



Quality Education for the Real World

GRE TSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY – AUGUST 2023 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCFI 300

COURSE TITLE: CORPORATE FINANCE

DATE: 31 JULY 2023

TIME: 8.00 AM – 11.00 AM

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: *All exam rooms are under CCTV surveillance during the examination period.*

SECTION A: COMPULSORY

QUESTION ONE

- a) Kasuku is the managing director of ABC limited. He has been encouraging the overall management of the firm to have the firm registered at the Nairobi Security Exchange. Explain five reasons he can use to convince the management to register the firm with the Nairobi Security Exchange **[10 Marks]**
- b) The shareholders of ABC limited are proposing a merger with KPL limited. Discuss five benefits the two firms will get as a result of the planned merger **[10 Marks]**
- c) Kamotho is the investment manager in KPAM limited a firm based in Ruiru town. He has identified two projects A and B both costing kshs 120,000. The economic life of the two projects is 5 years and the expected cashflow is as follows.

A INFLOW kshs	A:OUTFLOW kshs	B:INFLOW kshs	B:OUTFLOW kshs
400,000	350,000	120,000	0
560,000	500,000	200,000	1,000
800,000	700,000	150,000	5,000
250,000	200,000	189,000	9,000
120,000	70,000	207,000	1,000

Using the Net Present Value method of Capital Budgeting with a discounting rate of 12%, advise Kamotho the appropriate firm to invest in **[10 Marks]**

- d) Elaborate five reasons of starting up a business **[10 Marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

QUESTION TWO

- a) Karoki is a firm that has constantly been making profits over the years. Explain five dividend theories the firm's management considers when making a decision as to whether to issue out dividends or not **[10 Marks]**
- b) The firm in a above has a planned expansion for which the management intends to borrow funds to finance the planned expansion. Discuss five benefits the firm may achieve through debt financing **[10 Marks]**

QUESTION THREE

- a) Discuss five benefits of capital rationing **[10 Marks]**
- b) Eric has identified a project whose cost is kshs 50,000. The project is expected to earn the following cashflow over a period of 4 years: kshs 12,000, kshs 25,000, kshs 40,000 and kshs 34,000 respectively. As an expert in Corporate Finance matters, advise him on whether to invest in the project or not using the following capital budgeting techniques
- i. Payback period method (assuming Eric has a policy to only accept projects which pay within a period of 2 years) **[4 Marks]**
 - ii. Net Present Value Method **[6 Marks]**

QUESTION FOUR

- a) Explain five causes of conflicts between shareholders and management **[10 Marks]**
- b) Discuss five measures of solving conflict in a above **[10 Marks]**

QUESTION FIVE

Bilote limited is a France owned firm. The management are seeking to buy out Bitange limited a firm incorporated and operating in Kenya. The planned acquisition is on January 2024.

Required

- a) Explain five aspects of the economic environment that is likely to affect Bilote firm once it ventures into the Kenyan Market **[10 Marks]**
- b) Explain five challenges Bilote firm may have in the planned acquisition **[10 Marks]**