University of Swaziland
Department of Accounting
Re-sit / Supplementary Exam Paper - Semester - II

Programme of Study	:	Bachelor of Commerce
Year of Study	:	Year Three / Level Five
Title of Paper	:	Corporate Finance I
Course Code	:	ACF318 / AC325/416
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. Safe Boats Limited estimates that because of the seasonal nature of its business, it will require an additional E200,000 of cash for the month of June. Safe Boats Limited has the following options available to raise the needed funds.

- Forgo the cash discount of 2/10, net 40 on E200,000
- Establish a line of credit for E200,000 with a commercial bank at a quoted interest rate of 11 percent per annum and requires a 15 percent compensating balance.
- Compute the amount Safe Boats must borrow so that it has E200,000 to use to pay bills

Required:
Compute for all the above options the loan's APR and EAR and suggest which is the cheaper source.

(9 marks)

b. Tanzanite Jewellers has decided that the company must tighten its credit terms to be in line with the industry average. Currently, Tanzanite Jewellers sells on credit terms of net 50 days where as industry-wide credit terms have recently been lowered to net 30 days. On annual credit sales of E3,000,000, Tanzanite currently averages 60 days sales in accounts receivable. Simelane Patrick, the credit manager of Tanzanite Jewellers estimates that tightening the credit terms to 30 days would reduce annual sales to E2,600,000, but accounts receivables would drop to 35 days of sales. Tanzanite's variable cost ratio is 70 percent and the cost of funds invested in receivables is 11 percent.

Required:
Should the change in credit terms be made using NPV method? **(16 marks)**

Total (25 marks)

QUESTION 2:

a. Bafana Textiles most recent financial statements are as shown here.
Bafana Textiles: Statement of Financial Position as of December 31 2017 (E thousands)

Cash	E 1,080	Accounts payables	E4,320
Receivables	6,480	Accruals	2,880
Inventories	9,000	Notes payable	2,100
Current assets	E16,560	Current liabilities	E9,300
Net fixed assets	12,600	Long-term bonds	3,500
		Common stock	3,500
		Retained earnings	12,860
Total assets	E29,160	Total liabilities and equity	E29,160

Bafana Textiles: Statement of Income for December 31 2017 (E thousands)

Sales	E36,000
Operating costs	(32,440)
Earnings before interest and taxes	E3,560
Interest	(560)
Earnings before taxes	E3,000
Taxes (40%)	(1,200)
Net income	E1,800
Dividends (45%)	E810
Addition to retained earnings	E990

Required:

i) Suppose current year sales are projected to increase by 15% over last year's sales. Determine the additional funds needed (AFN). Assume that the company was operating at full capacity last year, that it cannot sell off any of its non-current assets, and that any required financing will be borrowed as notes payables. Ignore financing feed-back effects for now. Use the projected financial statements method to develop a pro-forma statement of financial position and statement of income for December 31 2018. **(15 marks)**

ii) Use the financial statements developed in part i) to incorporate the financing feedback as a result of the addition to notes payable to prepare **only** second pass income statement. For this, assume that the interest payable on notes payables is 12%. What is the change in retained earnings as per second pass income statement?
(No need to prepare second pass statement of financial position) **(5 marks)**
Total (20 marks)

b. Chicken and Lamb normally writes cheques in the amount of E15,000 each day. It takes five days for these cheques to clear through the banking system. The firm also receives cheques in the amount of E12,000 daily but loose four days while they are being deposited and cleared. What is the firm's disbursement float, collection float and net float?

(5 marks)
Grand Total (25 marks)

QUESTION 3:

You are a financial analyst for Strong Constructions Inc. The Director of capital budgeting has asked you to analyse two mutually exclusive projects – C and R --whose costs and cash-flows after taxes are shown in the following table:

Year	Expected net cash-flows after tax	
	Project C	Project R
0	E(14,000)	E(22,840)
1	8,000	8,000
2	6,000	8,000
3	2,000	8,000
4	3,000	8,000

The projects are equally risky, and their required rate of return is 12%. You must make a recommendation concerning which project should be purchased. To determine which is more appropriate, compute the i) NPV, ii) IRR, iii) MIRR and iv) DPBP. Give your decision according to each of the criterion.

(25 marks)

QUESTION 4:

Write short note on the following:

i) Inventory control systems
ii) Why financial forecasting and control functions are important for a firm
iii) Commercial paper
iv) Capital budgeting process
v) Line of credit and revolving credit

(5*5 = 25 marks)

End of exam question paper