



**JARAMOGI OGINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITY EXAMINATION
FOR DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT
4th YEAR 1ST SEMESTER 2016/2017 ACADEMIC YEAR
BUSIA LEARNING CENTRE**

COURSE CODE: ABA 420

COURSE TITLE: CORPORATE FINANCE

EXAM VENUE:---

STREAM: (BBA – FINANCE)

DATE: 19/12/16

EXAM SESSION: 2.00 – 4.00PM

TIME : 2.00 HOURS

Instructions:

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

QUESTION ONE

- a) Koyonzo Manufacturers Limited, a listed company at the Nairobi Stock exchange has issued common and preferred stock. The stockholders' equity section of Koyonzo are as follows:

6% preferred stock, kshs: 100 par value, 10,000 shares issued and outstanding	1,000,000	
Common stock, kshs: 5 par value, 150,000 shares issued and outstanding		750,000
Additional paid-in capital		<u>1,500,000</u>
		3,250,000
Retained Earnings		<u>120,000</u>
		<u>3,370,000</u>

The preferred stock is cumulative and dividend amounting to kshs: 50,000 is in arrears.

- i) Calculate book value per share (10 marks)
 - ii) Enumerate five factors affecting market price of preferred stock (10 marks)
 - iii) Distinguish between common and preferred stock (2 marks)
- b) If the company in (a) above had only issued common stock and no preferred stock, calculate the company's book value per share from the stockholders' equity section. (8 marks)

QUESTION TWO

- a) Distinguish between debt and equity financing (5 marks)
- b) Company X has short-term debt of kshs: 10 million; long-term debt of kshs: 50 million and shareholders' equity of kshs:100 million.
Calculate:
- i) Debt-Equity ratio (4 marks)
 - ii) Long-term debt to capitalization (4 marks)
 - iii) Total debt to capitalization (4 marks)
- c) Interpret your findings in (b) above (3 marks)

QUESTION THREE

- a) Discuss the various types and sources of finance (7 marks)
- b) List Five principles of corporate finance (5 marks)
- c) Distinguish between:
 - (i) Capital and money markets (4 marks)
 - (ii) Future and forward markets (4 marks)

QUESTION FOUR

Explain:

- a) The Modigliani and Miller approach to capital theory (5 marks)
- b) The assumptions of Modigliani and Miller theory (5 marks)
- c) The Modigliani and Miller theory Propositions without taxes (5 marks)
- d) The Modigliani and Miller theory Propositions with taxes (5 marks)

QUESTION FIVE

Examine the following theories under capital structure and their implications:

- i) The pecking-order (5 marks)
- ii) Trade-off (5 marks)
- iii) Signaling (5 marks)
- iv) Market- Timing (5 marks)