



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
THIRD YEAR FIRST SEMESTER
UNIVERSITY EXAMS

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCF 312/BCF303

COURSE TITLE: CORPORATE FINANCE

DATE: 17TH NOVEMBER, 2022 TIME: 2.00PM - 4.00PM

INSTRUCTIONS TO CANDIDATES

Answer Question One and any other TWO (2) Questions

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30** marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

SECTION A

QUESTION ONE

- (a) Describe the following terms;
- (i) Wealth Maximization
 - (ii) Financial Market
 - (iii) Efficient Market Hypothesis
 - (iv) Financing Decision

[8 marks]

- (b) List eight features of ordinary share capital.

[8 marks]

- (c) Three year bonds are issued at face value of Sh100,000 on Jan. 1, 2007, and a stated interest rate of 8%. Calculate the value/issue price of the bonds assuming a market interest rate of 10%. (Factor 0.75132) (4 Marks

- (d) Assume the company wants to invest in two mutually exclusive projects of 1000,000 shillings each generating the following cash flows:

Year	A Shs	B Shs
1	500,000	100,000
2	400,000	200,000
3	300,000	300,000
4	400,000	400,000
5	-	500,000
6	-	600,000

Required: Using payback period approach, advise management which project to choose. (10 Marks) (Total 30 Marks)

SECTION B

QUESTION TWO

- a) Describe the Capital Asset Pricing Model (CAPM) (8 Marks)
- b) You are given the risk free rate and risk premium rate as 7% and 13% respectively. The beta factor as 1.5. You are required to estimate the required rate of return on the stock, using the CAPM. (4 Marks)
- c) What is the implication of the computed required rate of return in (b) above. (2 Marks)
- d) What are advantages of using NPV to assess the viability of a venture (6 Marks)

(Total 20 Marks)

QUESTION THREE

The following are the statements of income and financial position for Regina Ltd for last year and the prior year revealing some trend in terms of firm performance in regard to sales, expenses, income tax, assets, liabilities and equity:

Income Statements

	Last Year	Prior Year
Sales, net of returns and allowances	Shs 600,000	Shs 500,000
Subtract : Cost of Goods Sold	<u>330,000</u>	<u>280,000</u>
Gross Profit	270,000	220,000
Expenses :		
Selling Expenses	50,000	40,000
General Expenses	165,000	150,000
Total Selling and General expenses	<u>215,000</u>	<u>190,000</u>
Net Operating Income	55,000	30,000
Interest Expense	<u>10,000</u>	<u>13,000</u>
Net Income Before Income Tax	45,000	17,000
Income Tax	<u>11,000</u>	<u>4,000</u>
Net Income	Shs 34,000	Shs 13,000

Statements of Financial Position

Assets	Last Year	Prior Year
Current Assets:		
Cash	Shs 10,000	Shs 12,000
Accounts receivable, net of bad debt allowance	45,000	40,000
Inventory	160,000	130,000
Prepaid expenses	<u>10,000</u>	<u>8,000</u>
Total Current Assets	225,000	190,000
Fixtures and equipment, net of depreciation allowance	<u>75,000</u>	<u>90,000</u>
Total Assets	<u>Shs 300,000</u>	<u>Shs 280,000</u>
Liabilities		

Current Liabilities :		
Current portion, loans payable	Shs 25,000	Shs 25,000
Accounts Payable	50,000	35,000
Taxes Payable	20,000	20,000
Accrued Expenses	<u>10,000</u>	<u>8,000</u>
Total Current Liabilities	105,000	88,000
Long Term Liabilities:		
Notes payable to Bank	<u>75,000</u>	<u>100,000</u>
Total liabilities	<u>180,000</u>	<u>188,000</u>
Stockholders' equity		
Common stock, 5,000 shares		
Shs 10 par value authorized, 1,000 issued and outstanding	10,000	10,000
Retained Earnings	<u>110,000</u>	<u>82,000</u>
Total stockholders' equity	<u>120,000</u>	<u>92,000</u>
Total liabilities and equity	<u>Shs 300,000</u>	<u>Shs 280,000</u>

You are required to compute return-on-assets ratios, profit margin percentages, debt-to-equity ratios, current ratios, quick ratios, inventory turnover ratios and earnings per share for each year and indicate whether they show an improving (I) or worsening (w) condition for Regina Ltd
(Total 20 marks)

QUESTION FOUR

- Explain the importance of Financial Analysis (4 Marks)
- List eight users of financially analyzed information (8 Marks)
- What are the Areas Of International Business-Related Financial Functions (8 Marks)
(Total 20 Marks)

QUESTION FIVE

Elucidate Five Foreign Sources of Finance

(20 Marks)