



PAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY
FACULTY OF HEALTH AND APPLIED SCIENCES
DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION: BACHELOR OF ECONOMICS	
QUALIFICATION CODE: 07BECO	LEVEL: 7
COURSE CODE: CFN712s	COURSE NAME: CORPORATE FINANCE
SESSION: JUNE 2019	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	MR. PINEHAS NANGULA
MODERATOR:	Mekukuje Mbaha

INSTRUCTIONS
<ol style="list-style-type: none">1. Answer ALL the questions.2. Write clearly and neatly.3. Number the answers clearly.

PERMISSIBLE MATERIALS

1. Scientific calculator
2. Pen and Pencil
3. Ruler

THIS QUESTION PAPER CONSISTS OF 3 PAGES (Including this front page)

Question One

[25 marks]

a) Explain why present values decrease as the discount rate increases. **[5 marks]**

b) Consider the following information to answer questions c, d, and e:

	Standard deviation	Beta
Share A	60%	1.1
Share B	40%	1.3

i. Which share has more total risk? Explain your answer **[5 marks]**

ii. Which share has more systematic risk? Explain your answer **[5 marks]**

iii. Which share should have the higher expected return? Explain your answer **[5 marks]**

c) What are the components of the required rate of return on a share? Briefly explain each component. **[5 marks]**

Question Two

[25 marks]

a) If the corporate form of business organization has so many advantages over the sole proprietorship, why is it so common for small businesses to initially be formed as sole proprietorships? **[10 marks]**

b) What should be the goal of the financial manager of a corporation? Explain your answer? **[7 marks]**

c) When banks make a loan to a sole proprietorship, it typically requires life insurance be carried on the business owner in an amount enough to cover the loan. Why might the banks demand such coverage? **[8 marks]**

Question Three**[25 marks]**

- a) Briefly explain the differences between preference and ordinary shares [10 marks]
- b) Discuss corporate finance's three main areas of concern [15 marks]

Question Four**[25 marks]**

Suppose a business takes out a N\$100 000.00, ten-years loan at 5 per cent. The loan agreement calls for the borrower to pay the interest on the loan balance each year and to reduce the loan balance each year by N\$10 000. Fill the table below

Year	Beginning Balance	Total Payment	Interest paid	Principal paid	Ending Balance
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					

All the best