



Riara School of Business
Nurturing business innovators

MAY – AUGUST 2023 SEMESTER
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION (FINANCE
OPTION)
DAY PROGRAMME
RFN 303: CORPORATE FINANCE

DATE: 1ST AUGUST 2023

TIME: 2 HOURS

GENERAL INSTRUCTIONS:

Students are NOT permitted to write on the examination paper during reading time.

This is a closed book examination. Text book/Reference books/notes are not permitted.

SPECIAL INSTRUCTIONS

1. Write your REGISTRATION NO. Clearly on the answer booklet(s).
2. Answer Question One and ANY other TWO questions.
3. Questions in all sections should be answered in answer booklet(s)
4. PLEASE start the answer to EACH question on a NEW PAGE.
5. For the questions, write the number of the question on the answer booklet(s) in the order you answered.
6. Write on both sides of each leaf and indicate number of each question at the top of each page.
7. Write the answers in a paragraph form unless stated otherwise.
8. Marks allocated to each question are shown at the end of the question.
9. All rough work must be done on the answer booklet and crossed through!
10. Use supplementary pages only when you have exhausted those in this book
11. Fasten the supplementary pages to the inside back cover of this booklet.

QUESTION ONE: COMPULSORY (30 MARKS)

- a) Explain the agency problem of the firm and highlight **four** ways in which it can be resolved. **(10 marks)**
- b) The overriding goal of the firm is shareholders wealth maximization. Describe **five** sub goals that firms pursue in order to achieve their overall objective. **(10 marks)**
- c) Discuss five strategies that shareholders and management of a firm can take in response to a hostile takeover **(10 marks)**

QUESTION TWO (20 MARKS)

- a) Explain **five** characteristics of capital projects. **(10 marks)**
- b) XYZ Ltd is considering an investment in an office block. The office block is expected to deliver rental income of KShs. 50 million per year for five years after which XYZ Ltd expects to sell off the asset at KShs. 400 million. The XYZ required rate of return is 10%. Assume no taxation is applicable.

Required:

- i) Compute the maximum price that it should pay for the office block now? **(5 marks)**
- ii) Explain the meaning and types of capital rationing **(5 marks)**

QUESTION THREE (20 MARKS)

Robotics Limited uses both equity and debt to finance its operations. The company has a 15% Corporate Bond with a current market value of KShs. 80 million outstanding. The company has 12 million shares outstanding. The price per share is KShs. 10.00. The cost of equity capital is 18% and the corporation tax rate is 30%.

Required:

- a) Discuss **seven** considerations that the finance manager of Robotics Limited needs to take into account when determining the optimal capital structure. **(14 marks)**
- b) Compute the Weighted Average Cost of Capital for Robotics Limited. **(6 marks)**

QUESTION FOUR (20 MARKS)

- a) Evaluate **five** factors that influence a company's dividend policy. **(10 marks)**

- b) Expound the Modigliani - Miller dividend irrelevance argument. **(3 marks)**
- c) Evaluate **three** reasons why a firm may NOT pay dividends. **(3 marks)**
- d) Discuss **two** arguments that support the relevance of dividends **(4 marks)**