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Knowledge for Development

UNIVERSITY REGULAR EXAMINATIONS

DEPARTMENT OF BUSINESS MANAGEMENT AND ECONOMICS

2013/2014 ACADEMIC YEAR

COURSE CODE: BCF 303

COURSE TITLE: CORPORATE FINANCE

DATE: 13TH AUGUST, 2014

TIME: 2:00P.M.-5:00P.M.

INSTRUCTIONS: Answer question one and any other 3 questions

QUESTION ONE

- a) i) The next dividend for the Veil Company will be Kshs 4 per share. Investors required a 16 percent return on companies such as Veil. Veil's dividend increases by 6 percent every year. Based on the dividend growth model, what is the value of Veil's stock today? (4 Marks)
- ii) What is the value in four years? (4 Marks)
- b) Distinguish three levels of market efficiency according to Eugene Fama (6 Marks)
- c) List and explain the disadvantages of payback period (4 Marks)
- d) Explain the principles of corporate finance (7 Marks)

QUESTION TWO

Like any other investment bonds should be viewed in terms of their risk and returns. List and explain the diverse risks that bonds are subjected to (15 Marks)

QUESTION THREE

- a) Risk emanates from several sources in a company. List and explain at least three major sources of risks (9 Marks)
- b) Explain the benefits of Global investing (6 Marks)

QUESTION FOUR

- a) The goal of profit maximization is a traditional objective of a company. Nevertheless this objective has some limitations. List and explain these limitations (6 Marks)
- b) A project has the following cash flows

Year	1	2	3	4
C.F	300	400	400	900

The cost of the project is Kshs 1500. Determine whether the project is acceptable if the cost of capital is 18% p.a using the IRR method (9 Marks)

QUESTION FIVE

- i) Explain the financial complications that arise in international capital budgeting (6 Marks)
- ii) List and describe the procedures for estimating NPR in the case of international project (6 Marks)
- iii) Define the term blocked funds (3 Marks)