



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**SCHOOL OF BUSINESS & ECONOMICS**

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

**4<sup>th</sup> YEAR 2<sup>ND</sup> SEMISTER 2016/2017 ACADEMIC YEAR**

**KISII CAMPUS –PART TIME**

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**CODE: ABA 420**

**COURSE TITLE: CORPORATE FINANCE**

**EXAM VENUE:**

**STREAM: BBA**

**DATE :**

**EXAM SESSION**

**TIME : 2HRS**

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**Instructions:**

- 1. Answer question one (compulsory) and any other three questions**
- 2. Candidates are advised 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 31<sup>st</sup> 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)