

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

CORPORATE FINANCE (BS246)/ (BS 213)

FINAL EXAMINATION

DURATION: THREE HOURS

27 APR 2025

INSTRUCTIONS TO CANDIDATE

- 1) Answer any four questions
- 2) Non-programmable calculators are allowed.
- 3) Each question carries equal marks as indicated in square brackets.

QUESTION ONE

Suppose Josh Ltd.'s financial statements indicate the following financial ratio values;

$$X_1 = 10\%, X_2 = 15\%, X_3 = -5\%, X_4 = 40\%, X_5 = 1.05$$

- a) Calculate and comment the Z-Score using the Altman Model. (5)
- b) Extracts from the financial statements of Rock –Engines Ltd are set out below;

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Inventory:

Raw Materials	844,000
Work-In-Progress	448,128
Finished Goods	1,567,898
Trade receivables	1,425,600
Trade payables	604,800

Annual Purchase	1,745,000
Annual cost of sales	5,272,128
Annual sales	5,802,400

Required

- i. Calculate the Cash conversion cycle and comment. (10)
- ii. List strategies which a company could use to reduce the cash conversion cycle indicating the implication of each strategy. (5)

[25 Marks]

QUESTION TWO

- a) Under what circumstances will shareholders prefer dividends to be ploughed back into the firm than be paid to them as cash? (5)
- b) In their paper of 1961 Modigliani and Miller [MM] postulated that dividend policy is not relevant. Discuss the critical assumptions under which Dividend Policy is irrelevant in determining share value. (5)
- c) Examine the MM-dividend irrelevancy theory applicability to Zimbabwean organisations (5)
- d) Distinguish between Disbursement float ,collection float and net float (10)

[25 Marks]

QUESTION THREE

- a) Discuss the demerits of using ratio analysis in lending decision by financial institutions. (7)
- b) Examining two (2) methods of financing acquisition showing the merits and demerits of each methods. (10)
- c) Discuss the need of an optimum working capital in the business operations. (8)

[25 Marks]

QUESTION FOUR

- a) Explain any four dividend policies that a company may adopt. (8)
- b) Discuss the theoretical explanation to the recent mergers in the Zimbabwean economy. (17)

[25 Marks]

QUESTION FIVE

Examine any five (5) the determinants of working capital.

[25 Marks]

QUESTION SIX

- a) The minimum cash balance of \$20,000 is required at XYZ Ltd, and transferring money to or from the bank costs \$50 per transaction. Inspection of daily cash flows over the past year suggests that the standard deviation is \$3,000 per day, and hence the variance (standard deviation squared) is \$9 million. The interest rate is 0.03% per day.

Calculate using Miller –Orr Model:

- (i) The spread between the upper and lower limits (3)
- (ii) The upper limit (3)
- (iii) The return point. (3)
- b) Explain the five Cs basic cannons of lending (10)
- c) Describe the collection procedure that can be followed by the bank in the event of the customer failing to honour their obligations. (6)

[25 Marks]

END OF EXAMINATION