BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

CORPORATE FINANCE (BS246/BS203/BS213)

FINAL EXAMINATION

DURATION: THREE HOURS

NOV 2024

INSTRUCTIONS TO CANDIDATE:

1) Choose any **Four (4)** question

2) Candidates will need non-programmable calculators.

3) Each question carries marks as indicated in square brackets.

QUESTION ONE

a) Examine the three motives of holding cash by businesses in Zimbabwe. (9)

b) Distinguish between liquidity management and cash management. (4)

c) Explain the three methods of float management which can be used by the bank. (8)

d) Explain the meaning of the following credit term, 2/10,net 30. (4)

[25 marks]

QUESTION TWO

a) Management of a listed company on the Zimbabwe Stock Exchange observes that there are a significant number of their shares being bought by an unknown investor. It later emerges that the buyer of these shares is linked to Rock Engine Ltd, a major competitor of Valley Giant in the tourism sector. The statement accompanying the 2022 financial statements, Rock Engine Ltd Chief Executive Officer, indicated that the company intends to expand presence in the local market.

(i) Define the term 'hostile takeover'. (2)

(ii) Discuss three strategies that Valley -Giant management could employ to fight a possible takeover. (8)

b) Larry Ltd is acquiring Zenas Ltd. Prior to the merger Larry Ltd equity had a total of $340 million and Zenas ltd equity was worth $120 million .After the merge Larry Ltd is expected to have a market value of $500 million. Larry Ltd is giving Zenas Ltd shareholder a premium of $40 million for their shares. In additional Larry Ltd incurred $6 million for acquisition cost.

i. Calculate the synergies' effect in their merger. (5)

ii. Calculate the net advantage of merging for Larry Ltd. (5)
iii. Should Larry Ltd acquire Zenas Ltd? Justify your answer. (5)

[25 marks]

QUESTION 3

a) Discuss any two (2) methods of inventory control management. (8)
b) With the aid of a diagram distinguish between fixed working capital and variable working capital. (4)
c) Giving merits and demerits of the following sources of finance:
 i. Shares. (5)
 ii. Leasing. (5)
 iii. Retained earnings. (3)

[25 marks]

QUESTION 4

a) Describe the cash dividend payment procedure. (6)
b) State the other forms of dividend other than cash that can be paid by the firm to the shareholders. (4)
c) Examine the key factors influencing the dividend pay-out policy in a ZSE listed firm. (10)
d) The company on March 1, 2023 declares a 10% stock dividend when the current market price for the stock is $40.00 per share. This stock dividend will increase the number of shares outstanding by 10%. This means issuing 21,500 shares.
 Calculate and comment on the value of the shares (5)

[25 marks]

QUESTION FIVE

a) The information for two companies is shown in table 1 below :

Table 1:

	Rock Company $	Zesan Company $
Current assets	100 000	56 000
Current liabilities	56 000	100 000
Total assets	600 000	400 000
Retained earnings	400 000	200 000
Profit before interest and tax	56 000	12 000
Market value of equity	600 000	400 000
Book value of debt	100 000	000
Sales	200 000	100 000

Based on the data in Table 1 above , calculate the Altman Z score model for each company and state which, if any, are potentially failing companies and why? (20)

b) Ellon Ltd is attempting to determine the economic order quantity for fabric used in the production of baskets. 10,000 yards of fabric were used at a constant rate last period. Each order represents an ordering cost of $200.Carrying costs are $1 per yard over the 100-day planning period. Calculate and comment on Economic Order Quantity (EOQ) (5)

[25 marks]

QUESTION SIX

a) Examine the measures which can be implemented by a firm to avoid financial distress. (10)

b) You have invested your money buying shares of a listed company on the Victoria fall Stock Exchange. You are now worried about the future prospects of the company in a fragile economy. Explain the ratios you would choose to monitor your investment. (15)

[25 marks]

END OF EXAMINATION