



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATION

2022/2023 ACADEMIC YEAR

THIRD YEAR SECOND SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS

BACHELOR OF COMMERCE

COURSE CODE: BCM 3217-1

COURSE TITLE: ACORPORATE FINANCE

DATE : 21/4/2023

TIME:0830-1030 HRS

INSTRUCTIONS TO CANDIDATES

Answers question one and any other Two

QUESTION ONE

a) Return to shareholders impact on the company's share price .Discuss the factors considered by the company to assess shareholders needs in dividend policy **(4 Marks)**

b) Explain how assets are distributed in a company during liquidation **(4 Marks)**

c) Describe any THREE forms of business combination **(9 Marks)**

d) Discuss any THREE benefits of attracting institutional investors as majority share holders. **(3 Marks)**

QUESTION TWO

a) Explain the main reasons for business combination. (5 Marks)

b) The following is the capital structure of company ABC LTD as at 31st December 2020

Ordinary shares 100,000 shares of Shs 20,Shs 10 called up.	1,000,000
8% Shs 10 participative preference shares	600,000
10% Secured Debenture	400,000
8% Unsecured Debt	<u>200,000</u>
Total Capital Employed	<u>2,200,000</u>

The above finance has financed assets of the same value.

Assume that Company ABC Ltd was forced into liquidation on 1st January 2021. Explain how Kshs 3,000,000 asset proceeds would be distributed assuming that this company had an overdraft of Shs 400,000 at the time of liquidation. **(10 Marks)**

QUESTION THREE

a) To obtain share capital the company pays floatation costs. Explain the purpose of each cost. **(5 Marks)**

b) Explain the significance of cost of capital in business. **(5 Marks)**

c) Describe the four methods of issuing shares in a stock market. **(4 Marks)**

QUESTION FOUR

	KSHS
Quick Mart LTD had the following capital structure	
100,000 Ordinary shares Kshs 1 each	100,000
50,000 8% Preference share Kshs 1 each	<u>50,000</u>
	<u>150,000</u>

The market price as at 31st December of ordinary shares was Kshs 3. Declared dividend was 10%. In the year the total earnings were Kshs 68,000 and the tax was 50%. Required to calculate

- I. The dividend yield (3 Marks)
- II. Dividend cover (3 Marks)
- III. Earnings per share (3 Marks)
- IV. P/E ratio (3 Marks)
- V. Earnings yield (3 Marks)

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