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

Programme of Study	:	Bachelor of Commerce
Year of Study	:	Year Three / Level Four
Title of Paper	:	Intermediate Corporate Finance
Course Code	:	ACF319/AC322/AC415
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:

The following data apply to A.L. Kaiser & Company (E million):

Cash and equivalents	E100.00
Fixed assets	E283.50
Sales	E1,000.00
Net income	E50.00
Quick ratio	2.0x
Current ratio	3.0x
DSO	40.0 days
ROE	12.0%

Kaiser has no preferred stock—only common equity, current liabilities, and long-term debt.

Required:

i) Find Kaiser's (1) accounts receivable (A/R), (2) current liabilities, (3) current assets, (4) total assets, (5) ROA, (6) common equity, and (7) long-term debt.

ii) In part (a), you should have found Kaiser's accounts receivable (A/R) to be E109.6 million. If Kaiser could reduce its days sales outstanding (DSO) from 40 days to 30 days while holding other things constant, how much cash would it generate? If this cash were used to buy back common stock (at book value) and thereby reduce the amount of common equity, how would this action affect the company's (1) ROE, (2) ROA.

Total (25 marks)

QUESTION 2:

a. Stocks X and Y have the following probability distributions of expected future returns:

Probability	r_X	r_Y
0.1	−10%	−35 %
0.2	2	0
0.4	12	20
0.2	20	25
0.1	38	45

Required:

i) Calculate the expected rate of return for Stock X and Y. (5 m)

ii) Calculate the standard deviation of expected returns for Stock X and Y. (6 m)

iii) Also, calculate the coefficient of variation for Stock Y. Is it possible that most investors might regard Stock Y as being less risky than Stock X? Explain. (4 m)

Total (15 marks)

b. Refreshing Pool Pty (Ltd) reported that their net operating income equal to E120,000 this year. Examination of the company's Statement of financial position and Statement of income shows that the tax rate was 40 per cent, the depreciation expense was E25,000, E150,000 was invested in assets during the year, and invested capital equals E500,000. The firm's if average after-tax cost of funds is 12 per cent.

Required: Calculate the firm's
(1) operating cash flow, (2) free cash flow, and (3) economic value added (EVA)?
(5 marks)

c. Suppose you are the money manager of a E4,000,000 investment fund. The fund consists of four stocks with the following investments and betas:

Stock	Investment	Beta
A	E 400,000	1.50
B	600,000	-0.50
C	1,000,000	1.25
D	2,000,000	0.75

If the return on ESX All-share Index is 14 per cent and the return on Eswatini Government T-bills is 6 per cent, calculate the fund's required rate of return.
(5 marks)
Grand Total (25 marks)

QUESTION 3:

a. Suppose the annual yield on a two-year Treasury bond is 7.5 per cent, the yield on a one-year bond is 5 per cent, r* is 3 per cent, and the maturity risk premium is zero. Using the expectations theory, forecast the interest rate on a one-year bond during the second year.
You are required to calculate the expected inflation rate in Year 1 and Year 2.
(5 marks)

b. The Nyala Corporation issued a new series of bonds 23½ years ago. The bonds were sold at par value, which is E1,000, have a 12 per cent coupon, and mature 6½ years from today. Coupon payments are made semi-annually (on June 30 and December 31).

i)   What was the YTM on Nyala's bonds when they were issued?
ii)   What was the price of the bond five years after they were issued assuming that the level of interest rates had fallen to 10 per cent?
iii)   Find the current yield and capital gains yield on the bond five years after issue, given the price determined in part ii).
iv)   Suppose that the bonds currently sell for E916.42. What is the bond's YTM?

(8 marks)

c. Snyder Computer Chips, Inc. is experiencing a period of rapid growth. Earnings and dividends are expected to grow at a rate of 15 per cent during the next two years, at 13 per cent in the third year, and at a constant rate of 6 per cent thereafter. Snyder's *last* dividend was E1.15, and the required rate of return on the stock is 12 per cent.

     i)   Calculate the value of the stock today. **(10 marks)**

     ii)   Calculate $\hat{P}_1$ and $\hat{P}_2$. **(4 marks)**

     iii)   Calculate the dividend yield and capital gains yield for Years 1, 2, and 3.

(3 marks)
(17 marks)
Total (30 marks)

QUESTION 4:

i) "If financial intermediaries did not exist, our standard of living would be much lower." Discuss this statement in light of various economic functions, financial intermediaries perform.

(15 marks)

ii) Discuss the types of financial intermediaries by citing appropriate examples from Eswatini. **(5 marks)**

Total (20 marks)

End of Exam Question Paper