

**UGANDA MARTYRS UNIVERSITY, NKOZI/LUBAGA  
CAMPUS**

**FACULTY OF BUSINESS ADMINISTRATION AND  
MANAGEMENT**

**DEPARTMENT OF ACCOUNTING & FINANCE**

**BAM 3 SEMESTER TWO 2017/18**

**COURSE UNIT: CORPORATE FINANCE II**

**DATE:** Wednesday, 2<sup>nd</sup> May 2018

**Time allowed:** 9:30am-12:30pm

**Instructions to Candidates:**

Read the following before answering the examination questions.

- 1) Do not write anything on this question paper.
- 2) Write neatly and show all workings clearly.
- 3) Start every question on a new page
- 4) Clearly state the question number & sections attempted
- 5) Answer **any four** questions, all questions carry equal marks

### **QUESTION ONE**

- a) With examples, explain the concept of economic and political risk in international financial management. **(6 marks)**
- b) Nagoya Ltd is a multinational corporation that deals in the sell of cars and spare parts worldwide, the company expects to earn USD 250,000 in exports and the exchange rate of a USD to UGX is 1 USD = 3500 shs, if the exchange rate were to change as follows;

Case I: 1 USD = shs. 3650

Case II: 1 USD = Shs .3450

**Required:** Analyze the extent of foreign exchange rate risk in the above transaction. Advise on any three ways through which such foreign exchange rate exposure can be managed. **(13 marks)**

- c) Explain any three mechanisms multinational corporations use to transfer funds so as to minimize taxes and maximize profits. **(6 marks)**

### **QUESTION TWO**

With liberalization and competition, organizations are facing increased risk of financial distress due to business failure.

**Required:**

- (i) Explain the nature and causes of financial distress. **(8 marks)**
- (ii) Explain any three schemes that may be used to address business failure and give reasons for choice of such schemes. **(12 marks)**
- (iii) Distinguish between voluntary and involuntary liquidation as approaches to financial distress management. **(5 marks)**

### **QUESTION THREE**

- (a) Considering the historical and futuristic costs of capital, which version is more reliable for decision making? **(5 Marks)**
- (b) Why is it very difficult to forecast dividends in future when finding the cost of ordinary share capital? **(5 Marks)**

- (c) Sony Pictures Ltd presently has a total capital structure of Shs 16 million made up of 2,000 ordinary shares of shs 4,000 each, 10% preference shares worth shs 2,000,000 and 14% Debentures covering the rest. The company's shares currently fetch Shs 4,000 on the market and a dividend of shs 400 is paid and is expected to grow at a rate of 5% perpetually. The firm is in a 30% tax bracket.

Required: Determine the weighted cost of capital basing on the existing capital structure of Sony Pictures Ltd. **(8 Marks)**

- (d) Sony Pictures Ltd wants to raise an additional capital of Shs 2 million by issuing 10% Debentures. This will increase the expected dividend to Shs 600 though the growth rate will remain unchanged. The price of the shares will however fall to Shs 3,000 per share. Sony Pictures Ltd Chief Finance Officer is wondering about what the minimum rate of return acceptable to the company should be after these events.

Required: Determine the weighted future cost of capital. **(7 marks)**

#### **QUESTION FOUR**

- (a) Identify and explain any five sources of funds available to the financial manager of any corporation of your choice giving two advantages and disadvantages of each. **(20 marks)**
- (b) What factors should the finance manager of an institution put to consideration when raising funds in Uganda? **(5 marks)**

#### **QUESTION FIVE**

Dividend decision involves trade-off between retaining earnings and paying dividends. Paying dividends increases the current wealth holding of shareholders who then perceive their investment as less risky. Retaining earnings is attractive because it's a cheaper source of funds for financing investments that doesn't attract floatation costs.

Required:

- (i) Discuss the Traditional (Classical) school argument about dividend payment. **(8 Marks)**
- (ii) Discuss the Modigliani and Miller (MM) School Argument about dividend payment. **(8 Marks)**
- (iii) Explain the Dividend payment procedures by highlighting the particular dates that are important in dividend payment. **(9 marks)**

### **QUESTION SIX**

Write short notes about the following: **(5 Marks each)**

1. Venture capital financing
2. Islamic banking and finance
3. Islamic tradition on which Islamic Financing is based
4. Differences between Islamic and conventional modes of Finance
5. The challenges faced by Islamic financing structure