

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

1ST SEMESTER 2023/2024 ACADEMIC YEAR

THIRD YEAR EXAMINATION FOR THE DEGREE
OF BACHELOR OF COMMERCE

BFIN 311/BCOM 332: CORPORATE FINANCE

STREAM:

TIME: 2 HRS

DAY: FRIDAY [8.30-10.30 A.M]

DATE: 15/12/2023

THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES

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INSTRUCTIONS:

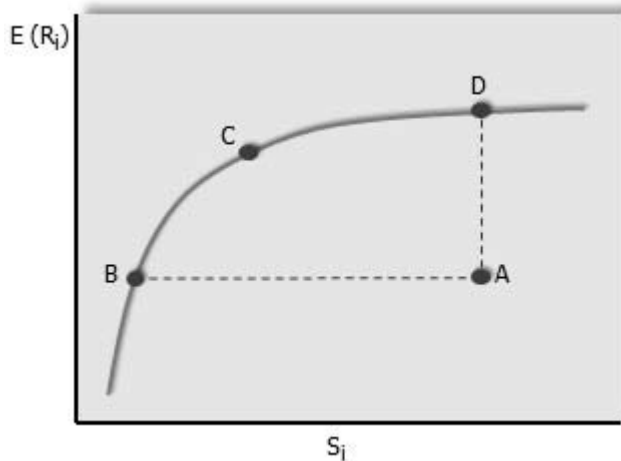
Answer questions one and any other two

QUESTION ONE (Compulsory, 30 Marks)

- a) Identify the four different approaches to the theory of capital structure and explain their simplifying assumptions. **(8 Marks)**
- b) A finance manager’s objective for the company’s dividend policy is to maximize owner wealth while providing adequate financing for the company. In view of this statement explain the various types of dividend policies available to a corporate firm. **(8 Marks)**
- c) Smith Corporation leased property under a 6-year lease requiring equal year-end annual payments of Shs.20, 000. The lessee's incremental borrowing rate is 12 percent.

Required:

- i) At the date of lease, determine the amount at which the lessee would report an asset and liability. **(2 Marks)**
- ii) Prepare for the corporation an amortization schedule for the first 2 years. **(4 Marks).**
- d) We have portfolios shown within and without the parabola.



Required:

In each case with reasons how would you select the best portfolio among A, B, C, and D.

(8 Marks)

QUESTION TWO

- a) Explain the key issues in evaluating a possible merger that a financial manager must consider critical in affecting performance of the company, **(8 Marks).**
- b) Sharav Company is considering purchasing Shilling law Corporation for Shs.80, 000 in cash. Sharav's current cost of capital is 15percent. Shilling law’s estimated overall cost of capital is expected to become 12percent after the acquisition. The estimated cash inflows from years 1to 12 are Shs.10, 000.

Required:

- Determine the company net present value and advise if the acquisition should proceed. **(6 Marks).**
- Explain the following terms on which arguments are always put forward for a merger:
- i) Vertical integration **(2 Marks).**
 - ii) Vertical integration. **(2 Marks).**
 - iii) Conglomerate integration **(2 Marks).**

QUESTION THREE

- a) Explain the disadvantages of Equity Shares as a form of financing for a business. **(10 Marks).**
- b) A petition for reorganization of X Company was filed. The trustee determined that the company's liquidation value after subtracting expenses was Shs.4.3million. The trustee estimates that the reorganized business will generate Shs.540, 000in annual earnings. The cost of capital rate is 12 percent.

Required:

- i) Assuming the earnings would continue indefinitely, determine the value of X Company as a going concern. **(8 Marks).**
- ii) With reasons, advice if reorganization should or should not proceed. **(2 Marks).**

QUESTION FOUR

- a) Determine the market value of the firm, value of shares and the average cost of capital from the following information. Net operating income Shs.100, 000 Total investments Shs.500, 000 Equity Capitalizations Rate:
 - i. If the firm uses no debt 10%
 - ii. If the firm uses Shs.25, 000 debentures 11%
 - iii. If the firm uses Shs.400, 000 debentures 13%
 Assume that Shs.500, 000 debentures can be raised at 6% rate of interest whereas Shs.400, 000 debentures can be raised at 7% rate of interest. **(15 Marks)**
- b) Highlight the key functions of strategic financial management. **(5 Marks)**

