GARISSA UNIVERSITY COLLEGE

(A Constituent College of Moi University)

UNIVERSITY EXAMINATION 2016/2017 ACADEMIC YEAR <u>THREE</u> <u>SECOND</u> SEMESTER EXAMINATION

<u>SUPPLEMENTARY/SPECIAL EXAMINATION</u>

SCHOOL OF BUSINESS AND ECONOMICS
FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 312

COURSE TITLE: CORPORATE FINANCE

EXAMINATION DURATION: 3 HOURS

DATE: 22/03/17   **TIME: 2 .00-5.00 PM**

INSTRUCTION TO CANDIDATES

- **The examination has SIX (6) questions**

- **Question ONE (1) is COMPULSORY**

- **Choose any other THREE (3) questions from the remaining FIVE (5) questions**

- **Use sketch diagrams to illustrate your answer whenever necessary**

- **Do not carry mobile phones or any other written materials in examination room**

- **Do not write on this paper**

This paper consists of THREE (3) printed pages   *please turn over*

QUESTION ONE (COMPULSORY)

a) State the three divisions of finance. **[3 marks]**

b) What do we mean by discounting in relation to time value of money **[3 marks]**

c) Show that Fv=P(1+RT), WHERE: Fv is the future value of an amount P deposited today.

    [5 marks]

d) Explain why people prefer money now rather than in the future **[5 marks]**

e) Derive the basic accounting equation, which is key in all financial statements **[3 marks]**

f) State the three main types of financial statements **[6 marks]**

QUESTION TWO

Suppose a businessman has one million Kenya shillings to start a business. On a given day, he buys goods worth one million and sells them at 1.5 million Kenya shillings. for that day, come up with:

  i. Cash flow statement **[5 marks]**

  ii. Income statement **[5 marks]**

  iii. Balance sheet **[5 marks]**

QUESTION THREE

(a) What do we mean by cost of borrowing **[2 marks]**

(b) How much should one deposit now, in a bank account that pays a simple interest of 11% p.a. to earn 6 million Kenya shillings in five years **[5 marks]**

(c) Suppose in the above scenario, the bank was paying 11% compound interest. What would the customer deposit today to earn the same amount in five years **[5 marks]**

(d) In your own words, then, distinguish between simple and compound interest. **[3 marks]**

QUESTION FOUR

Write notes on the following, giving examples:

  (a) The payback period method **[3 marks]**

  (b) The net present value **[3marks]**

  (c) Internal rate of return **[3 marks]**

  (d) Accounting rate of return **[3 marks]**

  (e) Project appraisal **[3 marks]**

QUESTION FIVE

  Briefly discuss the following sources of finance:

   i.   Short-term financial sources **[3 marks]**

  ii.   Medium term financial sources **[3 marks]**

  iii.   Long term financial sources **[3 marks]**

  iv.   Distinguish between assets and liabilities **[3 marks]**

  v.   What do we mean by owners equity? **[3 marks]**

QUESTION SIX

  (a) Highlight the guidelines followed in share price determination. **[5 marks]**

  (b) Describe how dividend policy is established. **[3 marks]**

  (c) In your own words, describe agency cost **[3 marks]**

  (d) Explain the concept, financial leverage **[4 marks]**