UGANDA MARTYRS UNIVERSITY
FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

CORPORATE FINANCE II

(SUPPLEMENTARY/ SPECIAL) EXAMINATION

2013 - 2014

BAM III- NKOZI CAMPUS

Date: 08th / 08/ 2014

Time allowed: 3 hours

Instructions

1. Do not write anything on the question paper
2. Attempt any four questions

Question one

(a) You are the Finance Manager of Godoma Ltd which began operations two years ago. The business has since then experienced high growth rate in its earnings and assets. Would you recommend an equally high growth rate in its dividends pay-out ratio? Why? (7 Marks)

(b) Godoma Ltd has the following equity section of its balance sheet:-

Unpaid Ordinary Share Capital (Shs 8,000 face value)	Shs 200,000,000
Paid-in Share capital	Shs 160,000,000
Retained Profits	Shs 840,000,000
Total Net Worth	Shs 1,200,000,000

If the current market price of the shares is Shs 6,000 per share.

(i) Show how a 2 – for 1 stock split and a 1- for 2 reverse split would affect the above equity section of the business. (6 Marks)

(ii) What will happen to the equity section if a 20% stock dividend is declared? (6 Marks)

(iii) From your workings in (b) (ii) above, comment on the usefulness of stock dividends, reverse and stock splits. (6 Marks)

Question two

(a) Discuss the major issues to be addressed in the capital structure decision and show the factors that you would take into account when designing the capital structure of the organisation. (15 Marks)

(b) An ordinary share has a price of Shs 140,000 and the dividend expected on it one year from today is Shs 8,400. The dividend is anticipated to grow at a rate of 5% per year. The required rate of return is 12% in the investment. Advise your client whether or not to buy this share. (10 Marks)

Question three

(a) Considering the historical and futuristic costs of capital, which version is more reliable for decision making? How about for the specific and overall cost of capital, which one of them is more reliable for decision making? (12 Marks)

(b) A firm which falls in a 30% tax bracket has the following capital structure:

Share Capital 20,000 shares of Shs 10,000 each	Shs 200m
20% Preference share capital	Shs 100m
Retained Earnings	Shs 50m
20% Loan	Shs 150m
	Shs 500m

The dividends per ordinary shares are expected to be Shs 4000 per share and are expected to grow at 10% per annum. The market price of the share is Shs 80,000 in the Uganda Securities Exchange. The floatation costs for both ordinary and preference shares is Shs 2,000 per share.

Required:

(i) Compute the specific cost of capital for each source of funds. (6 Marks)

(ii) Compute the required rate of return for the firm. (7 Marks)

Question four

(a) Distinguish between voluntary and involuntary liquidation as approaches to financial distress management. (10 marks)

(b) Explain any three(3) schemes of financial restructuring that may be used in financial distress management and show the circumstances under which these schemes will succeed. (15 Marks)

Question five

(a) What are the differences between the scope of financial management in domestic business and international business? (7 Marks)

(b) Discuss any two(2) mechanisms of transfer of funds in international business. (8 Marks)

(c) Suppose a Ugandan Cotton farmer expects to buy a cotton processing equipment from U.S.A. at USD 500,000 in six month's time. Assuming a US Dollar / Uganda shilling exchange rate currently stands at USD 1 = Shs 1,800. If in the six month's time the exchange rate were to fluctuate as follows:

- Case 1: USD 1 = Shs 1,900
- Case 2: USD 1 = Shs 1,600

Required:

Calculate the extent of exchange rate risk in the above transaction. Explain one best way through which the above foreign exchange rate exposure can be managed. (10 Marks)

Question six

With examples distinguish between the following terms as used under sources of finance that a company sourcing for capital can employ:

- Factoring of Debtors and Invoice Discounting
- Hire purchase and Leasing
- Fixed charge and Floating charge as used under secured loan stock.
- Bank overdraft and Debentures
- Trade credit and Counter trade

(25 Marks)

- END -