

BAFN602 CORPORATE FINANCE

Semester 1 2021

Assessment Task Three (Individual)

Why this assessment?

- i) To assess students ability to apply knowledge to real life business situations
- ii) To assess whether students have satisfied the requirements of learning outcomes 1,2,3 and 4.
- iii) Another aim of this assessment is to enhance your presentation and communications skills which are deemed as one of the most essential skills by employers.

Assessment Overview

Due date	Thursday 17 June 2021 13.00 AEST (Submission of the script) The assessment tasks will be available in LEO on 10 th June 2021 13.00 AEST.
Weighting	50%
Length and/or format	A 2000-word equivalent report (MS Word) and an Excel spreadsheet for Questions 2 and 4 submitted via Turnitin
Learning outcomes assessed	LO1, LO2, LO3, LO4
Graduate attributes assessed	GA2, GA4, GA5, GA6, GA7, GA8
How to submit	Submit script via Turnitin by Thursday 17 June 2021 Zoom presentation of Questions 1 and 3: Live 10-minute individual Zoom presentations between the dates of 18-24 June 2021.
Return of assignment	N/A
Assessment criteria	Rubric: See end of document.

Types of employability skills that you will acquire upon completion of this assessment.

Skill Type	
Developed critical and analytical thinking	▶ <input type="checkbox"/>
Developed ability to solve complex problems	▶ <input type="checkbox"/>
Developed ability to work effectively with others	<input type="checkbox"/>
Developed confidence to learn independently	▶ <input type="checkbox"/>
Developed written communication skills	▶ <input type="checkbox"/>
Developed spoken communication skills	▶ <input type="checkbox"/>
Developed knowledge in the field study	▶ <input type="checkbox"/>
Developed work-related knowledge and skills	▶ <input type="checkbox"/>

This assessment consists of four questions.

QUESTION 1 (20 marks)

(LO1)

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry There have been allegations against the financial services firm IOOF Holdings (ASX: IFL) of misrepresentation, misconduct, some corrupt practices including failing to act in the best interests of superannuation members.

- i) Research and identify major ethical allegations against IOOF. (8 marks)
- ii) Discuss corporate governance and common good implications of business malpractices allegedly perpetrated by IOOF. (8 marks)
- iii) Summarise the lessons learned and not to be repeated experience from the findings of the Royal Commission. (4 marks)

Select helpful sites and resources.

<https://www.ioof.com.au/about-us/about-ioof>

https://www.ioof.com.au/_data/assets/pdf_file/0016/282202/IOOF-Code-of-Conduct-Brochure-2020.pdf

https://www.google.com/search?client=firefox-b-d&biw=1920&bih=966&ei=JlkbYOemJ9vz7sP5Zyl0AM&q=IOOF+%2B+royal+commission&oq=IOOF+%2B+royal+commission&gs_lcp=CgZwc3ktYWIQAzIGCAAQFhAeMgYIABAWEB4yBggAEBYQHjoICAAQsAMQzQI6CAgAEAgQDRAeUJ4eWKA4YOI7aAFwAHgCgAHOA4gBwCSSAQkwLjUuNS40LjOYAQCgAQGgAQdnd3Mtd2l6yAEDwAEB&sclient=psy-ab&ved=0ahUKEwjnyl3Lws_uAhXb8XMBHWVOCTo4ChDh1QMIDA&uact=5

<https://www.australianethical.com.au/personal/ethical-investing/our-approach/australian-ethical-charter/>

<https://www.apra.gov.au/news-and-publications/apra-takes-action-against-ioof-for-failing-to-act-best-interests-of>

QUESTION 2 (20 marks)**(LO4)**

Hi-Five Limited is a sports equipment manufacturer and has a machine currently in use that was originally purchased three years ago for \$120,000. The firm depreciates the machine using the straight-line depreciation method based on a five-year useful life. The present machine will last for the next five years or, once removal and clean-up costs are taken into account, it could be sold now for \$70,000.

Hi-Five can buy a new machine today for a net price of \$145,000 plus \$15,000 for installation costs. The proposed machine will be depreciated using a five-year straight line depreciation period. If the firm acquires the new machine, its working capital will change as follows: Inventory will increase by \$15,000, accounts receivable will increase by \$19,000 and accounts payable will increase by \$16,000.

Earnings before interest, taxes and depreciation (EBITDA) for the present machine is forecasted to be \$95,000 for each of the next five years. For the proposed machine, the expected EBITDA for each of the next five years is: \$105,000, \$110,000, \$120,000, \$120,000 and \$120,000, respectively. The corporate tax rate for the firm is 30%.

Hi-Five expects to be able to liquidate the proposed machine at the end of its five-year usable life for \$24,000 (after paying clean-up and removal costs). The present machine is expected to net \$8,000 on liquidation at the end of the same period. Hi-Five expects to recover its net working capital investment on termination of the project. The firm is subject to a tax rate of 30% and uses straight-line depreciation.

The firm's cost of capital is 10%. Inflation for the next five years is forecasted to be 3% per year.

Required:

Using Excel:

- i) Calculate the initial investment associated with the replacement project. (Show your workings) (2 marks)
- ii) Prepare a depreciation schedule for the current and the proposed machine. (Note: Both machines are depreciated over a five-year period using the straight-line method, but the current machine is not new) (2 marks)
- iii) Calculate the terminal cash flow associated with the project. (Show your workings) (3 marks)
- iv) Calculate the operating cash flows for both the current and proposed machines. Depict on a timeline (year 0-year 5) the relevant cash flow. (5 marks)
- v) Determine the net present value and internal rate of return for each alternative. (4 marks)
- vi) Would you recommend that the firm retain the current machine or purchase the new machine? Remember to include limitations of your analysis. (4 marks)

Note: A template is provided for a guide in LEO (under week 12 tile).

To answer Questions 3 and 4, please choose one of the following companies and answer the questions as they relate to your chosen company:

- 1) IOOF Holdings Limited (ASX Code: IFL)
- 2) Funtastic Limited (ASX Code: FUN)
- 3) Slater and Gordon Limited (ASX Code: SGH)
- 4) Domino's Pizza (ASX Code: DMP)

QUESTION 3 (20 marks)

(LO2)

- i) Based on past five years' (2016-2020) financial results, calculate the debt-to-equity, gearing ratio and interest cover ratios, and provide an evaluation of the company's capital structure policy. (8 marks)
- ii) Do you find the capital structure risky for the company? Do you consider the company's capital structure policy optimal? Why or why not? Explain. (3 marks)
- ii) Using 2020 FY results, determine the company's weighted average cost of capital (WACC) and explain what the WACC you have found means for the company and for its stakeholders. (5 marks) (Show your workings)
- iii) How does trade-off theory, signalling theory and the pecking order theory influence company's capital structure? (4 marks)

QUESTION 4 (20 marks)

(LO3)

- i) Using end-of-the month closing stock prices for the past three years (2018-2020) calculate the beta coefficient for the company of your choosing. Describe the importance and implications of the beta for the business and shareholders. (Show your workings) (6 marks)
- ii) Using Capital Asset Pricing Model (CAPM) determine the expected rate of return. Explain what the rate of return you determined mean for the management of the company and shareholders (show your workings). You are suggested to use Excel for beta computations. (6 marks)
- iii) Provide an evaluation of systematic and unsystematic risks of the company. (4 marks)
- iv) Suppose you have \$1000 savings you set aside for investment. Would you consider investing your entire savings in the shares of your chosen company? Discuss. (4 marks)

Additional helpful websites and resources

Australian Stock Exchange: <https://www2.asx.com.au/>

DatAnalysis Premium: <https://datanalysis-morningstar-com-au.ezproxy1.acu.edu.au/af/dathome?xtm-licensee=datpremium>

IBISWorld Australia Company Profiles: <https://my-ibisworld-com.ezproxy1.acu.edu.au/en/company-reports/home>

Investing.Com: <https://www.investing.com/>

Morningstar: <https://www.morningstar.com.au/>

Reuters Business: <https://www.reuters.com/business/>

Yahoo Finance: <https://au.finance.yahoo.com/>

Marking Guide

Total marks for this assessment are 100 which will be prorated to out of 50.

Question 1:	20 marks
Question 2:	20 marks
10-minute Virtual Zoom Presentation of Questions 1 and 2:	20 marks
Question 3:	20 marks
Question 4:	<u>20 marks</u>
Total marks:	100 marks

Structure

Please submit your assignment in a business report format. The report should comprise table of contents, introduction, answers to questions, and conclusion. Assignment should be typed in Ariel or Times New Roman font size 12 using one-and-a-half spacing left justified. Assignments must be submitted with an ACU cover sheet which can be downloaded from the following link:

<https://www.studentportal.acu.edu.au/quicklinks/forms?Search=Cover%20Sheet>

How should you submit?

- 1) Script of answers should be submitted via LEO Turnitin by Thursday 17th June 2021 17.00 AEST. For question number two (capital expenditure question) please ensure you submit the excel file as well.
- 2) Ten-minute (10 min) virtual presentations will be held between the dates of 18 and 24 June 2021. **Each student should contact me via email to make an appointment for presentation.** Presentations will be recorded by the lecture-in-charge.

Checklist for students to submit along with their assignment.

My submitted assignment report is within the specified word limit	<input type="checkbox"/>
I have included references using specified referencing style	<input type="checkbox"/>
I have correctly cited all my sources and references	<input type="checkbox"/>
I have formatted my report as per the specifications	<input type="checkbox"/>
I have checked my Turnitin report to ensure the similarity report is within the acceptable level (below 20% similarity)	<input type="checkbox"/>
I have included specified process output in my submission (e.g., reflection report, e-portfolio submission, video summary, screen dump of my search and retrieval of journal articles, etc.)	<input type="checkbox"/>
I have actioned feedback advice provided to me from previous assignment feedback (if applicable)	<input type="checkbox"/>
I have completed proof reading and checked for spelling and grammar	<input type="checkbox"/>
I have submitted my work before the due date/time	<input type="checkbox"/>
I have submitted feed forward template along with my assignment submission	<input checked="" type="checkbox"/>

Feed-forward Template (example): A template for students to use and act on feedback and provide recommendations for improvement

Note

This is a task for any instance of follow-on assignment (assessment 2 and 3). This should be submitted as the first page of the follow-on assignment (assessment 2 and 3) to ensure you acted on the feedback provided to you in the previous assignment (this is not counted as part of the assessment word count).

How did you act on the feedback?

Feedback is an important component of learning. Please consider the feedback you received in your last assignment and provide a response on how you acted on, or intend to act upon, that feedback, and how it has informed the current assignment task. Submit this sheet along with your assignment.

Example Questions	Action Plan and feedback recommendation (what I learnt from the feedback on feedback)
Based on previous assignment feedback, briefly, described how you acted on the feedback to improve your work in this assignment?	(e.g., based on my previous feedback, I made sure that I supported my discussion, position, ideas, concepts with peer-reviewed journal references in this assignment)
Briefly describe what is your expectation around the type of feedback that enhances your learning.	(e.g., I want to know where I made a mistake and how I can correct them and not make the same mistake again, i.e. I want specific feedback that will help me to improve my learning and performance in the next assignment)

Did you have any difficulty understanding or acting on previous feedback? Please be as specific as possible so that you can gain further feedback/clarify anything you do not understand in the feedback

(e.g., feedback provided in my previous assignment was very generic I did not know how to improve my work. So, I would like the teacher to explain more on xxxx aspects of the feedback or I would like an opportunity to have a dialogue to understand the feedback)

PLEASE REMEMBER TO CHECK THE VERSION YOU ARE UPLOADING IS THE FINAL ONE. TURNITIN DOES NOT ALLOW YOU TO WITHDRAW AND RESUBMIT.

Assignments must be submitted with an ACU cover sheet which can be downloaded from the following link. It is imperative that the cover sheet is signed off by the student who submitted the work.

https://students.acu.edu.au/administration_and_enrolment/forms/assessment_and_assignment_forms

Students must submit assignments electronically via Turnitin. The software used for checking originality compares works submitted by students with published material from a variety of sources including the Internet. A Turnitin score of 10% or greater will be considered cause for concern.

Who can help you?

Academic Skills Unit (ASU)

When you need any assistance or clarification, you can contact me via email (bulend.terzioglu@acu.edu.au).

Extension

Due dates will be strictly adhered to. However, in the case of exceptional circumstances, students may apply for extension in the following manner. In accordance with the ACU Assessment Procedures (para 3).

You may seek extension of submission date for an assessment task prior to the due date by submitting the Application for Extension of time for an Assignment (EX) form.

https://handbook.acu.edu.au/handbooks/handbook_2020/policies_and_general_information/assessment_-_policy_and_procedure/assessment_policy

https://www.acu.edu.au/_data/assets/pdf_file/0011/126668/EX_-_Application_for_Ext_of_Time_for_Submission_of_Assessment.pdf

You may seek up to five working days after the relevant due date by submitting the Special Consideration form.

https://www.acu.edu.au/_data/assets/pdf_file/0010/48493/SC_Application_for_Special_Consideration_20170615.pdf

Assessment tasks submitted after the due or extended date will incur, for each whole or part of a calendar day that the work is overdue, a 5% penalty of the maximum marks available for that assessment task up to a maximum of 15%.

Assessment tasks received more than three calendar days after the due or extended date will not be allocated a mark.

Referencing

All referencing should be in ACU Harvard Style.

<https://libguides.acu.edu.au/referencing/harvard>. Please ensure your assignment makes use of in-text citations and a reference list. Missing citations or references is equivalent to plagiarism.

Rubric – Assessment Task Three

ILOs	Criteria	Standards				
		Meets expectations			Exceeds expectations	
		Level 1 (NN)	Level 2 (PA)	Level 3 (CR)	Level 4 (DI)	Level 5 (HD)
LO1 GA2, TL:3 LS:D (Weight=20 marks)	Appraise the goals, approaches and ethical issues related to financial management practices and role of financing in generating common good.	Fails to identify ethical issues and the implications of malpractices in generating common good and summarise the lessons learned. Fails to answer questions. Inaccurate, undeveloped and illogical arguments.	Shows basic understanding of the ethical issues and the role of financing in generating common good. Arguments are generally plausible with some evidence.	Fails to identify ethical issues and the role of financing in generating common good. Some minor errors. Generally clear, relevant and accurate. Arguments with reasonable support.	Fails to identify ethical issues and the role of financing in generating common good. No major errors or omissions. Arguments are mostly plausible.	Fails to identify ethical issues and the role of financing in generating common good. No errors at all. Put forward exceptionally plausible, insightful and interesting arguments.
LO2 GA4, GA5 TL: 3 LS: D (Weight=20 marks)	Analyse the issues involved in raising debt and equity capital for the firm in terms of their impact on the firm's capital structure and risk.	Fails to identify and calculate relevant ratios and evaluate the capital structure and associated risks, failed to correctly determine and explain the company's weighted average cost of capital and fails to relate capital structure theories to the company's capital structure. Frequent errors, unacceptable mistakes and omissions. Fails to examine issues critically. Fails to answer questions.	Displays basic understanding of relevant ratios and evaluation of the capital structure and associated risks, determination and explanation of the company's weighted average cost of capital and its relationship to capital structure theories. Acceptable errors, mistakes and omissions	Displays good understanding of relevant ratios and evaluation of the capital structure and associated risks, determination and explanation of the company's weighted average cost of capital and its relationship to capital structure theories. Some minor errors, mistakes and omissions	Displays very good understanding of relevant ratios and evaluation of the capital structure and associated risks, determination and explanation of the company's weighted average cost of capital and its relationship to capital structure theories. Very few errors, mistakes and omissions	Displays excellent understanding of relevant ratios and evaluation of the capital structure and associated risks, determination and explanation of the company's weighted average cost of capital and its relationship to capital structure theories. Absolutely no errors, mistakes and omissions. The quality of the answer is well above the requirements of this assignment.
LO3 GA4, GA8 TL3 LS: D Weight=16 marks)	Apply risk and return relationships to the valuation of financial assets.	Shows little to no understanding of the risk and return relationships to the valuation of financial assets. Fails to answer questions. Did not identify relevant sources of information and there is little or no relevant research behind arguments.	Shows basic understanding of the risk and return relationships to the valuation of financial assets. Quantitative analysis is too simplistic or convoluted. Researched and utilised resources at barely acceptable level.	Shows a good understanding of the risk and return relationships to the valuation of financial assets. Researched and utilized resourced in an acceptable manner.	Shows a sophisticated understanding of the risk and return relationships to the valuation of financial assets. Did a very good job in researching and evaluating information.	Shows an excellent understanding of the risk and return relationships to the valuation of financial assets. Researched and analysed information beyond the requirements of the assessment.
LO3 GA 5 TL:3 LS: D (Weight= 4)	Decision to make an investment	Poor decision and discussion, which does not assess the stock's intrinsic value and future prospects.	Basic decision and discussion, which assesses the motivation, stock's intrinsic value, dividend growth and future prospects.	Good decision and discussion, which assesses the motivation, stock's intrinsic value, dividend growth and future prospects.	Good decision and discussion, which assesses the motivation, stock's intrinsic value, dividend growth and future prospects.	Extraordinary analysis of decision making beyond the requirements of this assessment. Exceptional analysis and discussion of the motivation, stock's intrinsic value, dividend growth and future prospects.
LO4 GA6 TL3 LS: D (Weight=20 marks)	Apply capital budgeting techniques to assess the financial benefits and costs of competing investment projects.	Shows little to no understanding of the initial investment, operating cash flows, terminal cash flows and free cash flows, treatment of relevant costs, cost of capital, depreciation and assumptions as well as application of appropriate techniques for decision-making.	Shows basic understanding of the initial investment, operating cash flows, terminal cash flows treatment of relevant costs, cost of capital, depreciation and assumptions, free cash flows, treatment of relevant costs, cost of capital, depreciation and assumptions as well as application of appropriate techniques for decision-	Shows above-average understanding of the initial investment, operating cash flows, terminal cash flows, free cash flows treatment of relevant costs, cost of capital, depreciation and assumptions as well as application of appropriate techniques for decision-making. Displays basic	Shows good understanding of the initial investment, operating cash flows, terminal cash flows, free cash flows treatment of relevant costs, cost of capital, depreciation and assumptions as well as application of appropriate	Shows excellent understanding of the initial investment, operating cash flows, terminal cash flows, free cash flows, treatment of relevant costs, cost of capital, depreciation and assumptions as well as application of appropriate techniques for decision-making.

		Fails to consider international aspects of the investment project.	making. Barely aware of international aspects of the investment project.	understanding of international aspects of the investment project.	techniques for decision-making. Adequately considered international aspects of the investment project.	Quantitative and quantitative analyses fully support the recommendations. Exceptionally considered international aspects of the investment project.
GA5 LO1, LO2 (Weight=20 marks)	Apply effective communication skills	Fails to present the case in a convincing manner. Poor use of visuals, mostly reading from prepared script Poor body language (eye contact, facial; expressions) Presentation is not engaging and interesting	Basic level of presentation skills, use of visuals, body language, engagement and use of allocated time.	Good level of presentation skills, use of visuals, body language, use of allocated time and engagement.	Advanced presentation skills, use of visuals, body language, use of allocated time and engagement. Presentation was interesting	Exceptional presentation, arguments made in the most convincing manner. Displayed utmost enthusiasm and motivation, Displayed great body language. The presentation was flawless, extremely engaging and interesting.

GA – Graduate Attribute; LO – Unit Learning outcome; TL – Taxonomy Level (or level of complexity) (see Bloom’s Taxonomy); Learning Stage – Introduced (highly I), Developed (D), Assured (A)