,325
	12,432	11,325

The average variable overdraft interest rate in each year was 5%. The 8% bonds are redeemable in ten year's time.

A factor has offered to take over the administration of trade receivables on non-recourse basis for an annual fee of 3% of credit sales. The factor will maintain a trade receivables collection period of 30 days and Barbar Co. will save $100,000 per year in administration costs and $350,000 per year in bad debts. A condition of the factoring agreement is that the factor would advance 80% of the face value of receivables at annual interest rate of 7%.

Required:

A- **Use the above financial information to discuss, with supporting financial ratios, whether or not Barbar Co. is overtrading.**

(**9 marks**)

B- **Evaluate whether the proposal to factor trade receivables is financially acceptable. Assume an average cost of short-term finance in this part of the question only.**

(**6 marks**)

(**Total**: **15 marks**)

Question Two

The following financial information relates to Zaki Co, for the year just ended.

	$
Sales revenue	5,242,000
Cost of sales	3,145,000
Inventory	603,000
Receivables	744,500
Payables	574,500

Segmental analysis of receivables:

	Balance	***average payment period***	***discount***
Class1 (local)	$200,000	30 days	1.0%
Class1 (local)	$252,000	60 days	Nil
Class1 (local)	$110,000	75 days	Nil
Overseas	$182,500	90 days	Nil
	$744,500		

All sales are on credit. Production and sales take place evenly throughout the year. It has been proposed that the discount for early payment be increased from 1.0% to 1.5% for settlement within 30 days. It is expected that this will lead to attracting new business worth $500,000 in revenue. The new business would be divided equally between class1 and class 2 receivables. (i.e. 50% + 50%)

Required:

A- **Calculate the current cash operating cycle and the revised cash operating cycle caused by increasing the discount for early payment.**

(**5 marks**)

B- **Identify and explain the key elements of a receivables management system suitable for Zaki Co.**

(**10 marks**)

(**Total**: **15 marks**)

Question Three

Sennar Company is considering purchasing a new machine at a cost of $ 110,400 that will be operated for four years, after which time it will be sold for an estimated $ 9,600. Sennar Company uses a straight-line policy for depreciation. Forecast operating profits to be generated by the machine are as follows:

Year	US Dollars
1	39,600
2	19,600
3	22,400
4	32,400

Required:

A. **What is the payback period for this investment?** (8 marks)

B. **What is the Average Rate of Return (ROCE) for this investment?**

(7 marks)

(Total: 15 marks**)**

Question Four (A + B)

A)

The managers at **Haya Company**, which is an all-equity company with a beta of 0.7, are appraising a one-year project which requires an outlay now of $ 10,000 and will generate cash in one year with an expected value of $

12,500. The project has a beta of 1.4. You have ascertained that the risk free rate is 10%, and the market rate is 17%.

Required:

(a) What is the firm's current cost of equity capital? (2 marks)

(b) What is the minimum required return of the project? (2 marks)

(c) Is the project a good investment? (2 marks)

B)

1. **Give three examples of some Sudanese free risk securities. (3 marks)**
2. **In finance they say that "CAPM has stood the test of time". Mention CAPM assumptions that support this saying.**

(6 Marks)

(Total: 15 marks)