



UNIVERSITY OF ESWATINI

FIRST SEMESTER MAIN EXAMINATION PAPER, APRIL 2021

FACULTY OF SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

COURSE CODE: ECO427

CORPORATE FINANCE I

TIME ALLOWED: 2 HOURS

Instructions

1. This paper consists of Section (A) and (B);
2. Section A is compulsory;
3. Answer any two (2) questions from Section B.
4. All questions in Section B carry equal marks of 30 each

Special Requirements

1. Scientific Calculator

Additional Material (s)

None

Candidates may complete the front cover of their answer book when instructed by the Chief Invigilator and sign their examination attendance cards but must NOT write anything else until the start of the examination period is announced.

No electronic devices capable of storing and retrieving text, including electronic dictionaries and any form of foreign material may be used while in the examination room.

DO NOT turn examination paper over until instructed to do so

SECTION A

QUESTION 1 (COMPULSORY AND CARRIES 40 MARKS)

Extracts of financial data for Dolphin Enterprises are as follows:

	2015 (E)	2014 (E)
Income Statement		
Sales (10% credit)	32 011 500	19 373 000
Cost of sales (10% credit purchases)	26 180 100	15 993 700
Operating profit	1 931 200	1 327 800
Profit before tax	1 831 400	1 226 420
Tax (25%)	457 850	306 600
Profit after tax	1 373 550	919 820
Balance Sheet	2015 (E)	2014 (E)
Non-current assets	5 200 000	4 700 000
<u>Current assets</u>		2 866 530
530	1 482 200	4 974
Inventories	261 290	2 038 860
Accounts receivable	326 950	155 200
Marketable securities	796 090	2 306 440
Cash		474 030
<u>Current liabilities</u>		1 088 860
310	190 660	588
Accounts payable	898 200	192 040
Other current liabilities		396 270

Required

- a) Calculate the gross margin, operating margin and profit margin for 2015 and 2014 and comment on your findings. [15]
- b) Calculate the current ratio and acid test ratio at the end of each year. How has the enterprise's liquidity changed over this period? [10]
- c) People in areas outside financial management need to know something about corporate finance. Discuss the importance of finance in any three (3) non-finance areas [6]
- d) Write brief notes on the following: [3]
 - i. Stock Exchange

- ii. Time Value of Money
- iii. Balance Sheet

[3]
[3]

SECTION B (ANSWER ANY TWO QUESTIONS)

QUESTION 2

- a) Discuss the four pillars of corporate governance. [12]
- b) 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. [4]
- c) First define what loan amortization is, then prepare an amortization schedule for a E15,000 loan at a rate of 8% that requires three equal annual payments of E5,820.50 per year. [10]

QUESTION 3

- a) Write brief notes on the three (3) main hybrid business forms. [12]
- b) Suppose that you invest E385 at the end of the each of the eight years.
 - i. If your opportunity cost rate is 7% compounded annually, how much will your investment be worth after the last E385 payment made? [4]
 - ii. What will be the ending amount if the payments are made at the beginning of each year? [4]
- c) Assume the stated annual interest rate is 12%. What is the return and future value of E100 at different compounding frequencies? [10]

Frequency	Future value of E100	Return
Daily		
Monthly		
Quarterly		
Semi-annual		
Continuous		

QUESTION 4

- a) Discuss the three forms of market efficiency. [9]
- b) The following is a list of balances extracted from the financial records of Plaza 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

- a. Prepare the Statement of Financial Position of Plaza Ltd as at 30 November 2009. [9]
- b. Provide an interpretation of the Statement of Financial Position by making reference to the following:
- i. The liquidity of the business [4]
 - ii. The mix between current and non-current assets [4]
 - iii. The financial structure of the Statement of Financial Position (finance provided by owners and outsiders). [4]