

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

Programme of Study : Bachelor of Commerce
Year of Study : Year Three / Level Four and Five
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 : Financial Calculator

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

QUESTION 1:

- a) Tom recently graduated from UNISWA. While at the University, he took out a E50,000 student loan. His loan requires him to make monthly payments for a 10 year period.

Required:

- i) If the simple annual interest is 5.2 percent, what are Tom's monthly payments?
ii) How much will Tom owe on his student loan after he makes payments for 3 years?
(8 marks)
- b) Recently Adam sold 100 shares of stock that he owned for E39 per share. He purchased the stock an year-ago for E37 per share. During the year, Adam received a quarterly dividend equal to E0.20 per share. What return (Yield) did Adam earn during the time he owned the stock?
(5 years)
- c) Acer Quiver's bond currently is selling for E1,056; its value one year ago was E1,049. The bond has a E1,000 maturity value and coupon rate equal to 8 percent, and it matures in 10 years. Interest is paid annually. Compute
i) the yield and capital gains yield
ii) the bond's yield to maturity today
(8 marks)
- d) Shell Swaziland's issued a 10-year bond six years ago. The bond's maturity value is E1,000, and its coupon interest rate is 8 percent. Interest is paid semiannually. The bond matures in four years. If investors require a return equal to 6 percent to invest in similar bonds, what is the current market value of the bond?
(5 marks)
- Total (26 marks)**

QUESTION 2:

- a) Express Courier's preferred stock which has a par value equal to E55 per share, pays an annual dividend of 8 percent of the par value. If investors require a rate of return of 16 percent to buy Express Courier's stock, what is the stock's market value?
(3 marks)

- b) Swink Electric, Inc., has just developed a solar panel capable of generating 200 percent more electricity than any solar panel currently on the market. As a result, Swink plans to pay dividends of E2.01, E2.31, E2.66, E3.06 and E3.52 during the next five years. When the five-year period ends, other firms will have developed comparable technology, and

Swink's growth rate will slow to 5 percent per year indefinitely. Stockholders require a return of 12 percent on Swink's stock.

- i) Calculate the value of the stock today. (8 marks)

- c) RJS Foods reported that its net income was E65,000 last year. The firm's interest expense was reported to be E40,000, and its marginal tax rate was 35 percent. According to the company's balance sheet, invested capital equals E800,000.

- i) Compute the operating income (EBIT) that RJS Foods generated last year.
 ii) If the average cost of the funds it uses is 10 percent, what was RJS's EVA last year? (5 marks)

- d) Marvin has investments with the following characteristics in his portfolio:

Investment	Expected Return,	Amount Invested
ABC	30%	\$10,000
EFG	16	50,000
QRP	20	40,000

What is the expected return of Marvin's portfolio of investments, \hat{r}_p ?

(6 marks)

- e) Stock RSSC has a beta coefficient of 2.0, and Stock Siyabonga has a beta of 0.8. The expected rate of return on average stock is 12 percent, and the risk-free rate of return is 6 percent. By how much does the required return on the riskier stock exceed the required return on the less risky stock? (5 marks)

Total (27 marks)*

QUESTION 3:

- a) Swazi Spa has a return on equity (ROE) equal to 20 percent, total asset turnover equal to 2.5, and a debt ratio equal to 55 percent. If Swazi Spa is financed with debt and common stock, calculate its,

Required:

- i) Return on assets
- ii) Net profit margin

(12 marks)

- b) ABC has an inventory conversion period of 40 days, a receivables collection period of 25 days, and a payables deferral period of 15 days.

Required:

- i) What is the length of the firm's cash conversion cycle?
- ii) If ABC's annual sales are E1,600,000 and all sales are on credit, what is the average balance of in accounts receivable?
- iii) How many times per year does ABC turnover its inventory?
- iv) What would happen to ABC's cash conversion cycle if, on average, inventories could be turned over 10 times per year?

(10 marks)

Total (22 marks)

QUESTION 4:

Write short notes on the following:

- a) Discuss some of the limitations associated with performing ratio analysis
- b) Working capital financing strategies
- c) Term structure of interest rates. Why do yield curves differ?
- d) Systematic risk and unsystematic risk. Give examples
- e) Features associated with preferred stock and common stock

Total (5*5 = 25 marks)

End of exam question paper