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UNIVERSITY OF ESWATINI

DEPARTMENT OF ACCOUNTING AND FINANCE

RE-SIT / SUPPLEMENTARY EXAMINATION PAPER JULY 2019

PROGRAMME	:	Bachelor of Commerce
YEAR OF STUDY	:	Year Three / Level Five (Full Time/Part Time)
TITLE OF PAPER	:	CORPORATE FINANCE I
COURSE CODE	:	ACF 318/ AC325/416 (S) JULY 2019
TOTAL MARKS	:	100 MARKS
TIME ALLOWED	:	THREE (3) HOURS
INSTRUCTIONS	1	This paper consists of **5** numbered pages, including this Page.
	2.	There are **four (4)** questions, ANSWER all questions.
	2	Begin the solution to each question on a new page.
	3	The marks awarded for a question are indicated at the end of each question.
	4	Show all the necessary workings.
	5	Round off all prices to the nearest cent, values to the nearest rand and decimalized interest rates to four decimal places, and decimalized weightings to four decimals.

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

THIS PAPER MUST NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR OR SUPERVISOR.

Question 1 [25 marks]

DKSA is a fashion design business. The owner, Camilla Karan, is planning to request a line of credit from her bank. She needs to prepare a cash budget to present to her bank manager. She has estimated the following sales forecasts:

	(E)
June 2019	220 000
July 2019	90 000
August 2019	180 000
September 2019	180 000

Actual sales for May 2019 were E360 000. Her credit and collection departments anticipate the following collection pattern:

Collections in the month of sale:	10%
Collections 30 days after sale:	75%
Collections 60 days after sale:	15%

Assume equal sales throughout the month.

Purchases of raw materials are made on the first day of each month, and amount to 50% of the following month's forecasted sales. These purchases are paid for 45 days after purchase.

Wages, salaries and other administration costs amount to E27 000 per month. Lease payments for machinery are E9 000 per month. Depreciation on equipment owned totals E36 000 per month. Income tax payments are due in August 2019 and September 2019, and amount to R63 000 each. A progress payment of E180 000 on a new design studio must be paid in July.

Cash on hand on 1st July 2019 will be E220 000 (due to brisk winter trade), and a minimum cash balance of E90 000 will be maintained throughout the cash budget period.

Required:

(a) Prepare a monthly cash budget for the three-month period from July 2019 to September 2019.

(25 marks)

Question 2 **[25 marks]**

Manzini Electricals (Pty) Ltd sells its products on a cash-only basis. The price per unit is E80 and the variable cost per unit is E30. The company currently sells 1 500 units per month. At the last management strategic planning meeting, concerns were raised over the stagnant sales level of the last two years.

Two young marketing executives, Jabulani and Thomas, were tasked by the Marketing department to look at the options available to the company in order to stimulate sales. The two executives determine that the company's sales would increase to 2 000 units per month if the firm introduced credit terms and cash discounts. All the firm's sales would be on credit. They disagree, however, with respect to the terms that should be offered. Jabulani proposes that the company offers terms of 3/ 20 net 40, while Thomas proposes terms of 5 / 15 net 60.

The required monthly return is 1.5%.

Required:

(a) Calculate the NPV of the proposed switch and advise the company accordingly.

(7 marks)

(b) Assume that Jabulani and Thomas's analysis ignored the fact that the variable costs per unit would increase to E40 per unit with the change in policy. Now calculate the revised NPV of the switch and advise the company accordingly.

(10 marks)

(c) Calculate the effective annual interest rate that the firm would earn if its credit customers did not take the discounts proposed by both Jabulani and Thomas. State which of the two proposed discounts would be most costly to the company if taken up by all of the customers.

(8 marks)

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Question 3 **[25 marks]**

Briefly discuss each of the following:

(i) Factoring.

(ii) Commercial paper (as a source of finance).

(iii) Carrying costs of Cash.

(iv) A Restrictive working capital policy (with respect to the level of investment in current assets only).

(v) The Just-In-Time inventory management technique.

Question 4 **[25 marks]**

You have E1 000 to invest and your required rate of return is 10%. You have established the following investment opportunities:

i) Invest E1 000 now and receive E 3000 at the end of ten years from now.
ii) Invest E1 000 now and receive E500 at the end of each of the next 3 years.
iii) Invest E1 000 now and receive E900 at the end of one year, E500 at the end of two years, and E100 at the end of three years.
iv) Invest E1 000 now and receive E130 at the end of each year, forever.

Required:

(a) Calculate the Payback period of investments (iii) and (iv).
(3 marks)

(b) Calculate the NPV of all four investments.
(10 marks)

(c) Calculate the IRR of investments (iii) and (iv), showing all workings.
(6 marks)

(d) State which of the three appraisal techniques used above you would use to make your investment choice. Briefly list two reasons in support of your chosen technique, and two reasons each for why you would not use the other two techniques.
(6 marks)