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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)**

Date: 10th April, 2019
Time: 11.00am – 1.00pm

KFI 300 - CORPORATE FINANCIAL PLANNING AND STRATEGY

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Define the term corporate planning and explain the mintzberg 5ps of strategy. (5 Marks)
- b) Explain the shortcomings experienced by small business owners when sourcing for the short term loans. (5 Marks)
- c) Highlight and explain the objectives of a firm. (5 Marks)
- d) Discuss four sources of short term capital. (4 Marks)
- e) State and explain the features of sound Capital Structure. (6 Marks)
- f) Myron Gordon proposed a model of stock valuation using the dividend capitalization approach. Discuss his assumptions. 5 Marks)

QUESTION TWO (20 MARKS)

- a) Discuss five factors that affect Capital Structure of a limited company. (5 Marks)
- b) The cost of capital is important because of its application in various areas. Discuss. (10 Marks)
- c) The cost of funds includes the floatation costs for equity and the interest cost for debt finance. Describe five factors that may influence these costs. (5 Marks)

QUESTION THREE (20 MARKS)

- a) Discuss why companies would decide to issue bonus shares. (4 Marks)
- b) Discuss the determination of the dividend Payout Ratio. (10 Marks)
- c) A business enterprise may be concerned with three types of capital budgeting decisions. Explain. (6 Marks)

QUESTION FOUR (20 MARKS)

- a) Discuss the three theories that explain the nature of yield curve in relation to the interest rates. (6 Marks)
- b) Explain why interest rates may differ in different market and market segments. (8 Marks)
- b) Explain the advantages of using internal sources of finances compared to external sources by any company. (8 Marks)

QUESTION FIVE (20 MARKS)

- a) A firm is considering investing in a project which costs 6,000 Br and has the following cash flows

YEAR 1; 1500
2; 3000
3; 2000
4; 2500

The cost of capital is 10% and the project has no salvage value.

Using the NPV method advise the firm on whether to invest in the project

- (6 Marks)
- b) Discuss the advantages and disadvantages of using NPV. (6 Marks)
- c) Explain reasons that may drive a company to raise equity finance than debt finance. (8 Marks)