



FACULTY OF BUSINESS SCIENCES AND MANAGEMENT

DEPARTMENT OF MARKETING

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**BACHELOR OF COMMERCE HONOURS DEGREE IN MARKETING**

FINAL EXAMINATION

**CORPORATE FINANCE [BMA2203]**

JUNE 2024

DURATION: 3 HOURS

**INSTRUCTIONS**

1. Answer **ALL** QUESTIONS
2. Begin each question on a new page.
3. Please indicate the study format (Conventional/Block) on the cover of your answer script.

**INFORMATION**

1. Marks per question are as indicated.
2. Questions may be attempted in any order.
3. Formulas are attached at the end of this question paper.

**ADDITIONAL MATERIALS**

None

**This paper consists of 7 printed pages including the cover page**

**SECTION A: MULTIPLE CHOICE QUESTIONS**

1. In finance, we refer to the market where new securities are bought and sold for the first time? **[2 marks]**

- a) Money market
- b) Capital market
- c) Primary Market
- d) Secondary market

2. Which one of the following can issue the corporate bond? **[2 marks]**

- a) Individuals
- b) Private companies
- c) Government
- d) All of the above

3. Which of the following is the activity which finance people are involved? **[2 marks]**

- a) Investing decisions
- b) Marketing decisions
- c) Promotion decisions
- d) None of the above

4. What should be the long term focal point of financial management in a firm? **[2 marks]**

- a) The number and types of products or services provided by the firm
- b) The creation of value for shareholders
- c) The minimization of the amount of taxes paid by the firm
- d) The profits earned by the firm

5. Financing decision determines? **[2 marks]**

- a) Current asset
- b) Fix asset
- c) Equity
- d) Mix of finance

6. Profit maximization is a?

**[2 marks]**

- a) Long term concept
- b) Short term concept
- c) Both a & b
- d) None

7. What are the three interrelated areas of finance?

**[2 marks]**

- a) Financial markets, option and forwards
- b) Banking, financial institutions and swap currency
- c) Investment, Financial management and Financial market & Financial institution
- d) All of above

8. Which of the following is not normally a responsibility of the controller of the modern corporation?

**[2 marks]**

- a) Budgets and forecasts
- b) Asset management
- c) Financial reporting
- d) Cost accounting

9. Financial decisions are concerned with which of the following?

**[2 marks]**

- a) Making investment decisions that optimize economic value
- b) Making asset management decisions that optimize economic wealth

- c) Raising capital that is needed for growth
- d) All of the above

10. The combination of two or more firm, the resulting firm maintains the identity of one of the firm usually the larger? **[2 marks]**

- a) Joint venture
- b) Partnership
- c) Merger
- d) Consolidation

11. A Financial institution that underwrites new securities for resale? **[2 marks]**

- a) Financial intermediaries
- b) Mortgage Banker
- c) Investment Banker
- d) None

12. Which of the following statements always apply to corporations? **[2 marks]**

- a) Limited life
- b) Limited liability
- c) Single taxation
- d) None

13. Which investment will be characterized by the highest monetary return at the end of the investment horizon? Assume annual compounding. **[2 marks]**

- a) 5 years at the interest rate of 5% per year.
- b) 7 years at the interest rate of 3% per year.
- c) 4 years at the interest rate of 9% per year.

d) 2 years at the interest rate of 6% per year.

14. Which of the following represents the future value of \$1,000 invested at 10% per annum for 10 years? **[2 marks]**

a) \$2,500

b) \$1,913

c) \$2,594

d) \$2,600

15. Using the NPV criteria, a project should be selected when: **[2 marks]**

a) Its NPV is positive or zero.

b) Its NPV is equal to zero.

c) Its NPV is negative.

d) Its outflows are greater than its inflows.

**[30 marks]**

## **Section B**

### Question 1

- a) Suppose you have \$10 000 to invest in a bank savings account at a simple interest of 20% per annum. How much will you have at the end of the year? **[5 marks]**
- b) Suppose you deposit \$10 000 today in an account that pays simple interest of 20% per annum. How much will you have at the end of 3 years? **[5 marks]**
- c) You borrow \$18 000 for a simple rate of 22% per annum for 125 days. How much will you have to pay to the lender? **[5 marks]**
- d) Calculate the sum accumulated at the end of 3 years, 4 months and 17 days on a deposit of \$20 000 and an interest rate of 18.27% per year. **[5 marks]**
- e) Calculate the simple interest and sum accumulated for \$5 000 borrowed for 90 days at 15% per annum. **[5 marks]**
- [25 marks]**

### Question 2

- a) State and explain any five functions of financial markets **[25 marks]**

### Question 3

- a) Next Ltd has a \$1,000, 10%, 5-year bond outstanding. Interest is paid annually and the required rate of return is 10%. What is the value of the bond if it's repayable at a premium of 10%? **[7 marks]**
- b) Suppose the 10% 10-year \$1,000 bond is redeemable (callable) in 5 years at a call price of \$1,050. The bond is currently selling for \$950. The bond's yield to call is 12.33%. Calculate the Yield to Call of the bond. **[8 marks]**
- c) A 5 year zero coupon bond is issued with a face value of \$100 and a rate of 6%. What is the current price of the bond. **[5 marks]**

## LIST OF FORMULAS

$$B_0 = \sum_{t=1}^{n=\infty} \frac{\text{INT}}{(1+k_d)^t} = \frac{\text{INT}}{k_d}$$

$$B_0 = \sum_{t=1}^n \frac{\text{INT}_t}{(1+k_d)^t} + \frac{B_n}{(1+k_d)^n}$$

$$P_0 = \frac{\text{DIV}_1}{k_e - g}$$

$$P_0 = \frac{\text{DIV}_1}{k_e - g}$$

$$P_0 = \frac{\text{DIV}_1}{k_e - g}$$

$$P_1 = P_0(1+g)$$

$$P_0 = \frac{\text{DIV}_1 + P_1}{1+k_e}$$

$$P_0 = \sum_{t=1}^n \frac{\text{PDIV}_1}{(1+k_p)^t} + \frac{P_n}{(1+k_p)^n}$$

$$B_0 = \frac{M_n}{(1+k_d)^n}$$