

UGANDA MARTYRS UNIVERSITY
FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

BAM 111 NKOZI / RUBAGA

CORPORATE FINANCE II

FINAL EXAMINATION

DATE: 30th/04/2019

Instructions:

- **Write neatly**
- **Do not write anything on this question paper**
- **Attempt any four questions of your choice. All questions carry equal marks.**

Question One:

- a) Discuss the theories of capital structure and give their assumptions.
(10 marks)
- b) With examples, distinguish between the following as used in Corporate finance II.
- Marginal cost of capital and weighted average cost of capital.
(5 Marks)
- c) BAM III Ltd currently has a total capital of UGX 600m comprised of :

Details	Amount
15% Long term Bank Loan	240m
12% Preference Shares	60m
Common Shares	180m
Retained profits	120m
Total	600m

The business anticipates that dividends on ordinary shares will be UGX 7,000 per share and the market value of the share is UGX 28,000 per share. The dividends are expected to grow at a rate of 7% per year forever and the company is in a 40% tax bracket.

Required:

Determine the weighted average cost of capital for the firm BAM III Ltd.

(10 marks)

Question Two:

- a) Explain what Financial Distress is and discuss its causes.
(8 Marks)
- b) Jill Ltd has current assets Shs 500m, net fixed assets Shs 400m, current obligations Shs 600m, long-term debt Shs 500m.

Required:

Use the Accounting equation to determine whether Jill Ltd is in financial distress.

(5 Marks)

- c) Explain the term 'corporate restructuring' and explain four ways in which corporate restructuring can be done.
(12 marks)

Question Three:

LIM International limited has a USD 6.2m corporate bond in issue whose interest rate is 8.4%, payable in six months. They are concerned that their transaction and translation risks will continue to affect their financial performance unless they take some hedging schemes.

The spot Shs/USD exchange rate is quoted at 1\$ - 2600/=, while the six month forward exchange rate is quoted at 1\$ - 2670/=. **LIM** can earn 5% per annum on short term USD deposits and can borrow short term at 7.5% per annum.

At the same time the management of **LIM** is putting up plans to acquire **MIS** Uganda Ltd a well - established exporter of hides and skins to the United States. Whereas the deal is being pushed by management of **LIM**, shareholders from either company have failed to agree on the benefits of the transaction, let alone other terms such as the mode of settlement. Key stakeholders of **MIS** are indeed undertaking a fierce resistance to the transaction which they consider a hostile takeover bid.

Required:

- a) Explain the difference between transaction and translation exchange rate risks.
(5 marks)
- b) Identify and illustrate four exchange rate risk hedging methods that **LIM** can use.
(12 marks)
- c) Explain any four mechanisms that **MIS** stakeholders can use to resist the takeover.
(8 marks)

Question Four:

- d) The finance manager of BSC is concerned that the management is more concerned with evaluating the risks associated with investment, and little attention is paid to the method of financing. According to him, a good investment will not add much value to the company if it's financing is not well structured. Evaluate his view, based on financing decision.
(5 marks)
- e) MAT Ltd would like to install and IT equipment. The IT Operations Manager would prefer a project that will cost the company nothing in terms of financing charges. He prefers the use of retained earnings instead of debt to finance such a capital project. Evaluate his view.
(5 marks)
- f) Discuss five short term and five long term sources of financing of your choice giving specific examples and giving advantages and disadvantages of each method.
(15 marks)

Question Five:

- (a) The dividend policy of a firm determines what proportion of earnings is paid to shareholders by way of dividends and what proportion is ploughed back in the firm for re-investment purposes.

Required:

Identify five factors a company must consider when designing its dividend policy.

(10 Marks)

- (b) Discuss the different forms of dividends that a firm can give and state the advantages and disadvantages of each.

(15 Marks)

Question Six:

Write short notes on the following:

- i) Islamic Banking in Uganda
- ii) Venture Capital Financing
- iii) Personal Financial management
- iv) Financial markets

(25 marks)