



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE/BACHELOR OF BUSINESS ADMINISTRATION

BFI 4304 CORPORATE FINANCE

SPECIAL AND SUPPLEMENTARY EXAMINATION

SERIES: JULY 2025

TIME: 2 HOURS

DATE: Pick Date Select Month Pick Year

Instructions to Candidates

You should have the following for this examination.

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

QUESTION ONE: COMPULSORY (30 MARKS)

- a) Expound **five** features of effective principles of corporate governance (10Marks)
- b) Describe **five** considerations for valuation of securities and shares of a company. (10Marks)

- c) Murima Limited intends to raise funds in the fourth coming year as follows:

	Ksh
500,000 fully paid ordinary shares	5,000,000
Retained earnings	2,000,000
100,000, 8% preference shares	2,000,000

Additional information:

- The market value of ordinary shares is Ksh 26 per share
- The expected dividend on ordinary shares is Ksh 2 per share
- The growth rate in ordinary dividend is 6%

Required:

- a) Calculate the Weighted Average Cost of Capital (WACC). (8Marks)
- b) Differentiate between lease and mezzanine financing. (2 Marks)

Question TWO

- a) Discuss **four** advantages of stock repurchase (8Marks)
 b) Mambo Limited intends to borrow Ksh 4,000,000 or Ksh 3,400,000 to finance either project Y or project Z respectively. The following are the expected net cash inflows for the four years.

Year	project Y Ksh	project Z Ksh.
1	1,800,000	1,600,000
2	1,500,000	1,200,000
3	1,300,000	1,400,000
4	1,700,000	1,200,000

The cost of capital is 12% per annum

Required:

For each project, determine the:

- i. Net present value (6Marks)
- ii. Profitability index (4Marks)
- iii. Advise the management on the project to invest using each of the above two methods (2Marks)

Question THREE

- a) Elucidate **four** factors to consider in the choice of capital structure of a company. (8Marks)
- b) Maweni limited is considering two mutually exclusive projects requiring an initial outlay of Ksh. 120, 000 each and a useful life of six years. The company's required rate of return is 12% and the tax rate is 30%. The project will be depreciated on a straight-line basis. The before depreciation and taxes cash flows expected to be generated by the projects are as follows:

Year	1	2	3	4	5	6
Project X(Ksh.)	30 000	30 000	30 000	30 000	30 000	30 000
Project Y(Ksh.)	50 000	20 000	20 000	30 000	40 000	30 000

Required:

Calculate for each project the Payback period (PBP). (12Marks)

Question FOUR

- a) Criticism the assumptions of the Black-Scholes model (10Marks)
- b) Delineate **five** approaches to managing political risk associated with international corporate financial management decisions (10Marks)

Question FIVE

- a) An investor has a \$100,000 portfolio with 50% in stocks (beta 1.2), 30% in bonds (beta

- 0.5) and 20% in cash (beta 0). Calculate the portfolio's beta if the market benchmark beta is 1.0 **(3Marks)**
- b) An equity fund has average returns of 15% over the past 5 years. Its standard deviation is 9% while the market standard deviation is 12%. Calculate the fund's Sharpe ratio if the risk-free rate is 4% **(4Marks)**
- c) An investor has a \$100,000 portfolio allocated 60% to equities, 30% to bonds and 10% to cash. If equities lose 20%, bonds lose 5% and cash stays stable in a crisis, Calculate the portfolio's total loss **(4Marks)**
- d) Discuss any three theories of dividend policy in corporate finance **(9Marks)**