



MAASAI MARA UNIVERSITY
REGULAR UNIVERSITY EXAMINATIONS
2021 /2022 ACADEMIC YEAR
SECOND YEAR FIRST SEMESTER
SCHOOL OF BUSINESS & ECONOMICS
BACHELOR OF ECONOMICS
COURSE CODE: ECF 3103
COURSE TITLE: CORPORATE FINANCE 1

DATE:

TIME:

INSTRUCTIONS TO CANDIDATES

Answer question **ONE** and any other **THREE** questions

This paper consists of 2 printed pages. Please turn over

Question one

- a) Discuss the four managerial functions of the finance manager. **(8 marks)**
- b))
- c) A common investment product of a life insurance company is a guaranteed investment contract (GIC). With this investment, an insurance company guarantees a specified interest rate for a period of years. Suppose that the life insurance company agrees to pay 6% annually for a five-year GIC and the amount invested by the policyholder is Ksh.10 million. Determine the value of amount of the liability in five years (Future value). **(5 marks)**
- d) Agency theory provides a basis for explaining the relationship between management and shareholders.

Required

- i. Explain conflicts that may arise from the aboverelationship. **(5 marks)**
- ii. Explain five actions that may be taken to resolve the conflict between management and the shareholders. **(5 marks)**

Question two

- a) Discuss five factors that influence the working capital needs of a company. **(5 marks)**
- b) Koech has won a Christmas lottery and will receive the following inflows:

Year 1	Sh 200,000
Year 2	<u>Sh 500,000</u>
Total	<u>Sh 700,000</u>

- i) If interest rate is 6% compounded annually, what is the present value of the Christmas earnings? **(5 marks)**
- ii) If the interest rate is 6% compounded semi-annually, what is the present value of the Christmas earnings? **(5 marks)**

Question Three

- i) Define corporate finance and highlight three distinct characteristics of a corporate **(5marks)**
- ii) Rodgers Masengo just closed a Ksh.4, 000,000 business loan that is to be repaid in 3 years. The interest rate on the loan is 14%. Payments is to be paid semiannually in equal installments. Prepare an amortization schedule for the loan. **(10 marks)**

Question Four

You are a financial analyst for Ziwani Company. You have been asked to analyse two proposed capital investments project X and project Y. The cost of project X is sh. 800,000 while for project Y is sh. 850,000. The projects expected net cash flows are as follows:

Year	Project X Shs.	Project Y Shs.
1	420,000	190,000
2	120,000	90,000
3	320,000	120,000
4	180,000	220,000
5	80,000	120,000
6	50,000	320,000

The company's required rate of return is 10%. Assuming that the projects are mutually exclusive advice the one to choose the following evaluation techniques.

- i. Payback period (assume a maximum acceptable payback period of 4 years) **(5marks)**
- ii. Net present value. **(10 marks)**

Question Five

a) Highlight any four differences between ordinary share capital and debt capital **(4 marks)**

b) Banju enterprises limited had the following structure as at 31/12/2017

Ordinary shares:	sh
200,000 @ Sh 20 each	4,000,000
10% preference shares	1,000,000
14% debentures	3,000,000
Total Capital Employed	8,000,000

The shares of this company sell at 20/= each. It is expected that the company will pay next year a dividend of 2 shillings per share which will grow at 7% for ever. Assume a 50% tax rate. You are required to;

i) Compute the weighted average cost of capital based on existing capital structure **(5 marks)**

ii) Compute the new weighted average cost of capital if the company raises an additional Ksh 2,000,000 debt by issuing 15% debenture. This would result in increasing the expected dividends to Ksh 3/= and have the growth rate unchanged, but the price of the share will fall to Ksh 15per share. **(6 marks)**