

WOMEN'S UNIVERSITY IN AFRICA



Addressing gender disparity and fostering equity in University Education

FACULTY OF MANAGEMENT AND ENTREPRENEURIAL SCIENCES

**BSc HONOURS DEGREE IN MANAGEMENT AND ENTREPRENEURIAL
DEVELOPMENT STUDIES SPECIALISING IN BANKING AND FINANCE**

BACHELOR OF ACCOUNTING SCIENCE HONOURS DEGREE

MAIN PAPER

BMF212: CORPORATE FINANCE

INTAKES 11& 26: SECOND YEAR FIRST SEMESTER

DATE: TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

Answer any **three** questions.

Question 1

- a) An investment of \$20 000 is expected to generate cash receipts of \$6 000 at the end of Year 1, \$8 000 at the end of Year 2, and \$10 000 at the end of Year 3. The business can invest money at an annual rate of 10% (its opportunity cost).

Required:

- a) Calculate the project' Internal Rate of Return (IRR). [10]
b) Discuss the implications of separation of ownership and management. [15]

Question 2

- a) The table below gives information extracted from the annual financial statements of Thomas plc for the past year.

Inventories	Raw materials	\$ 108 000
	Work in Progress	\$75 600
	Finished Goods	86 400
Purchases of Raw Materials		\$518 400
Cost of production		\$675 000
Cost of goods sold		\$756 000
Sales		\$864 000
Cost of goods sold		\$756 000
Sales		\$864 000
Receivables		\$172 800
Payables		\$86 400

Required:

- a) Calculate the length of the working capital cycle (assuming 365 days in a year). [15]
b) Describe the views of Miller and Modigliani on capital structure both without and with corporate taxation and their assumptions. [10]

Question 3

- a) Discuss the relationship between working capital management and business solvency. [10]
- b) Explain the factors that influence the optimum cash level for a business. [10]
- c) Discuss whether the Dividend Growth Model or the Capital Asset Pricing Model offers the better estimate of the cost of equity of a company. [5]

Question 4

- a) Discuss the factors to be considered by a company when planning ways to invest any cash surplus forecast from its cash budgets. [5]
- b) Explore the advantages and disadvantages of using overdraft finance to fund any cash shortages forecast by its cash budgets. [10]
- c) Explain how the Baumol Model may be employed to reduce the costs of cash management and discuss whether the Baumol Cash Management Model may be of assistance. [10]

Question 5

The management of Wadzanai Ltd have found that for the following year the company has only \$100,000 available for investment. The company's cost of capital is 20%. They are currently considering four independent and divisible projects, as set out in the following table.

Project	Investment Required
	\$
A	100 000
B	20 000
C	30 000
D	45 000

Required:

- a) Allocate the available \$100,000. [15]
- b) Discuss the relationship between dividend policy and the financing decision. [10]

Question 6

a) Akudzwe Company issues 10% Debentures for \$200,000. Rate of tax is 55%.

Calculate the cost of debt (after tax) if the debentures are issued:

- i). at par [5]
 - ii). at a discount of 10% and [5]
 - iii). at a premium of 10%. [5]
- b) Describe four main sources of capital [10]

END