

UNIVERSITY OF ESWATINI
FACULTY OF COMMERCE
DEPARTMENT OF ACCOUNTING AND FINANCE
SUPPLEMENTARY EXAMINATION PAPER NOVEMBER 2021

PROGRAMME : BACHELOR OF COMMERCE
TITLE OF PAPER : ADVANCED BUSINESS FINANCE
COURSE CODE : ACF 418 / AC428/ AC 513
TOTAL MARKS : 100 MARKS
EXAM PERIOD : NOVEMBER, 2021
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: SCIENTIFIC/FINANCIAL CALCULATOR

Question 1 (25 marks)

Royal Civil Engineering Company (RCEC) Limited is planning to acquire new wheel-tractor-scraper at a cost of E50,000,000, and is considering the following alternative sources of finance: (a) A bank loan for the full cost of the equipment, repayable over four years in equal annual instalments incorporating interest at a rate of 7% per annum, the first instalment to be paid one year from the date of taking out the loan. (b) A finance lease with an annual lease rental of E12,023,000. The first rental is payable in advance, followed by further annual rental payments for the next four years. The equipment would have no residual value at the end of the period of four years.

You are required to:

- (i) Calculate the annual instalment that would be payable under the bank loan. (6 marks)
- (ii) Compute the proportion of principal repayment, interest charges, in each of the four years and in total. (10 marks)
- (iii) Each lease contract has specific features imposed by the financial circumstances and overriding interests of the parties. However, every lease contract has typical features. Discuss any six of these typical features in a lease contract. (9 marks)

Question 2 (25 marks)

(i) At any given moment, a currency exhibits the price at which the demand for that currency is equal to supply. Of course, conditions can change over time. These changes induce adjustments in the supply and/or demand for the currency of interest, which in turn creates movement in the currency's price. Discuss the five major factors that cause changes in currency supply and demand schedules. (12 marks)

(ii) Exchange rate risk is the exposure to changes in exchange rates. Discuss the three major forms of exchange rate risks and suggest, at least, two methods for managing each of them. (13 marks)

Question 3 (25 marks)

Manzini FinTech Pty has to decide between buying a cryptocurrency minting machine and leasing it. The minting machine costs E10,000,000 and requires repairs and maintenance, expected to cost some E100,000 per annum. It could be leased for annual premiums of E2,800,000 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 services industry, the minting machine has a projected life of only 5 years, at the end of which it will be scrapped for E1,200,000. The firm's cost of funds is 9%.

You are required to:

- (i) Determine whether Manzini FinTech Pty should buy or lease the cryptocurrency minting machine. (15 marks)
- (ii) Discuss the impact of credit crisis on international trade payment methods (10 marks)

Question 4 (25 marks)

Manzini Tyres Pty proposes to invest E47,000,000 in the year 2022, but has five positive NPV proposals as shown in Table 1.1.

Table 1.1

Project	Initial investment (E)	Project NPV(E)
A	14,000,000	3,100,000
B	21,000,000	2,200,000
C	10,000,000	1,500,000
D	15,000,000	2,900,000
E	18,000,000	3,600,000

You are required to:

(i) Use the NPV per Lilangeni of investment capital rationing technique to determine the best mix of projects that would maximize wealth of Manzini Tyres Pty's shareholders. **(15 marks)**

(ii) Multinational corporations (MNCs) evaluate international projects using international capital budgeting technique, which compares benefits and costs of the projects. This type of evaluation is similar to domestic projects appraisal but special circumstances of international projects make international capital budgeting more complex than domestic capital budgeting. Discuss the reasons why some projects might be feasible for a subsidiary but not feasible for the parent company. **(10 marks)**

END OF PAPER