MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM MANAGEMENT

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

THIRD YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE (FINANCE OPTION)

BAC308 CORPORATE FINANCE

DATE: **TIME:**

INSTRUCTIONS

        Answer question one and any other two questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a)   Explain what a Capital market line (CML) is, and indicate its importance.   (5 marks)

b)   Due diligence is a common thread that runs throughout much of the Merger and Acquisition Process.
Explain the various aspects explored of the proposed merger, in answering what kind "fit" exists between the two companies.   (12 marks)

c)   Majembe ltd has an outstanding ksh. 40,000 bond ths is convertible into common stock at ksh. 2,000 per share. The current market price is ksh. 1,200 per share.
Calculate the conversion value.   (5 marks)

d)   Explain four theories that focus on operations of financial markets   (8 marks)

QUESTION TWO (20 MARKS)

a)   Explain "efficient frontier" according to modern portfolio theory, and graphically demonstrate how it can be represented from attainable set of investment   (10 marks)

b) KijikoCompany is considering the acquisition by shares of Sufuria Company . The following information is available.

	Kijiko Company	Sufuria Company
Present earnings	Shs 10,000,000	Shs 2,500,000
Shares	2,500,000	1,000,000
Earnings per share	Shs 2	Shs 1.25
Price/earning ratio	8	6
Price of shares	Sh 32	Sh 15

SufuriaCompany has agreed to an offer of Shs 17.5 a share to be paid in Kijiko Company shares.

Required:

Consider the effect of the acquisition to the earnings per share.   (10 marks)

QUESTION THREE (20 MARKS)

Four assets have the following distribution of returns.

Probability Occurrence	Rate of return (%)			
	A	B	C	D
0.1	16.0%	11.0%	14.0%	12.0%
0.2	12.0	15.0	12.0	16.0
0.4	10.0	10.0	16.0	9.0
0.2	14.0	12.0	8.0	15.0
0.1	11.0	14.0	12.0	20.0

Required;

i. Compute the expected return and standard deviation of each asset.   (6 marks)

ii. Compute the covariance of asset
    i.   A and B   (2 marks)
    ii. B and C   (2 marks)
    iii. B and D   (2 marks)

iii. Compute the correlation coefficient of the combination of assets in b above.   (8 marks)

QUESTION FOUR (20 MARKS)

a)   Explain six reasons that may necessitate businesses to consider short term loan to finance their operations. (12 marks)

b)   Expound the different ways in which efficient market hypothesis can be explained.
(8 marks)

QUESTION FIVE (20 MARKS)

a)   Explain the overall merger process for two or more companies merging.
(10 marks)

b)   Outline five participants in project finance. (10 marks)