



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS

2023/2024 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS

BACHELOR OF SCIENCE IN ECONOMICS

COURSE CODE: ECF 2103-1

COURSE TITLE: CORPORATE FINANCE 1

DATE: 13/12/2023

TIME: 0830-1030 HRS

INSTRUCTIONS TO CANDIDATES

Answer Question ONE and any other TWO questions

All Examination Rules Apply

Read the exam booklet carefully

This paper consists of 4 printed pages. Please turn over.

QUESTION ONE (20 MARKS)

Consider the following balance sheets for the Mara Tours LTD.

MARA TOURS LTD		
Balance Sheets as of December 31, 2021 and 2022 (KES in thousands)		
	2021	2022
Assets		
Current assets		
Cash	KES 210	KES 215
Accounts receivable	355	310
Inventory	507	328
Total	KES1,072	KES 853
Fixed assets		
Net plant and equipment	KES6,085	KES6,527
Total assets	KES7,157	KES7,380
Current liabilities		
Accounts payable	KES 207	KES 298
Notes payable	1,715	1,427
Total	KES1,922	KES 1,725
Long-term debt	KES1,987	KES 2,308
Owners' equity		
Common stock and paid-in surplus	KES1,000	KES 1,000
Retained earnings	2,248	2,347
Total	KES 3,248	KES 3,347
Total liabilities and owners' equity	KES 7,157	KES 7,380

- a. Calculate the changes in the various accounts and, where applicable, identify the change as a source or use of cash. What were the major sources and uses of cash? Did the company become more or less liquid during the year? What happened to cash during the year?(10 marks)

Below is the most recent income statement for Mara Tours.

MARA TOURS LTD 2022 income statement

Sales	KES4,053
Cost of goods sold	2,780
Depreciation	550
Earnings before interest and taxes	<u>KES 723</u>
Interest paid	502
Taxable income	<u>KES 221</u>
Taxes (34%)	75
Net income	<u>KES 146</u>
Dividends	KES47
Addition to retained earnings	99

- b. Based on the balance sheets and income statement in the previous two problems, calculate the following ratios for 2022: Current Ratio, Cash Ratio, Return on Equity, Debt Ratio and Turnover ratios

(10 marks)

QUESTION TWO (15 MARKS)

- a. Define corporate finance and discuss 5 principles of corporate finance (7 marks)
- b. Capital budgeting, capital structure, working capital management, and dividend distribution are central elements of corporate finance, explain each (8 marks)

QUESTION THREE (15 MARKS)

- a. What are the most commonly used capital budgeting procedures? Describe each and their decision rules (10 marks)
- b. Suppose we are asked to decide whether or not a new consumer product should be launched. Based on projected sales and costs, we expect that the cash flows over the five-year life of the project will be KES2 Million in the first two years, KES 4 million in the next two, and KES5 Million in the last year. It will cost about KES10 Million to begin

production. We use a 10 percent discount rate to evaluate new products. What should we do here? What if inflation rises at 5% annually? (5 marks)

QUESTION FOUR (15 MARKS)

- a. Boom Ltd is into the provision of online conference call facilities which has become popular due to the rising trend in Covid-19 cases in Kenya. The company has 10 million issued shares currently at KES 50 each, 3 million preference shares trading at KES 25 each and 5,000 bonds also trading at KES 600 each. i) Calculate the Capital Structure of the Company. (8 marks)

- b. Shareholder value maximization is a core sustainable objective for shareholders than short term profit maximization. Also important to management is social responsibility to the community which is delivered at a great cost to the organization.
 - i. Is shareholder value maximization inconsistent with social responsibility? Explain. (4 marks)
 - ii. Explain why shareholders value maximization is considered more appropriate than profit maximization. (3 marks)

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