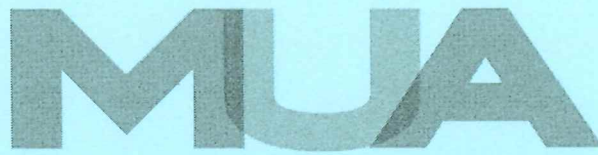


The
Management
University
of Africa



Sponsored by the Kenya Institute of Management

UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

FIN 312: CORPORATE FINANCE

DATE: 17TH DECEMBER 2024

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

Preparing Financial Forecasts

Teknologia Inc. is a mid-sized technology company specializing in software development and IT consulting. The company has experienced steady growth over the past five years and is planning to expand its operations. The management team is preparing a financial forecast for the next three years to secure additional funding from investors and guide strategic planning. Technologies' Current annual revenue is \$10 million, annual growth rate is 10%, current annual expenses are \$7 million, expense growth rate is 8%, current annual capital expenditures are \$1 million, capital expenditure growth rate is 5% while the tax rate is 25%.

Teknologia's expansion plans include: launching a new product line expected to generate an additional \$2 million in revenue in the first year, growing at 15% annually; increase marketing expenses by \$500,000 in the first year, growing at 10% annually and hire additional staff, increasing personnel expenses by \$1 million in the first year, growing at 5% annually.

Required:

- a) Demonstrate how you would project revenue and expenses for the next three years **(9 marks)**
- b) Determine the projected net income for the next two years **(4 marks)**
- c) Assess three key ratios that would be useful in projection of revenue and expenses **(6 marks)**
- d) Analyze how the financial forecast will be presented to potential investors **(6 marks)**

QUESTION TWO

- a) Describe four common techniques used for cash management **(8 marks)**
- b) One of the measures instituted by the Nairobi Stock Exchange to encourage higher trade volumes included day trading which sometimes saw the sales figures increase from an average of Kshs.25 million in one year to Kshs. 30 million in another year. Compute the sales index in this case. **(7 marks)**

QUESTION THREE

- a) During mergers and acquisitions (M&A), various financial terms of exchange are employed to facilitate the transaction. Examine five such financial terms of exchange **(10 marks)**
- b) The following information has been provided on the NPV and IRR of four projects.

Project	NPV	IRR
A	300	40
B	200	35
C	300	40
D	600	30

Two options have been provided for consideration as below:

- Option 1- Undertake projects A,B and C
- Option 2- Undertake projects C and D

Required:

Evaluate the two options that have been presented **(5 marks)**

QUESTION FOUR

- a) Evaluate the difference between Tax Preference Theory and Signaling Theory in their attempt to explain when to pay dividends **(6 marks)**
- b) The following financial statements extracts have been provided for company X

Balance Sheet 2023

Liabilities	Ksh.	Assets	Ksh.
Equity share capital	100,000	Land and Buildings	50,000
General reserves	12,500	Plant & machinery	57,500
Creditors	10,000	Stock	10,000
Bills payable	5,000	Debtors	7,500
Provident fund	12,500	Cash & bank	15,000
	<u>140,000</u>		<u>140,000</u>

Profit & Loss A/C 2023

Particulars	Ksh.	Particulars	Ksh.
To Opening Stock	5,000	By Sales	62,500
To Purchases	37,500	By Closing Stock	10,000
To Office Expenses	7,500	By Profit on Sale of Furniture	2,500
To Selling Expenses	5,000		
To Finance Expenses	2,500		
To Net Profit	17,500		
	<u>75,000</u>		<u>75,000</u>

Required:

Calculate the following ratios:

- i. Current Ratio (3 marks)
- ii. Gross Profit Margin (3 marks)
- iii. Stock Turnover Ratio (3 marks)

QUESTION FIVE

- a) Examine three limitations of the profit maximization goal (6 marks)
- b) A project has the following cashflows

<i>Year 1</i>		<i>Year 2</i>	
<i>Cashflow</i>	<i>Probability</i>	<i>Cashflow</i>	<i>Probability</i>
60,000	0.3	50,000	0.3
		60,000	0.5
		70,000	0.2
80,000	0.4	60,000	0.3
		80,000	0.5
		100,000	0.2
100,000	0.3	80,000	0.3
		100,000	0.5
		120,000	0.2

The projects initial cash outlay is Kshs. 100,000 with a cost of capital of 12%.

Required:

Determine the project's expected monetary value (EMV) and NPV (9 marks)

QUESTION SIX

- a) Examine three conditions that would make loan finance an ideal source of finance for a company (6 marks)
- b) The following is the capital structure of XYZ Ltd as at 31/12/2018.

	Sh. Million
Ordinary share capital Kshs. 10 par value	400
Retained earnings	200
10% preference share capital Kshs. 20 par value	100
12% debenture Kshs. 100 par value	<u>200</u>
	900

Additional information

- i. Corporate tax rate is 30%
- ii. Preference shares were issued 10 years ago and are still selling at par value
MPS=Par value
- iii. The debenture has a 10-year maturity period. It is currently selling at Kshs. 90 in the market.
- iv. Currently the firm has been paying dividend per share of Kshs. 5. The dividend is expected to grow at 5%p. a. in future. The current market price per share is Kshs. 40.

Required

Determine the cost of equity and the cost of debt of the firm (9 marks)

