



190

(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2017/2018 ACADEMIC YEAR
THIRD YEAR FIRST SEMESTER
MAIN EXAMINATION (MAIN CAMPUS)
FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCF 303

COURSE TITLE: CORPORATE FINANCE

DATE: 11/01/2018 **TIME:** 2.00 P.M - 4.00 P.M

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 3 Hours

KIBUCO observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over.

SECTION A (COMPULSORY)

QUESTION ONE

- a) Explain the differences between passive and active dividend policies (8mks)
- b) Explain the advantages that accrue to a company which finances its operations through the issue of convertible loan stocks (10mks)
- c) What is the value at the end of three years of ksh. 1 000 deposited at 12 percent per annum with interest compounded continuously (5mks)
- d) Explain the concepts of:
 - i) Diversification
 - ii) Naïve diversification
 - iii) Superfluous diversificationStating their implication for portfolio risk reduction (7mks)

SECTION B (CHOOSE ANY TWO QUESTIONS)

QUESTION TWO

- a) Discuss practical factors that influence a company's dividend policy (10mks)
- b) Explain various methods used in company valuation (10mks)

QUESTION THREE

- a) Discuss factors that should be considered by the company when issuing loan stocks
- b) A pensioner deposits ksh. 100 000 in a bank account and withdraws ksh. 15 000 at the end of each year beginning from the end of first year. What will be the balance of his bank account after five years if the deposit is invested at 12% per annum (10mks)

QUESTION FOUR

Mr. Chukwu plans to invest ksh. 10 000 in company X at the beginning of the year. At the end of the year the possible values may be ksh. 10 000 or ksh. 10600 or ksh. 10 800 or ksh. 11 000. These are all possible outcomes. Their probabilities respectively are 0.2, 0.3, 0.3, 0.2. Required:

- a) Calculate the expected return (6mks)
- b) Total risk (7mks)
- c) Relative risk of the security (3mks)

QUESTION FIVE

- a) Babatunde Fishery Ltd estimates its total cash requirements as ksh. 5 million in 2009. The company's opportunity cost of funds is put at 20 percent per annum. The company anticipates a transaction cost of 0.01 percent of cash requirement per transaction whenever it converts its short term securities to cash. Determine the optimum cash balance (10mks)
- b) State and explain three main types of mergers (10mks)