



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

UNIVERSITY EXAMINATION 2012/2013

**2ND YEAR 1ST SEMESTER EXAMINATION FOR THE DEGREE
OF MASTER OF BUSINESS ADMINISTRATION
(KISUMU LEARNING CENTRE –SB)**

COURSE CODE: MBA 823

COURSE TITLE: CORPORATE FINANCE

DATE: 1/5/2013

TIME: 9.00-12.00 NOON

DURATION: 3 HOURS

INSTRUCTIONS

- 1. This paper contains SIX (6) questions**
- 2. Answer question 1 (Compulsory) and ANY other 3 Questions**
- 3. Write all answers in the booklet provided**

1. Highlight the formal strategy that a financially distressed firm can adopt to restructure the financial structure of the firm **(15mks).**

2. The following information relates to the company X and company Y

	Company X	Company Y
Present earnings	shs 20million	Shs 6million
Number of shares	shs 6million	shs 2million
Earnings per share	shs 3.33	shs 3.00
Market share per share	shs 60.00	shs 30.0
P / Ratio	shs. 18	shs. 10

Company X offers 066% shares for each share of the company Y to acquire the company.

Required

- i) The combined effect of earnings per share (7mks)
- ii) What advice do you give the target company based on synergy (8mks)

3. Mama Kali decides to buy a small super market at Konza City costing Kshs 15 million and take out a loan a fixed interest at 10% over 5 years. The loan is repaid in five equal installments starting at the end of the first year. The amount should be fully amounted.

Required

- i) Annual repayment amount (5mks)
- ii) Repayment schedule showing the total amount interest paid and total principal amount for the entire loan period. (10 mks)

4. Long term sources of financial are critical to the success of an organization. Describe the features that can be considered when selecting a long term source of finance. (15mks)

5. You have been asked to produce briefing memo for senior management staff at Talela Millers Ltd on the subject of roles of traditional managers and financial managers. Your memo should describe the various roles in the context of their differences. (15mks).

6. In 2012, after spending your evening in studying the basics principles of shares evaluation and dividend growth model. You decided to put your knowledge to good use by estimating a value for Gaddafi's shares. A guide visit to the internet allows you to establish Gaddafi's dividend history over the period 2001 to 2008.

2001 – 75

2002 – 93

2003 – 113

2004 – 119

2006 – 172

2007 – 210

2008 – 347

Required

- a) What is the compound annual growth rate in Gaddafi's dividend (7mks)
- b) Do you think it is reasonable to assume a constant growth rate for Gaddafi's shares (8 mks)

End