



(Knowledge for Development)

**KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
SECOND YEAR FIRST SEMESTER
MAIN EXAMINATION**

FOR THE DEGREE OF MASTERS IN BUSINESS ADMINISTRATION

COURSE CODE: MBA 832

COURSE TITLE: CORPORATE FINANCE

DATE: 6TH AUGUST, 2021

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: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

QUESTION ONE

- a) Analyse four characteristics of a good financial market (4mks)
- b) Describe six characteristics of a debenture (6mks)
- c) Discuss eight factors affecting the cost of finance of a company (8mks)
- d) Assume that the risk free return is 8% the market expected rate is 12%. The variance of the market return is 14% while covariance of return of security A and the market is 2%.
What is the required rate of return of the security (6mks)
- e) Discuss three foreign exchange risks that relate to multinational firms (6mks)

SECTION TWO

QUESTION TWO

XY Plc. is faced with a problem of investing Ks. 30M in five profitable projects at 15% opportunity costs of capital. The following are the available projects with the cash flows of each projects being generated at a constant amount throughout the economic life of the project which is 5 years in each case.

Projects	Initial outlay '000'	Annual flows '000'
A	10,000	4,000
B	12,000	5,000
C	6,000	3,000
D	3,000	1,000
E	11,000	4,500

Required:

Which of the projects should be undertaken if they were;

- i) Divisible (7mks)
- ii) Indivisible? (8mks)

QUESTION THREE

XYZ Ltd. Has 900,000 shares outstanding at current market price of Ksh.130 per share. The company needs Sh. 22,500,000 to finance it's proposed expansion. The board of directors has decided to issue rights for raising the required funds. The subscription price has been fixed at sh.75 per share.

Required:

- i) How many rights are required to purchase the shares (4mks)
- ii) What is the price of one share after rights issue (Ex-right) (4mks)
- iii) Compute the theoretical value of each right (2mks)
- iv) Consider the effects of the right issue on shareholders wealth under three options available to shareholders (assume he owns 3 shares and has sh.75 cash on hand) (5mks)

QUESTION FOUR

- a) Discuss eight intermediary functions in relation to financial markets (8mks)
- b) Discuss ways of managing foreign exchange risks of a multinational firms (7mks)

QUESTION FIVE

Suppose a company is operating a machine which is expected to produce net cash inflows of Ks. 5M, Ks. 4M, Ks. 3M and Ks. 2M respectively for the next 4 years. A new machine which is more efficient to operate and cost effective has just been introduced into the market. It is expected that the new machine will cost Ks. 15M and will provide a net cash inflow of Ks. 7M a year for six years. What should the company do? (15mks)