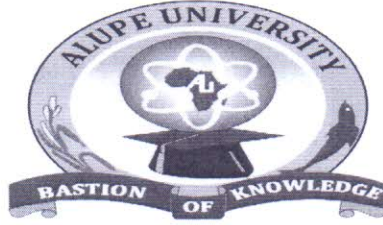


BBM 312



OFFICE OF THE DEPUTY VICE CHANCELLOR
ACADEMICS, RESEARCH AND STUDENT AFFAIRS

UNIVERSITY EXAMINATIONS

2024 /2025 ACADEMIC YEAR

THIRD YEAR SECOND SEMESTER MAIN EXAMINATION

**FOR THE DEGREE OF BACHELOR OF BUSINESS
MANAGEMENT**

COURSE CODE: BBM 312

COURSE TITLE: CORPORATE FINANCE

DATE: 22ND APRIL 2025

TIME: 2 TO 5 P.M

INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 3 PRINTED PAGES

PLEASE TURN OVER

BBM 312

MAIN EXAM

BBM 312: CORPORATE FINANCE

STREAM: BBM

DURATION: 3 Hours

INSTRUCTIONS TO CANDIDATES

- i. Answer Question **ONE** and any other **TWO** questions.
- ii. Maps and diagrams should be used whenever they serve to illustrate the answer.
- iii. Do not write on the question paper.

QUESTION ONE

- (a) Justify the statement that enterprise value measure or corporate valuation is superior as it looks at the entire market value (3 Marks)
- (b) In financial statement analysis, an organization's statement of financial position is looked at to determine the operational efficiency of a business through key analysis. Support this statement. (6 Marks)
- (c) Describe the vital financial planning considerations that a financial manager should observe. (8 Marks)
- (d) Contrast liquidating and bonus forms of dividend payments (4 Marks)
- (e) The following information was extracted from the books of Asali Limited;
5% Debentures \$250,000
Expected net income \$100,000
Company's equity capitalization rate 10%
Required: Using net income approach, compute
 - (i) The value of the firm (6 Marks)
 - (ii) The overall capitalization rate (3 Marks)

QUESTION TWO

Agency relationship is created given the principals' appointment of agent. However, there exists agency conflicts in most organization. In line with this statement, explain the following;

- (a) Genesis of agency conflicts between shareholders and Management (12 Marks)
- (b) Agency costs the shareholders are ready to incur as part of conflict resolution with their managers (8 Marks)

QUESTION THREE

Access Bank has provided the following information regarding Project A and Project B;

	Project A		Project B	
Year	Cash flow (\$)	Certainty Equivalent	Cash flow (\$)	Certainty Equivalent

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0	50,000		50,000	
1	40,000	0.5	32,000	0.6
2	32,000	0.6	41,000	0.7
3	25,000	0.4	32,000	0.8
4	31,100	0.5	29,500	0.5

Required;

- (i) Advise the bank on the project to undertake if the discount rate is 12% using certainty equivalent technique (12 Marks)
- (ii) The key determinants that might affect the bank's decisions to undertake this capital project (8 Marks)

QUESTION FOUR

- (a) Cost of capital is the integral part that most organizations cannot ignore. Support this statement. (8 Marks)
- (b) Rama Company limited issues 120,000, 8% debentures of Shs.10 each. The cost of floatation is 4%. The rate of taxation applicable to the company is 55%.

Required; Compute the cost of debt capital if;

- (i) Debentures were issued at a premium of 10% (6 Marks)
- (ii) Debentures were issued at a discount of 5% (6 Marks)

QUESTION FIVE

Financial ratios are created with the use of numerical values from financial statements so as to gain a meaningful information relating to firm's performance. In view of this statement, explain the following financial ratios while outlining three kinds of ratios under each;

- (a) Liquidity ratios (5 Marks)
- (b) Activity ratios (5 Marks)
- (c) Market value ratios (5 Marks)
- (d) Profitability ratios (5 Marks)