UNIVERSITY OF ESWATINI

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

SUPPLEMENTARY EXAMINATION PAPER JULY 2020

PROGRAMME	:	**BACHELOR OF COMMERCE**
TITLE OF PAPER	:	**ADVANCED BUSINESS FINANCE**
COURSE CODE	:	**ACF 418 / AC428/ AC 513**
TOTAL MARKS	:	**100 MARKS**
EXAM PERIOD	:	**SEPTEMBER, 2020**
TIME ALLOWED	:	**THREE (3) HOURS**

INSTRUCTIONS:

1. There are four (4) questions, ANSWER ALL.
2. Begin the answer to each question on a new page.
3. Show all necessary calculations.
4. The marks awarded for a question are indicated at the beginning of each question.
5. All questions carry equal marks.

Note: You are reminded that in marking your script, account will be taken of the accuracy of calculations and the clarity of presentation of your answers.

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

SPECIAL REQUIREMENT: FINANCIAL CALCULATOR

Question 1 (25 marks)

Eswatini Meat Factory is not prepared to invest more than *E*4,700,000 in the year 2021, but has many positive NPV projects as displayed in Table 1.1.

Table 1.1

Project	Initial investment (E)	Project NPV(E)
A	1,400,000	310,000
B	2,100,000	220,000
C	1,000,000	150,000
D	1,500,000	290,000
E	1,800,000	360,000

You are required to:

(i) Use the NPV per Lilangeni of investment capital rationing technique to determine the best mix of projects that would maximise wealth of Eswatini Meat Factory's shareholders. **(13 marks)**

(ii) The challenge of international capital budgeting is to accurately forecast the financial variables that are used to estimate cash flows. If inaccurate forecasts are input into a capital budgeting analysis, the output of the analysis will also be inaccurate. Discuss any six financial variables that are used to forecast project cash flows. **(12 marks)**

Question 2 (25 marks)

First Bank plc has 25,000,000 shares in issue, which are currently trading at a market price of 1600 cents each. The bank is considering the acquisition of African Insurance plc, which has 15,000,000 shares in issue, trading at a market price of 640 cents each.

The acquisition will involve transaction costs of *E*4,500,000, including the fees of the advisers appointed by First bank plc to plan the combination and provide advice on post-acquisition integration.

The appropriate discount rate for evaluating the cash flows of African Insurance plc for acquisition is estimated at 9.2%.

The preliminary valuation of the acquisition prospect show that the net post-acquisition value of African Insurance is E190,791,882, and the estimated benefit arising as a result of the acquisition is E94,791,882.

You are required to:

(i) Provide appropriate calculations to show how this total value benefit would be distributed between the shareholders of First Bank plc and African Insurance plc respectively under each of the following alternatives:

(a) First Bank plc paid 740 cent cash for each of African Insurance plc's shares. **(7 marks)**

(b) First Bank plc offered African Insurance plc's shareholders one First Bank share in exchange for every two African Insurance plc's shares surrendered by them. **(7 marks)**

(c) Comment on which alternative might be preferable from the perspective of First Bank plc's shareholders **(3.5 marks)**

(ii) Explain the differences between the three broad approaches to post-merger integration (i.e. the absorption, preservation and symbiosis approaches). **(6 marks)**

Comment on which of these post-merger integration approaches may be appropriate in the circumstances of the First Bank Plc after acquiring African Insurance Plc. **(1.5 marks)**

Question 3 (25 marks)

Alayi Financial Technology Services Inc. has to choose between buying banking software and leasing it. The software costs *E*100,000 and requires repairs and maintenance expected to cost some *E*1000 per annum. It could be leased for annual premiums of *E*28,000 payable at the beginning of each period. The premium covers annual repair and maintenance costs which will be borne by the lessor.

Due to the high rate of obsolescence in the Financial technology industry, the software has a projected life of only 5years, at the end of which it will be scrapped for E12,000. The firm's cost of funds is 7%.

You are required to:

(i) Determine whether Alayi Financial Technology Services Inc. should buy the software or lease it. **(12.5 marks)**

(ii) Discuss the possible advantages of leasing to a company like Alayi Financial Technology Services Inc. **(12.5 marks)**

Question 4 (25 marks)

Although commercial banks also finance domestic commercial transactions, their role in financing international trade is more extensive because of the additional complications involved. Legislative changes which have become more frequent, for make, could make payment for import difficult.

You are required to:

(i) Comment on the five methods of payments used in international trade. **(10 marks)**

(ii) Explain why so many international transactions require international trade credit facilitated by commercial banks. **(7 marks)**

(iii) Explain the difference in the risk to the exporter between accounts receivable financing and factoring. **(8 marks)**

END OF PAPER