

**University of Swaziland**  
**Department of Accounting**  
**Supplementary Exam Paper**

Programme of Study : Bachelor of Commerce  
Year of Study : Year Four (Full Time); Level 5 (Part Time)  
Title of Paper : Business Finance I.  
Course Code : AC 403 (Full Time) / IDE AC 403 (Part Time)  
Time Allowed : 3 Hours.

- Instructions:
1. The total number of questions on this paper are four (4).
  2. Answer all the questions.
  3. The marks awarded for a question / part is indicated at the end of each question / part of question.
  4. Where applicable, submit all workings and calculations on the answer sheet alongside the case.
  5. Calculations are to be made to two decimal places of accuracy unless otherwise instructed.

**Note:** You are reminded that in assessing your work, account will be taken of accuracy of the language and the general quality of expression, together with the layout and presentation of your final answer.

**Special requirement : Calculator and P V tables**

**This paper is not to be opened until permission has been granted by the invigilator.**

**QUESTION 1:**

- a) Dlamini Incorporated sold a 25 year bond issue with a 12 percent coupon rate and a 12 percent call premium, callable 10 years after the issue. Now, 2 years after the issue, the going interest rate had fallen causing the price of the bonds to rise to E 1,200. Determine its Yield to Call. **(6 marks)**
- b) Healthy Beverages' bonds have 7 years remaining to maturity. The bonds have a face value of E 1,000 and a yield to maturity ( $K_d$ ) of 8 per cent. They pay interest annually and have a 9 per cent coupon rate.
- What is the value of these bonds? **(6 marks)**
  - What is their current yield? **(2 marks)**
- c) Good Care Limited has paid a dividend of 60 cents per share last year. The shareholders require a return of 14 per cent per year and the dividends are expected to grow by 8 per cent per year indefinitely into the future. What is the value of each ordinary share of Good Care Limited? Given this data at what price will you be willing to buy this share? **(4 marks)**
- d) Suppose, you are a fund manager of a Financial Services Firm and the fund consists of the following stocks and other related data.

Stock	Weight of each stock in the fund	Beta	Expected Return
A	10%	0.80	12%
B	30	0.75	12
C	15	1.20	10
D	25	0.60	8
E	20	1.80	15

The risk-free rate is 8 per cent and the expected return on the market is 12.5 per cent.

- Calculate the expected return of your fund **(3.5 marks)**
- Calculate the fund's beta. **(3.5 marks)**

**Total (25 marks)**

**QUESTION 2:**

- a) Swaziland Imports Inc. has assembled the statement of financial position for the financial year 2010 and financial projections to lay their plans for the coming financial year 2011.

## Swaziland Imports Incorporated

Assets		Equity and Liabilities	
Net non-current assets	E1,000	Equity	
		Common Stock	E200
Current assets		Retained earnings	500
Inventory	400	Long term debt	800
Accounts receivables	400		
Cash	200	Current liabilities	
		Accruals	100
		Notes payable	300
		Accounts payable	100
Total assets	2,000	Total equity & liabilities	2,000

The financial projections are as given below:

- i) Sales are forecasted to increase from \$1500 in 2010 to \$3,000 in 2011.
- ii) The capacity utilization of non-current assets during 2010 was 50 per cent, but its current assets were at their proper levels.
- iii) All assets except non-current assets increase at the same rate as sales, and non-current assets would also increase at the same rate if the current excess capacity did not exist.
- iv) Swaziland Imports' after-tax profit margin is forecasted to be 5 per cent, and its pay-out ratio will be 70 per cent.

**Required:**

- i) What is Swaziland Imports' additional fund needed (AFN) for the coming year 2011? **(10 marks)**
  
- b) Bay Sports Johannesburg, produces Beach Balls selling 60,000 balls per year. Each ball has variable operating costs of E12.50. Fixed operating costs amount to E 110,000 per year. Each ball is sold at a price of E21.

The assets of Bay Sports (all equity financed) are E 1,300,000. Bay Sports estimates that It can change its production process, adding E 500,000 to

investment and E30,000 to fixed operating costs. This change is expected to reduce variable costs by E2.50 and increase the output by 20,000 units but the sale price on all units will have to be lowered to E18 to promote additional output. Bay Sports uses no debt and its average cost of capital is 10 per cent.

**Required:**

- i) Should Bay Sports make the change? *(6 marks)*
- ii) Would Bay Sports Break-even Point increase or decrease if it made the change? *(4 marks)*
- iii) Suppose if Bay Sports wants to borrow E 500,000 at an interest rate of 12 percent. Find ROA using Du-Pont equation. Should Bay Sports must make the change or not under the new alternative of debt financing? *(5 marks)*

**Total (25 marks)**

**QUESTION 3:**

a) Computronics Inc. must order USB devices from its suppliers in Johannesburg. Computronics Inc. feels it will sell approximately 2,000 boxes in the next year at a price of E1200 per box. The price at which the Computronics buys is E 1,000 per box. Costs for carrying one box are estimated at E1.20 per year and the cost of placing order is estimated at E20 per order. The desired safety stock is 50 boxes and the supplier takes 2 weeks to deliver the required goods.

- i) What is the economic order quantity? *(2.5 marks)*
- ii) How many orders must be placed annually? *(2.5 marks)*
- iii) At what inventory level reorder must be placed? *(2.5 marks)*
- iv) What is the average inventory level? *(2.5 marks)*
- v) What are the total inventory costs at the EOQ? (Assume a 50 week year) *(3 marks)*

**(13 Marks)**

b) Themba Distilleries is considering two projects. These two projects are mutually exclusive projects. The cash-flows after taxes (CFAT) associated with those projects are as follows:

Year	0	1	2	3	4	5
Project A	E -30,000	8,000	8,000	8,000	8,000	8,000
Project B	E -30,000	0	0	0	0	60,000

The required rate of return on these projects is 12 percent.

- i) Calculate each project's payback period. **(4 marks)**
- ii) Calculate the net present value of each project. **(5 marks)**
- iii) Calculate the internal rate of return of each project. **(5 marks)**  
(Range 9% - 12%)
- iv) Which project should be accepted according to each criterion? Why? **(3 marks)**

**(17 Marks)**

**Total (30 Marks)**

**QUESTION 4:**

- a) Discuss in detail current asset financing strategies. Give examples wherever required. **(10 marks)**
- b) What types of liabilities are included in short-term credit? Discuss. **(10 marks)**

**Total (20 marks)**

**END OF QUESTION PAPER**



