



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR
SECOND YEAR FIRST SEMESTER
MAIN EXAMINATION
FOR MASTERS IN BUSINESS ADMINISTRATION
COURSE CODE: MBA832
COURSE TITLE: CORPORATE FINANCE

DATE: 22ND FEBRUARY, 2021

TIME: 9.00AM – 12NOON

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other THREE (3) Questions in Section B

TIME: 3 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over.

SECTION A

QUESTION ONE

- i) State at least five reasons why profit maximization objective of a firm has been criticized (5mks)
- ii) Discuss at least five functions of a financial market (10mks)
- iii) ABC LTD will elect six directors at the AGM. There are 100,000 shares outstanding and entitled to vote.

Required: a) If a group desires to elect two directors how many shares must it have

(5mks)

b) If a group held 40,000 shares in the ABC LTD , how many directors would be possible for the group to elect

(5mks)

iv) State and explain the essential features of a sound capital mix of a firm (10mks)

iv) Differentiate between

a) diversifiable risk an non-diversifiable risk (2mks)

b) translation exposure and transaction exposure (3mks)

SECTION B

QUESTION TWO

- a) State and explain five factors affecting the Weighted Average cost of Capital (10mks)
- b) Assume MJK bank lends ksh. 1000 000 for a period of five years at 15% interest per annum to be compounded annually. Repayment is at the end of each year. Determine the amount of each installment (5mks).

QUESTION THREE

- a) ABC Plc has a capital budget of Ksh. 12 000 000 for investment. The company has presented the following investment proposal to you for advice in your capacity as the financial adviser to the company.

Projects	A	B	C	D	E	F	G	H	I	J
Profitability Index	1.17	1.2	1.19	1.22	1.15	1.15	1.22	1.2	1.16	1.1
Outlay('millions)	2.0	3.0	1.5	4.0	4.0	2.0	1.0	1.5	1.0	3.0

The company's expected cost of capital is 15%. Project A and D are mutually dependent while project B and C are mutually exclusive

Required;

As the financial adviser to the company which project will you recommend?

Assume that fractions of the projects can be undertaken

(15mks)

QUESTION FOUR

a) The capital structure of XYZ ltd is given as follows

(Sh. '000')

8,000,000 ordinary shares of sh. 10 each 80,000

4,000,000 12% preference shares of sh. 10 each 40,000

16% long term loan 5000

8% debentures 3,000

Total 128000

Additional information:

- i) Ordinary shares are currently quoted at sh. 14 on security exchange.
- ii) Ordinary shares have dividend cover of 3 times and earnings per share of sh. 6
- iii) The 18% debentures were issued in 2009 at a price of sh. 100 and are due for redemption in 2017 at sh. 120
- iv) The company incurred sh. 400,000 in floating cost when raising the loan.
- v) The applicable tax rate is 30%

Required:

- The company's weighted cost of capital

(10mks)

b) Financial managers of Multinational Firms can manage Foreign Exchange Rate Risk through internal hedging. State and explain two methods of internal hedging (5mks)