



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

**DEPARTMENT OF ACCOUNTING, FINANCE AND HUMAN CAPITAL
MANAGEMENT**

EXAMINATION PAPER

MODULE CODE : CAC214
MODULE TITLE : Corporate Finance
DURATION : 3 Hours
LEVEL : 2.1

09 JUN 2025

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 Section A and in Section B.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets ()
6. Show all workings, where applicable.

SECTION A: ANSWER ALL QUESTIONS

Read the following case study and answer questions that follow:

Whether the companies choose shareholders' funds or borrowed funds or a combination of both, each type of fund carries a cost. Canz Investments acknowledged that computation of cost of capital enables it to have efficient financial management. The company shifted its focus from profit maximisation to wealth maximisation. Canz Investments pays a dividend of ZiG\$ 8.32 per share and the growth rate in dividend is expected to be 5% and the current market price for its share is ZiG\$ 21.47. The company enjoyed strong performance and this has resulted in the earnings per share being pegged at ZiG\$ 4.51. Apart from using equity, Canz Investments issued US\$ 144 000 debenture at 8.7 % premium, with a 12% interest. The company as well as its shareholders are in a 25% tax bracket as contained in the Zimbabwe 2024 National Budget Statement. The shareholders expect the strong financial performance to persist and they face a 2.4% brokerage cost when they want to invest their dividends in alternative assets. The company prefers the dividend approach in calculating the cost of retained earnings.

QUESTION 1

- a) Critique the use of wealth maximisation objective being pursued by Canz Investments. **(9 marks)**
 - b) Based on the earnings per share and dividend plus growth approaches, compute the cost of equity capital for Canz Investments. **(4 marks)**
 - c) Compute the cost of debt capital for Canz Investments. **(6 marks)**
 - d) Compute the cost of retained earnings for Canz Investments based on the dividend approach. **(6 marks)**
- Total marks** **[25 marks]**

SECTION B: ANSWER ALL QUESTIONS

QUESTION 2

a) Critique the use of recognition and matching principles used in the preparation of income statements. **(12 marks)**

b) Madyenyoka is an investor who wants to determine the best investment asset he can purchase. The Treasury Bill rate is 5.29% and the market return is 11.87%. The following information is given for a set of asset:

Asset	Beta
A	1.06
B	0.93
C	1.21
D	0.86

Appraise Madyenyoka on the best asset to purchase based on the expected value. **(9 marks)**

c) Distinguish between risk and uncertainty as used in capital budget risk analysis.

(4 marks)

Total marks

[25 marks]

QUESTION 3

a) Study information below for the investment undertaken by Jongwe Club.

Year	Expected cash flow (\$)	Certainty Equivalent coefficient
1	1 200 0000	0.48
2	1 745 0800	0.71
3	2 119 000	0.88
4	2 596 520	0.74

The initial investment proposal is \$3 095 000, the cost of capital is 8.25% and risk free rate is 4.6%. Illustrate the net present value of the investment using the certainty equivalent technique. **(6 marks)**

b) Evaluate the conditions under which managers might be prepared to provide projected financial information to those outside the business. **(12 marks)**

c) Amandla United has total assets of \$14 933 424, current liabilities of \$4 442 187 and non-current liabilities of \$7 5400 118. Calculate the equity for Amandla United.

(3 marks)

d) An organisation has an opportunity to invest \$174 320 now in return for \$95 760 in year one and \$99 780 in year two. If the cost of capital is 6.75%, illustrate the NPV of this investment. **(4 marks)**

Total marks

[25 marks]

QUESTION 4

a) Evaluate the effectiveness of each the three working capital approaches or policies that can be implemented by modern firms. **(12 marks)**

b) Calculate the future value of investment of \$108 523, after 3 years, if interest per year is 11.3%. **(4 marks)**

c) Sponono United sold a player to Makushata F.C for ZiG \$2 398 453, which will be received after three years, earning an interest of 9.76%. Calculate the value of the payment now. **(4 marks)**

d) Chazunguza F.C has invested \$212 400 for 4 years in a unit trusts account that pays annual interest of 6.8%, compounded semi-annually. Calculate the value of Chazunguza F.C investment at the end of 4 years. **(5 marks)**

Total marks

[25 marks]

END OF EXAMINATION PAPER.

FORMULAS

$$FV_n = PV * (1 + r)^n$$

$$r = \left(\frac{FV}{PV}\right)^{1/n} - 1$$

$$PV_0 = \frac{FV}{(1+r)^n}$$

$$PV \text{ Perp} = \frac{C}{r}$$

$$PV \text{ annuity due} = (1 + r) * PV \text{ of annuity}$$

$$r = \frac{QR}{m}$$

$$PBP = \frac{\text{Original cost of the project (initial outlay) (IO)}}{\text{Annual cash inflow (CF)}}$$

$$AAR = \frac{Av \text{ Inc}}{Av \text{ Inv}} * 100$$

$$PI = \frac{PV \text{ of CFs}}{IO}$$

$$ENCF = \sum CF_i * P_i$$

$$\text{Variance } (\delta^2) = \sum (CF - ENCF)^2 * P_i$$

$$\text{Coef of var} = \frac{\text{Standard deviation}}{\text{Expected return/Expected cashflow}}$$

$$NPV = \sum \left(\frac{\alpha_n * CF_n}{(1+r_f)^n}\right) - IO$$

$$K_e = \frac{D}{MP}$$

$$K_p = \frac{D}{NP}$$

$$K_e = \frac{EPS}{MP_e}$$

$$K_e = R_f + \beta_1 * RP_1 + \dots + \beta_n * RP_n + \mu$$

$$NP = \text{Amnt of D} - \text{D Acq fees} + \text{Prem} - \text{Disc} \quad K_r = K_e * (1 - t) * (1 - b)$$

maximum level = reorder level - (minimum consumption) * (minimum lead times) + reordering quantity

minimum level = reorder level - (average usage * average lead time)

Reorder level = maximum usage * maximum lead time or minimum level + consumption during lead time.

$$E(R_i) = R_f + \beta_1 (R_{m1} - R_f) + \dots + \beta_n (R_{mn} - R_f)$$

$$E(r) = \sum (\text{Prob} * \text{Return})$$

$$\text{Standard deviation } \delta = \sqrt{\delta^2}$$

$$CV = \frac{\delta}{x}$$

$$CV = \sum P_i (R_x - E(R_x)) (R_y - E(R_y))$$

$$\delta_{AB}^2 = W_A^2 \delta_A^2 + W_B^2 \delta_B^2 + 2W_A W_B \text{Cov}_{AB}$$

$$FV_n - PV = (1 + r)^n$$

$$PV_0 = \frac{FV}{(1+r)^n}$$

$$PV \text{ ann} = \frac{C}{r} * (1 - (1 + r)^{-n})$$

$$FV \text{ ann} = \frac{C}{r} * ((1 + r)^n - 1)$$

$$FV \text{ ann due} = (1 + r) * FV \text{ of annuity}$$

$$EAR = \left(1 + \frac{QR}{m}\right)^m - 1$$

$$\text{Payback period} = Y + \frac{B}{C}$$

$$NPV = \sum \frac{CF_n}{(1+r)^n} - IO$$

$$IRR = A + B * \frac{C}{D}$$

$$ENPV = \left(\sum \frac{ENCF}{(1+r)^n}\right) - IO$$

$$\text{Standard deviation } (\delta) = \sqrt{\delta^2}$$

$$RADR = R_f + R_p$$

$$WACC / K_o = \sum W_i K_i$$

$$K_e = \frac{D}{MP} + g$$

$$NP = \text{Issue Price} - \text{Flotation price}$$

$$K_e = R_f + (R_m - R_f) * \beta$$

$$K_d = \frac{I}{NP} * (1 - t)$$

$$Er(p) = \sum W_i * E(r)_i$$

$$CV = \frac{1}{n} * \sum (R_x - E(R_x)) (R_y - E(R_y))$$

$$r_{xy} = \frac{\text{Covariance}_{xy}}{\delta_x \delta_y}$$

$$CML(R_p) = R_f + \frac{E(R_m - R_f)}{\delta_m} * \delta_p$$

$$\delta_p = \delta_m * W_m$$

$$RP = (R_m - R_f)$$

$$NCA + CA = NCL + CL + E$$

Total CF = CF from operating activities + CF from investing activities + CF from financing activities

$$\text{Current ratio} = \frac{CA}{CL}$$

$$\text{Cash ratio} = \frac{CA + CE}{CL}$$

$$\text{Debt-equity ratio} = \frac{TD}{TE}$$

$$\text{Interest cover ratio} = \frac{EBIT}{Int}$$

$$\text{Days' sales in inventory} = \frac{365 \text{ days}}{Inv T/O}$$

$$\text{Receivables turnover} = \frac{S}{TA}$$

$$ROA = \frac{NI}{TA}$$

$$EPS = \frac{E}{\text{Ordinary shares in issue}}$$

$$BEP = \frac{FC}{Cont}$$

$$\text{Dividends per share} = \frac{\text{Dividends announced during the period}}{\text{Number of shares in issue}}$$

Value of target firm = Market share price * number of outstanding shares

Value of target firm = Total assets - total liabilities

$$E(R_i) = R_f + \beta(R_m - R_f)$$

$$TA = TL + E$$

$$NWC = CA - CL$$

$$\text{Acid/quick test ratio} = \frac{CA - Inv}{CL}$$

$$\text{Total debt ratio} = \frac{TA - TE}{TA}$$

$$\text{Equity multiplier} = \frac{TA}{TE}$$

$$\text{Inventory turnover} = \frac{COGS}{Inv}$$

$$\text{Receivables turnover} = \frac{S}{TR}$$

$$\text{Profit margin} = \frac{NI}{S}$$

$$ROE = \frac{NI}{TE}$$

$$P/E \text{ ratio} = \frac{\text{price per share}}{EPS}$$

$$Cont = SP - VC$$

0/20 Pm