UNIVERSITY OF ESWATINI

DEPARTMENT OF ECONOMICS

RE-SIT/ SUPPLEMENTARY EXAMINATION: JANUARY 2019

PAPER TITLE	:	CORPORATE FINANCE I
COURSE CODE	:	ECO 427

INSTRUCTIONS:

1. ANSWER THREE QUESTIONS.
2. QUESTION ONE IS COMPULSORY.
3. TIME ALLOWED: TWO (2) HOURS

REQUIREMENTS

1. SCIENTIFIC CALCULATORS

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QUESTION 1 (COMPULSORY)

Write short notes on the following terms

a) Financial ratio analysis [5]
b) Time value of money [5]
c) Annuities [5]
d) Income statement [5]
e) Limited liability Company (LLC) [5]
f) The following is a list of balances extracted from the financial records of Manhattan Ltd on 30 November 2009.

	E
Debtors	185 000
Land and buildings	320 000
Inventories	153 000
Bank overdraft	116 000
Equipment	207 000
Loan from Kia Bank	260 000
Motor vehicles	38 000
Creditors	86 000

Required

1. Prepare the Statement of Financial Position of Manhattan Ltd as at 30 November 2009. [6]
2. Provide an interpretation of the Statement of Financial Position by making reference to the following:
    i. The liquidity of the business [3]
    ii. The mix between current and non-current assets [3]
    iii. The financial structure of the Statement of Financial Position (finance provided by owners and outsiders). [3]

QUESTION 2

The following information was extracted from the financial statements of Premier Limited:

Statement of Comprehensive Income	**2010 (E)**	**2009 (E)**
Profit after tax	10 000 000	7 500 000
Statement of changes in equity		
Interim dividends	500 000	300 000
Final dividends	1 500 000	1 100 000
Ordinary share capital	100 000 000	64 000 000
Retained earnings	18 000 000	10 000 000
Other		
Market price per share	4	3.75

Required

a) Calculate and comment on the following ratios for 2010 (ratios for 2009 are given in brackets):

i. Return on equity (10.04%) [4]

ii. Earnings per share (25 cents) [4]

iii. Dividends per share (4.67 cents) [4]

iv. Earnings retention (81.32%) [4]

v. Price/Earnings ratio (15) [4]

b) Explain the importance of financial ratio analysis on the following:

i. Management's point of view [2.5]

ii. Owners' point of view [2.5]

QUESTION 3

a) The following information relates to two capital expenditure projects. Because of capital rationing, only one project can be accepted.

	Project A	Project B
Initial cost	E800 000	E920 000
Expected life	5 years	5 years
Expected scrap value	E40 000	E60 000
Expected net cash inflows: End of year 1	E 320 000	E 400 000
2	280 000	280 000
3	260 000	200 000
4	240 000	200 000
5	220 000	200 000

The company estimates its cost of capital is 12%. Depreciation is calculated using the straight-line method.

Required

i. Calculate the payback period for project B. (Answer expressed in years and months) [4]

ii. Calculate the accounting rate of return for project A. (Answer expressed to 2 decimal places) [6]

iii. Calculate the net present value of project A. (Round off amounts to the nearest Rand) [5]

iv. Using your answers from questions (ii) and (ii) should project A be considered for acceptance? Why? [3]

b) The financial manager at Reno Ltd had to choose between these two projects, Turbo and Gusto, which have the following after-tax cash inflows:

Year	Turbo	Gusto
1	0	E54 000
2	E27 750	E54 000
3	E54 300	E54 000
4	E184 500	E54 000

Both projects require an initial investment of E176 550. All cash flows take place at the end of the year except the original investment in the project which takes place at the beginning of the project. **Required**

i. Calculate the net present value (NPV) for each project, using a discount rate of 12%. Which project would you choose? Why? [3]

ii. Calculate the Internal Rate of Return (IRR) for both projects. Which project should be chosen? Why? [3]

QUESTION 4

a) Discuss the three forms or categories of market efficiency. [9]

b) Find the future values of the following *ordinary annuities*:

   i. E400 per year for 10 years at 10 percent. [4]

   ii. E200 per year for five years at 5 percent [4]

c) Find the future value of the following *annuities due:*

   i. E400 per year for 10 years at 10 percent. [4]

   ii. E200 per year for five years at 5 percent. [5]