

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

1ST SEMESTER 2023/2024 ACADEMIC YEAR

FOURTH YEAR EXAMINATION FOR THE DEGREE
OF BACHELOR OF COMMERCE

**BCOM 436: CONTEMPORARY ISSUES IN FINANCIAL
MANAGEMENT**

STREAM:

TIME: 2 HRS

DAY: THURSDAY [14.30-16.30 P.M]

DATE: 14/12/2023

THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES

PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.



INSTRUCTIONS:

- Attempt question ONE and any other TWO questions
- Do not write anything on your question paper.
- Use very recent and relevant examples in arguing out your ideas

QUESTION ONE

a) KCB Bank Ltd is considering the acquisition of NBK Bank Ltd. The following information relates to NBK Ltd for the next five years. The projected financial data are for the post-merger period. The corporate tax rate is 45% for both companies.

(Amounts are in Sh. “000”)

	2022	2023	2024	2025	2026
Net sales	1,250	1,360	1,610	1,840	1,810
Cost of sales	730	880	1,050	1,210	1,330
Selling and office expenses	105	125	135	155	165
Interest expenses	45	55	75	95	115

Other information:

- After the fifth year the cash flows available to KCB Bank Ltd from NBK Ltd is expected to grow by 12 percent per annum in perpetuity.
- NBK will retain Ksh 140,000 for internal expansion in the first three years.
- The cost of capital can be assumed to be 15 percent in the Kenyan financial markets.

Required:

- Estimate the annual cash flows inherent in this transaction **(10 marks)**
- Determine the maximum amount KCB Bank Ltd should be willing to acquire NBK Bank Ltd. **(5 marks)**
- As a corporate valuation expert, explain how you can perform a due diligence on a firm your company is contemplating acquiring to ensure the due diligence really works for your firm? **(5 marks)**



- b) Explain the role of investment banking community in mergers and acquisition transactions

(10 marks)

QUESTION TWO

- (a) Explain how the different levels of market efficiency can be tested and how to infer on how a capital market is efficient. **(5 marks)**
- (b) Financial markets are usually deemed to be informationally efficient. However, market anomalies have been reported by many research works. Explain the different anomalies reported by financial researchers which question the validity of the efficient markets theory. **(7 marks)**
- (c) Explain the important implications, which investors and corporate managers wishing to use capital markets can learn from the theory of efficient markets. **(8 marks)**

QUESTION THREE

- (a) Discuss the motives behind mergers and acquisitions which may add value to corporate shareholders **(10 marks)**
- (b) In recent time, three listed firms at the NSE (Access Kenya, CMC Motors, Rea Vipingo) have undergone hostile takeovers. Explain the defence strategies, which these Kenyan corporations could have instituted to insulate themselves from such hostile takeover attacks. **(10 marks)**

QUESTION FOUR

- (i). The Kenyan financial sector has witnessed the emergence of financial innovations. While mentioning some examples, explain the meaning of financial innovations. **(5 marks)**
- (ii). Explain the importance of financial innovations not only in financial markets but also in the overall Kenyan economy. **(9 marks)**
- (iii). Outline the possible dangers of the use financial innovations in the Kenya financial markets **(6 marks)**

QUESTION FIVE

Nairobi Securities Exchange (NSE) has just completed its second phase of automating its trading system, central depository and settlement systems, as well as Broker Back Office.

- (a) Discuss the benefits which the NSE expects to derive from the automation of its trading functions and auxiliary processes. **(10 marks)**
- (b) Explain the problems that the NSE has been facing as a result of automation of its functions and processes. **(10 marks)**

