



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ACCOUNTING, FINANCE AND HUMAN CAPITAL MANAGEMENT

EXAMINATION PAPER

COURSE CODE : CAC 214
COURSE TITLE : CORPORATE FINANCE
SPECIAL REQUIREMENTS : FORMULAE SHEET
DURATION : 3 Hours
LEVEL : 2.1
DATE : 13 OCT 2023

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue
2. Use of silent, non-programmable calculators is allowed
3. Answer ALL questions in both Section A and Section B.
4. Begin each question on a new page in section B.
5. The number of marks for each question or part question is shown in brackets []

SECTION A [20 marks]

ANSWER ALL QUESTIONS (Each question carries 2 marks)

SELECT THE MOST APPROPRIATE ANSWER

1. A share has a market price of \$2.50. It is expected to be able to pay a steady dividend of \$0.50 per share each year starting in one year's time. There will not be any growth in dividends. The required return on the share is:

- A. 20%
- B. 12%
- C. 22%
- D. 30%

2. By investing in a portfolio of risky (i.e. the stock market) and risk free assets an investor can:

- A. Produce negative risk
- B. Avoid risk altogether
- C. Achieve the best possible returns
- D. Achieve the appropriate returns for the amount of risk they are prepared to take

3. The shares of Chelsea plc have a beta of 0.8. If the return on government securities is 4% and the expected return on the market is 10% then the expected return on Chelsea's shares will be:

- A. 8.4%
- B. 8.8%
- C. 12.8%
- D. 14.4%

4. If you have \$100 today and I invest it at a rate of return of 10%, in 4 years' time you will have:

- A. \$68.30
- B. \$75.68
- C. \$100
- D. \$146.41

5. The decision rule for NPV is

- A. Accept all projects with a NPV greater than the amount invested.

- B. Accept only the project with the highest NPV.
 - C. Accept all projects with a positive NPV.
 - D. Accept all projects with a NPV greater than a company defined standard
6. The agency problem arises because:
- A. It is difficult to value property
 - B. Agents take a cut of any profits made
 - C. Companies have to produce accounts each year
 - D. The owners of a company and the people running it might have different objectives
7. Capital budgeting is related to _____.
- A. long terms assets.
 - B. short term assets.
 - C. long terms and short terms assets.
 - D. fixed assets.
8. Which of the following terms is defined as the mixture of a firm's debt and equity financing?
- A. working capital management
 - B. cash management
 - C. Capital budgeting
 - D. Capital structure
9. What are the earnings per share (EPS) for a company that earned \$100,000 last year in after-tax profits, has 200,000 common shares outstanding and \$1.2 million in retained earnings at the year end?
- A. \$100,000
 - B. \$6.00
 - C. \$0.50
 - D. \$6.50
10. Capital rationing comes about because:
- A. There are not enough positive NPV projects
 - B. Companies do not always have access to all of the funds they could make use of

C. Managers find it difficult to decide how to fund projects

D. Banks require very high returns on projects

[Total 20 Marks]

SECTION B [80 marks]**ANSWER ALL QUESTIONS****QUESTION 1**

Consider the following projects:

Cash flows \$	C ₀	C ₁	C ₂	C ₃	C ₄	C ₅
Project A	-1000	+1000	0	0	0	0
B	-2000	+1000	+1000	+4000	+1000	+1000
C	-3000	+1000	+1000	0	+1000	+1000

- a) If the opportunity cost of capital is 10%, which projects have a positive NPV? [5 marks]
- b) Calculate the payback period for each project. [5 marks]
- c) Which project(s) would a firm using pay back accept if cutoff period were 3 years? [3 marks]
- d) Calculate the discounted payback period for each project. [5 marks]
- e) Which project would a firm using discounted payback rule accept if cut off period were three years? [2 marks]
- f) Explain the concepts of profit and wealth maximization [5 marks]

[Total 25marks]

QUESTION 2

The shares of two companies, K and L have the following returns:

Probability	Return K	Return L
0.3	20%	6%
0.5	15%	10%
0.2	5%	12%

- a) Calculate the expected returns of the two shares. [5 marks]
- b) Calculate the variance and standard deviation of the returns. [5 marks]
- c) Calculate the covariance of the two shares. [5 marks]