

**BINDURA UNIVERSITY OF SCIENCE EDUCATION**

**FACULTY OF COMMERCE**

**DEPARTMENT OF BANKING AND FINANCE**

**CORPORATE FINANCE (BS246)/ (BS 213)**

**FINAL EXAMINATION**

**DURATION: THREE HOURS**

MAR 2024

**INSTRUCTIONS TO CANDIDATES:**

- 1) Answer any four questions
- 2) Candidates will need non-programmable calculators.
- 3) Each question carries marks as indicated in square brackets.

**QUESTION ONE**

The following information has been extracted from Engine Pvt Ltd financial statements and market capitalization on 31 January 2023.

Current assets	\$1,140 000
Current liabilities	\$742 000
Total Assets	\$1,854 000
Retained earning	\$1,763 000
Profits before interest and tax	\$599 000
Market value of equity	\$4,970 000
Book value of debt	\$652 000
Sales	\$3,441 000

- a) Using the Z-Score model, is the firm likely to go bankrupt within one year?. (12)
- b) Discuss the three strategies that can be employed by a firm to reduce its cash conversion cycle. (9)
- c) 'A lessee does not have to pay to buy the leased asset', Explain the implied risk in such a lease contract. (4)

**[25 marks]**

## QUESTION TWO

- a) Write notes on the following in relation to dividends :
- i. The residual theory. (5)
  - ii. The tax differential theory. (5)
  - iii. The clientele theory. (5)
- b) With the aid of relevant examples in Zimbabwe, discuss the three types of mergers. (10)

[25 marks]

## QUESTION 3

Examine any five (5) determinants of working capital with the aid of example from Zimbabwean firm.

[25 marks]

## QUESTION 4

- a) Examine the survival methods that can be used by firm in a financial distress (8)
- b) Discuss the bankruptcy liquidation process of a bank (8)
- c) Examine the measures the Reserve Bank has done to reduce bank failure in the Zimbabwe financial sector (9)

[25 marks]

## QUESTION 5

### Balance sheet

Assets	2022	2023
Loans to no-bank (Gross)	20944	13160
Loans loss reserves	439	353
Totals loans to Non-bank (net)	20505	12807
Government securities	24609	13859
Equity investment	360	26
Due from bank-time	1800	2500
Due from foreign banks-LC collateral	23414	12156
Total fixed assets	2983	2328
Other fixed assets	1286	990
Cash	1641	3576
Due from banks –demand	15965	11948
Total assets	92563	60190
Liabilities		
Deposits –demand	36281	21948
Deposits -time	12600	7824

Deposits –savings	1253	916
Money market Funding		
Total deposits and money market funds	50134	30688
Other funding-cash collateral	23414	12156
Other liabilities	9709	10620
Total Lt debt and liabilities	33123	22776
Share capital	1027	1027
Retained earning	4412	2758
Legal reserve	3867	2941
Total equity	9306	6726
Total liabilities & Equity	92563	60190

#### Income statement

	2022	2023
Interest income	8389	5760
Interest expense	2079	2129
Net interest margin	6310	3631
Other operating income	3320	3263
Total operating income	9630	6894
Staff expenses	1647	1162
Other operating expenses	3897	2886
Loan impairment loss	86	44
Operating profit/(loss)	4000	2802
Net non-operating expense/income		
Net income before tax	4000	2802
Income tax	496	384
Net income	3504	2418
Note		
NPL	620	500

Using the information above, calculate and comment on the following ratios:

- i. Loans to deposit ratio (5)
- ii. Cost –income ratio (5)
- iii. Net interest margin (5)
- iv. NPL ratio (5)
- v. NPL coverage ratio (5)

#### QUESTION 6

Explain any (5) fives sources of finance that is available for a recently established firm (25 marks)

**END OF EXAMINATION**