



Riara School of Business
Nurturing business innovators

**JANUARY– APRIL 2023 TRIMESTER
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION**

EVENING PROGRAMME

RFN 406: CASES IN CORPORATE FINANCE

DATE: APRIL 2023
HOURS

TIME: 2

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 Marks allocated to each question are shown at the end of the question.

5 PLEASE start the answer to EACH question on a NEW PAGE.

6 For the questions, write the number of the question on the answer booklet(s) in the order you answered them.

7 Write your answers in paragraph form unless stated otherwise.

8 Keep your phone(s) SWITCHED OFF at the front of the examination room.

9 Keep ALL bags and caps at the front of the examination room and do not refer to any unauthorized material before or during the course of the examination.

10 You are only allowed to leave the examination room 30minutes to the end of the Examination.

QUESTION ONE: COMPULSORY (30 MARKS)

- a) Describe **five** characteristics of effective principles of corporate governance **[10 Marks]**
b) Explain **five** reasons for valuation of securities and shares of a company. **[10 Marks]**
c) Mirema Limited intends to raise funds in the fourth coming year as follows:

	Ksh
500,000 fully paid ordinary shares	5,000,000
Retained earnings	2,000,000
100,000, 8% preference shares	2,000,000

Additional information:

- The market value of ordinary shares is Ksh 26 per share
- The expected dividend on ordinary shares is Ksh 2 per share
- The growth rate in ordinary dividend is 6%

Required:

Calculate the Weighted Average Cost of Capital (WACC). **[8 Marks]**

- d) Distinguish between lease and mezzanine financing. **[2 Marks]**

QUESTION TWO (20 Marks)

- a) Explain **four** advantages of stock repurchase **[8 Marks]**
- b) Mambo Limited intends to borrow Ksh 4,000,000 or Ksh 3,400,000 to finance either project A or project B respectively. The following are the expected net cash inflows for the four years.

Year	project A Ksh	project B Ksh.
1	1,800,000	1,600,000
2	1,500,000	1,200,000
3	1,300,000	1,400,000
4	1,700,000	1,200,000

The cost of capital is 12% per annum

Required:

For each project, determine the:

- i. Net present value **[6 Marks]**
- ii. Profitability index **[4 Marks]**
- iii. Advise the management on the project to invest using each of the above two methods **[2 Marks]**

QUESTION THREE (20 Marks)

- a) Explain **four** factors to consider in the choice of capital structure of a company. **[8 Marks]**
- b) KQ limited is considering two mutually exclusive projects requiring an initial outlay of Ksh. 120, 000 each and a useful life of six years. The company's required rate of return is 12% and the tax rate is 30%. The project will be depreciated on a straight-line basis. The before depreciation and taxes cash flows expected to be generated by the projects are as follows:

Year	1	2	3	4	5	6
Project X(Ksh.)	30 000	30 000	30 000	30 000	30 000	30 000
Project Y(Ksh.)	50 000	20 000	20 000	30 000	40 000	30 000

Required:

Calculate for each project the Payback period (PBP). **(12 Marks)**

QUESTION FOUR (20 Marks)

- a) Explain **five** factors that affect cost of capital **[10 Marks]**
- b) Describe **five** approaches to managing political risk associated with international corporate financial management decisions **[10 Marks]**

*****END*****