



FACULTY OF BUSINESS SCIENCES AND MANAGEMENT

DEPARTMENT OF ACCOUNTING

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

PART II SECOND SEMESTER EXAMINATION

CORPORATE FINANCE II [BAC2202]

APRIL 2025

DURATION: 3 HOURS

INSTRUCTIONS

1. Answer **all** questions in **Section A** and in **Section B** answer **Question 2** and **Any other three (3) questions**
2. Begin each question on a new page.

INFORMATION FOR CANDIDATES

1. Marks per question are as indicated.
2. Questions may be attempted in any order.

This paper consists of six printed pages including the cover page

SECTION A COMPULSORY (Answer all questions)[30 MARKS]

Each question carries 2 marks

1. Calculate the return on equity (ROE) given:

Net Income = \$50,000, Equity = \$200,000

- A. 10%
- B. 15%
- C. 20%
- D. 25%

2. Sources of Long-Term Finance

Which of the following is NOT a source of long term finance ?

- A. Trade credit
- B. Equity shares
- C. Debentures
- D. Venture capital

3. A major disadvantage of debt financing is:

- A. Loss of control
- B. Interest expense
- C. Dilution of ownership
- D. Increased equity financing

4. A company issues 10,000 shares at \$20 each. If flotation costs are \$2 per share, what is the net proceeds?

- A. \$180,000
- B. \$190,000
- C. \$200,000
- D. \$210,000

5. A merger and acquisition occurs when:

- A. One company completely absorbs another
- B. Two companies form a new entity
- C. A company buys another company's stock

D. A firm acquires assets of another company

6. Synergy in mergers refers to:

- A. Reduced costs and increased revenue
- B. Elimination of competitors
- C. Higher dividend payouts
- D. Lower working capital requirements

7. Which type of merger involves companies at different stages of production?

- A. Horizontal
- B. Vertical
- C. Conglomerate
- D. Market-extension

8. A common reason for business failure in Zimbabwe is:

- A. High employee turnover
- B. Poor financial management
- C. Over-expansion
- D. All of the above

9. The Altman Z-score is used to:

- A. Predict business failure
- B. Measure return on investment
- C. Calculate operating efficiency
- D. Assess dividend payout ratios

10. A firm has total assets of \$1,000,000 and liabilities of \$500,000. The debt-to-equity ratio is:

- A. 0.5
- B. 1.0
- C. 2.0
- D. 3.0

11. Horizontal merger occurs when:

- A. Two companies in unrelated industries merge
- B. A company merges with a supplier or distributor
- C. Two companies in the same industry and at the same production stage merge
- D. A company purchases only the assets of another company

12. According to the Modigliani and Miller dividend irrelevance theory, in a perfect market, dividend policy:

- A. Has a significant impact on firm value
- B. Is irrelevant to firm value
- C. Should be maximized to attract investors
- D. Should be eliminated to reduce tax liabilities

13. Which of the following is a component of working capital?

- A. Fixed assets
- B. Long-term debt
- C. Accounts receivable
- D. Retained earnings

14. Which of the following is a primary objective of working capital management?

- A. Maximizing long-term investments
- B. Ensuring sufficient liquidity for day-to-day operations
- C. Increasing the company's tax liability
- D. Reducing shareholder dividends

15. One of the most commonly used models for predicting business failure is:

- A. The Gordon Growth Model
- B. The Altman Z-Score Model
- C. The Modigliani-Miller Theorem
- D. The Dividend Discount Model

SECTION B

QUESTION 2 (10 MARKS)

Critically analyse the dividend relevance theory by Miller and Modigliani. **(10 marks)**

QUESTION 3 (20 MARKS)

Discuss the factors that the firm should take into account in making a choice of the source of finance taking into account the current economic, financial, tax and legal environment in Zimbabwe. **(20 marks)**

QUESTION 4 (20 MARKS)

(a) Assume the following information is available:

Annual demand = 150 000 units

Ordering costs per order = \$60

Average Annual Carrying Cost = \$12 per unit per year

Calculate the

- i. EOQ (5 marks)
- ii. Total Ordering Costs (2 marks)
- iii. Total Carrying Costs (1 mark)
- iv. Total Inventory Costs (2 marks)

(b) MNC Limited is trying to decide whether it should relax its credit standards. The firm repairs 72 000 rugs per year at an average price of \$32.00 each. Bad-debt expenses are 1% of sales, the average collection period is 40 days, and the variable cost per unit is \$28.00 MNC expects that if it does relax its credit standards, the average collection period will increase to 48 days and that bad debts will increase to 1½ % of sales. Sales will increase by 4 000 repairs per year.

If the firm has a Required Rate of Return on equal-risk investments of 14%, what recommendation would you give the firm? Use your analysis to justify your answer. (Note: Use a 365-day year). **(10 marks)**

QUESTION 5 (20 MARKS)

On 30 January 2022, the CBZ Holdings gazetted that the listed financial service group's subsidiaries, CBZ Building Society and CBZ Bank Limited approached the Ministry of Finance seeking permission to amalgamate the two units.

- (a) In your opinion, discuss how amalgamation of the two entities differs from the traditional merging in the business industry. **(5 marks)**
- (b) Discuss the most common advantages and disadvantages of amalgamating CBZ Building Society and CBZ Bank Limited. **(15 marks)**

QUESTION 6 (20 MARKS)

Discuss the factors that directors should consider in formulating their working capital policies. **(20 marks)**

END OF QUESTION PAPER