



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS

MASTER OF BUSINESS ADMINISTRATION

COURSE CODE: MBA 8223

COURSE TITLE: CORPORATE FINANCE

DATE: 18/4/2023

TIME: 0830-1130 HRS

INSTRUCTIONS TO CANDIDATES

Answer Question **ONE** and any other **TWO** Questions

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

Question One

- a) As a financial manager, discuss factors affecting the capital structure of a firm. **(8 marks)**
- b) Abinaya company Ltd. expects a net operating income of sh. 200,000. It has sh.800,000 at 7% debentures. The overall capitalization rate is 10%.

Required:

- i) Calculate the value of the firm and the equity capitalization rate according to the net operating income approach. **(4 Marks)**
- ii) If the debenture debt is increased to sh. 1,200,000. What will be the effect on the value of the firm and on the equity capitalization rate? **(4 Marks)**
- c) Wain is a Portfolio Manager; he has been invited to give a talk on the major components of investment policy statement (IPS). Discuss the content of his talk. **(8 Marks)**
- d) James has decided to hold a portfolio with 60% invested in the S&P 500 U.S. stock index and the remaining 40% in the MSC emerging markets index. The expected return is 9.3% for S&P and 18.20% for the emerging markets. The risk is 16.21% for S&P and 33.1% for the emerging markets index. The co-variance between S&P and emerging markets index is 0.5%.

Required:

- i) The portfolio's expected return. **(3 Marks)**
- ii) The portfolio's expected risk. **(3 Marks)**

Question Two

- a) As a financial expert, you are invited to give a lecturer on the participants in the foreign exchange market to MBA students at Maasai Mara University. Discuss the content of your lecture. **(7 Marks)**
- b) Giving examples discuss how exchange markets work. **(8 Marks)**

Question Three

- a) There are two projects' Amber and Zaxo each involves an investment of Ksh. 50,000. The expected cash inflows and the certainty co-efficient are as under:

Year	Project Amber		Project Zaxo	
	Cash inflows (KES)	Certainty Coefficient	Cash inflows(KES)	Certainty coefficient
1	35,000	0.8	25,000	0.9
2	30,000	0.7	35,000	0.8
3	20,000	0.9	20,000	0.7

Risk-free cutoff rate is 10%. Suggest which of the two projects should be preferred. **(5 Marks)**

- b) Gordon is faced with a major executive decision about the choice of a project from two competing projects costing sh. 120,000 each. The criteria for the choice of a better project are based on the payback period. The following data are relative to these individual projects that are mutually exclusive.

Year	Project A (Ksh.)	Project B (Ksh.)
1	40,000	100,000
2	50,000	80,000
3	60,000	40,000
4	70,000	30,000

You are required to recommend the best project using payback period. **(6 Marks)**

- c) Explain FOUR limitations of internal rate of return. **(4 Marks)**

Question Four

- a) Mr. Kiogora has won a lottery and is expecting to receive Ksh. 2000 at the end of each year for the next 15 years. What is the present value of Ksh. 2000 due to be received at the 11% discount rate? **(4 Marks)**
- b) Maco company raises preference share capital for perpetuity of 1,000,000 by issue of 10% preference shares of Ksh. 10 each. The company is in 30% tax bracket. Calculate the cost of preference capital when they are issued at:
- Par **(3 Marks)**
 - 10% discount **(4 Marks)**
 - 10% premium **(4 Marks)**

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