



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

**UNIVERSITY EXAMINATIONS FOR BACHELOR DEGREE IN  
BUSINESS ADMINISTRATION**

**END OF SEMESTER EXAMINATION FOR 2016 ACADEMIC YEAR**

**4<sup>TH</sup> YEAR 2<sup>ND</sup> SEMESTER 2016/2017 ACADEMIC YEAR**

**KENDU BAY LEARNING CENTRE**

**COURSE CODE: ABA 420**

**COURSE TITLE: CORPORATE FINANCE**

**INSTRUCTIONS:**

- 1. Answer question ONE and any other two**
- 2 . Candidate are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklet to the invigilator before leaving the exam room**

### QUESTION ONE (COMPULSORY)

The following information relates to company XYZ Ltd for the financial period ended 30<sup>th</sup> June 1016.

Total revenue	375,000.00
Fixed costs	30,000.00
Variable costs	300,000.00

Additional information:

1. Depreciation is charged over the 10 years useful life of the company assets
2. Cost of capital is 10%
3. Taxation is at 50%
4. Initial capital outlay is Ksh.150,000.00

Required

- a) Calculate the projects NPV and advise management on viability of the project (10 marks)
- b) Carry out sensitivity analysis in respect of revenue per annum establishing the breakeven level of revenue. (10 marks)
- c) Calculate the percentage change required to achieve break even revenue. (3 marks)
- d) Establish at what point will the company's NPV equal zero (3 marks)
- e) Using CAPM model, calculate the expected return for a stock in the market with a risk-free rate of 2% with a beta of 2. The expected market return over the period is 10%. (2 marks)

### QUESTION TWO

- a) Compare international financial management with domestic financial management citing the four broad areas that brings out the difference (10 marks)
- b) What reasons motivate companies to invest capital abroad. (10 marks)

### QUESTION THREE

- a) Explain how exchange rate movements affect a nation's trading relationships with other nations. (6 marks)

b) Explain exchange rate and state the relationship between exchange rates, inflation and interest rates (14 marks)

#### **QUESTION FOUR**

a) Discuss the distinctions between debt financing and equity financing as major sources of financing for corporate companies (10 marks)

b) Explain the following classes of acquisitions:

- i. Merger (2 marks)
- ii. Consolidation (2 marks)
- iii. Tender offer (2 marks)
- iv. Purchase of assets (2 marks)
- v. Management buy outs /leveraged buyouts (2 marks)

#### **QUESTION FIVE**

a) Discuss the principles of corporate finance (12 marks)

b) Explain a future as used in financial markets giving relevant example (8 marks)