

**UGANDA MARTYRS UNIVERSITY
FACULTY OF BUSINESS ADMINISTRATION AND
MANAGEMENT**

BAM III

**CORPORATE FINANCE
SUPPLEMENTARY/SPECIAL EXAM**

7 AUGUST 2015

SUPPLEMENTARY EXAM 2015

Instructions

1. The maximum time allowed for this paper is 3 hours
2. *Answer any four (4) questions*
3. You are not allowed to have any outside material with you or on you other than your pens, rulers and calculators. Any unauthorized material will automatically lead to disciplinary action being taken against you in accordance with the examinations regulations of Uganda Martyrs University
4. You are not allowed to copy from or consult any other student during the examination
5. Cheating of any type is punishable by dismissal from the University

Question 1 (25 marks)

Explain the different types of financing available to a business enterprise and the criteria that you would use to select an appropriate financing mix for your company.

Question 2 (25 marks)

You are given the following information about a bond.

- ▶ 10 year maturity bond
- ▶ Face value = Shs100,000
- ▶ Coupon interest rate = 8% per year
- ▶ Current price of bond = Shs95,000
- ▶ Creditors' required rate of return = 9%
- ▶ Tax rate = 30%
- ▶ Floatation costs = Shs5,832 per bond

Required:

- a) Calculate the actual cost of the bond (K_b) before tax
- b) Calculate the actual cost of the bond (K_b) after tax.

Question 3 (25 marks)

You are given the following information regarding a bond issued by Punk Ltd:

- ▶ Par value of bond: Shs100
- ▶ Selling price of bond: Shs110
- ▶ Coupon interest rate: 9%
- ▶ Maturity period: 10 years

Calculate the following:

- (a) The Current Yield
- (b) The Yield to Maturity

Question 4**(25 marks)**

The Director of Finance of the company you work for has been told that there are different factors that influence the dividend policy of the company. He calls you to his office and asks you to prepare a brief to him explaining what is meant by a dividend policy and what factors can affect the policy. Present this report in your answer to this question.

Question 5**(25 marks)**

Namasyolo Ltd is in the process of recruiting a Finance Director and they have invited you to an interview. The Managing Director of the company has heard that you are an MBA student of Uganda Martyrs University. He has high esteem for the students of UMU because of the good reputation that the university commands in the job market. He has therefore picked up an interest in you and wants to know how you will contribute to the company's operations. He asks you what, in your view, are the main duties that a Finance Director will perform in the company. Explain and discuss what you perceive the role of the Finance Director to be in a large company such as Namasyolo Ltd.

Question 6**(25 marks)**

You are given the following information about Upstanding Investments:

- Land 2,000,000,000/=
- Buildings 3,000,000,000/=
- Buildings – Accumulated Dep. 450,000,000/=
- Furniture & Fittings (net of Dep.) 500,000,000/=
- Current Assets 150,000,000/=
- Current Liabilities 30,000,000/=
- Long term liabilities 400,000,000/=
- 10% Preference Shares, Shs1,000/= par value; 1m shares
- Premium on Preference Shares = Shs400,000,000/=
- Market value of Preference Shares = Shs2,000/= per share
- Number of Ordinary Shares = 1,000,000

Each ordinary share is currently trading at Shs4,500/= per share.

Required:

- a) Calculate the value of each ordinary share using the Net Asset Value Method. (20 marks)
- b) Explain the circumstances under which the NAV method may be useful.
(5 marks)

Congratulations on completing the Exam.