



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS & ECONOMICS

**UNIVERSITY EXAMINATIONS FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT**

4th YEAR 2ND SEMISTER 2016/2017 ACADEMIC YEAR

KISII CAMPUS –PART TIME

CODE: ABA 420

COURSE TITLE: CORPORATE FINANCE

EXAM VENUE:

STREAM: BBA

DATE :

EXAM SESSION

TIME : 2HRS

Instructions:

- 1. Answer question one (compulsory) and any other three questions**
- 2. Candidates are adviced not to write on the question paper**
- 3. Candidate must hand in their answer booklets to the invigilator while in the examination room.**

QUESTION ONE

- a) Differentiate between the following term
- i) Primary market and secondary markets. (2marks)
 - ii) Money market and capital markets (2marks)
- b) Kenyan financial and money markets have been fluctuating due to foreign exchange deviations. explain five factors that may have caused the deviations (10marks)
- c) Ktv ltd capital structure as at 31st December 2014 was as follows
- | | |
|----------------------|---------|
| Ordinary shares | 600,000 |
| 8% preference shares | 400,000 |
| 10% loan | 300,000 |
| 12% debentures | 400,000 |
- Additional information
- i) Ordinary shares are selling at shs. 41 per share and issue cost was 1 shilling
 - ii) Preference shares are selling at 20 sh per share
 - iii) Expected ordinary dividends per share is sh 3 and growth rate is 6% p.a
 - iv) The corporate tax is 35%
- Required
- i) Ktv limited component cost of capital
 - ii) WACC (8marks)
- d) Write short notes on the following terms as used in mergers
- i) Vertical merger. (1marks)
 - ii) Horizontal merger (1marks)
 - iii) Conglomerate merger. (1marks)

QUESTION TWO

- a) Explain the various functions of financial markets in kenya. (10marks)

- b) Differentiate between futures and forward and state how companies can utilize them in spreading risk. (5marks)

QUESTION THREE

- a) Explain five strategies which may be adopted by a firm facing hostile takeover in an effort to counter it. (7marks)
- b) Explain the important objectives of exchange control in an organisation. (4marks)
- c) Explain four theories that link exchange rates, inflation and interest rates. (4marks)

QUESTION FOUR

- a) Agency problems are rampant to many companies although they slightly differ from one company to another. Explain the major situations in a company that form the agency problems between managers and shareholders. (10marks)
- b) Briefly explain the main sources of :
- i) Short term finances in a firm. (3marks)
- ii) Long term finances in a firm (2marks)

QUESTION FIVE

- a) Explain five reasons behind failed mergers. (10marks)
- b) Suppose the shares of two companies X and Y , have the following probability distributions

State of the economy	Probability	Return on X	Return on Y
boom	0.3	22%	3%
Steady growth	0.5	10%	28%
Slump	0.2	0%	-3%

- i) Calculate their expected returns. (2marks)
- ii) Standard deviation. (3marks)