

University of Swaziland
Department of Accounting
Main Exam Paper - Semester - I

Programme of Study : Bachelor of Commerce
Year of Study : Year Three / Four
Title of Paper : Intermediate Business Finance
Course Code : AC 322/415
Time Allowed : 3 Hours.

- Instructions:
1. **Total number of questions on this paper is 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) Calculate the price of a 5 year, E 1,000 par value bond that makes semi-annual payments, has a coupon rate of 8% and offers a yield to maturity of 8%. Recalculate the price assuming a 6% and 10% yield to maturity (YTM). What is the general relationship that this problem illustrates? **(10 marks)**
- b) The current interest rates on Swaziland Government Treasury Securities are as follows:

Security	Maturity	Yield
A	1 Year	1.0%
B	2 Years	2.2
C	3 Years	1.9

Using the Expectations Theory,

- i) Compute the expected interest rates (Yields) for each security one year from now. **(6 marks)**
- c) Nhlangano Fertilizers is expected to pay dividends of E 2.0, E 2.5, and E 3.5 in the next three years that is, $D^1 = E 2$, $D^2 = E 2.5$, and $D^3 = E 3.5$, respectively. After three years, the dividend is expected to grow at a constant rate of 4 percent per year indefinitely. Stock holders require a return of 14 % to invest in Nhlangano Fertilizers' common stock.

Required:

- i) Compute the value of Nhlangano Fertilizers' common stock today? **(8 marks)**
- ii) What price will you be willing to pay for this stock? **(1 mark)**
- Total (25 marks)**

QUESTION 2:

- a) What is meant by an 'agency problem'? **(2 marks)**
- b) Briefly discuss how it affects shareholders' wealth maximization objective and Why? **(4 marks)**
- c) Discuss the measures that can be taken to motivate the agents to act in the best interest of the shareholders that is shareholder. **(19 marks)**
- Total (25 marks)**

QUESTION 3:

- a) The beta-coefficient of four stocks that are being traded in Swaziland Stock Exchange (SSX) has been chosen by Joyce Dlamini.

The following are the beta-coefficients for four stocks that Joyce Dlamini wants to purchase from SSX.

Company	Beta (β)
Swazi Prop	2.8
Standard Bank	0.5
Royal Swazi Sugar	1.0
Trepak Papers	1.7

The rate of return on T-bills issued by Swaziland Government is 3 per cent and the return on Swaziland Stock Exchange (SSX) All-share Index is 10 per cent.

Required:

- i) Compute the required rate of return (SML) for each stock (4 marks)
 - ii) Compute the required rate of return (SML) for each stock if the market return is 8 per cent rather than 10 per cent. (4 marks)
 - iii) Explain why the return on each stock did not change by the same amount. (2 marks)
 - iv) Explain why Beta (β) is the relevant risk in your analysis. (2 marks)
- b) Bourbon Biscuits, Matsapha Industrial Site had a quick ratio of 1.4, a current ratio of 3.0, an inventory turnover of 5X, total current assets of E 810,000, and cash and equivalents of E 120,000 in 2011. If the cost of goods sold equalled 86 per cent of sales, what were Bourbon's annual sales and DSO? (13 marks)
- Total (25 marks)**

QUESTION 4:

- a) The following details are obtained from the works manager of Mlambo Poultry Feeds located in Matsapha. Production during last year was E 120,000 units. It is planned that the same level of activity would be continued during the current year.

The expected ratios of the cost to selling prices are, raw materials 60%, direct wages 10%, overheads 20%. Raw materials are expected to remain in store for an average of 2 months before issue to production and each unit is expected to be in

process for one month (assume 50% completion stage), the raw materials being fed into the pipeline immediately and the labour and overhead costs accruing evenly during the month. Finished goods will stay in the warehouse awaiting dispatch to customers for approximately 3 months. Credit allowed by suppliers of raw materials is 2 months from the date of delivery of raw materials. Credit allowed to customers is 3 months from the date of dispatch. Selling price is E 5 per unit. There is a regular production and sales cycle. Wages and overheads are paid on the 1st of each month for the services rendered in the previous month. The firm normally holds E 40,000 cash in hand.

Required:

Forecast the Working Capital required for the current year. **(21 marks)**

b) Explain the cash conversion cycle concept. **(4 marks)**

Total (25 marks)

End of exam question paper