



CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 2 EXAMINATIONS

A2.1: STRATEGIC CORPORATE FINANCE

DATE: WEDNESDAY 27, MAY 2026

INSTRUCTIONS:

- 1. Time Allowed: 3 hours 45 minutes (15 minutes reading and 3 hours 30 minutes writing).**
- 2. This examination has Two sections: A & B.**
- 3. Section A has One Compulsory Question while Section B has Three Optional questions to choose any Two.**
- 4. In summary attempt three questions.**
- 5. Marks allocated to each question are shown at the end of the question.**
- 6. The question paper should not be taken out of the examination room.**

SECTION A

QUESTION ONE

Mineral Commodities Limited (MCL) is a mid-to-large scale extractive industry company headquartered in East Africa, with primary operations in Rwanda and expansion projects across the Great Lakes region. Established in 2010, MCL specializes in the exploration, extraction, processing, and export of mineral resources, with a core focus on:

- Tin (Cassiterite)
- Tantalum (Coltan)
- Tungsten (Wolframite)
- Emerging interest in gold and rare earth minerals

MCL plays a significant role in Rwanda's mining sector, contributing to export revenues, employment, and industrial development.

In Rwanda, MCL is a key player in the extractive industry, primarily focused on the exploration, mining, and processing of mineral resources. As a company dedicated to harnessing natural wealth to drive economic value, its operations require a high level of technical precision and robust oversight to ensure long-term sustainability and profitability.

MCL has a board of directors that is expected to convene quarterly to discuss strategic matters and provide clear strategic direction. Currently, the board does not have remuneration or audit committees, as these were deemed inefficient and time-consuming. Senior management independently determines their own salaries and fringe benefits, as well as the salaries of other employees. These salaries are subject to annual review and are approved by senior management once finalized.

In a previous board meeting, management submitted a proposal to acquire 100% ownership of the company from the shareholders. However, this request was rejected by the shareholders. Subsequently, management proposed a potential merger with two smaller companies operating in the same sector. After thorough due diligence, it was found that these companies would not add value to MCL. Shareholders concluded that the proposed acquisition was not aligned with their goal of maximizing wealth.

At the recent annual general meeting, tensions rose due to disagreements between shareholders and management over an investment appraisal proposal. Management advocated for short-term projects lasting no more than five years to minimize risk, while shareholders favored long-term projects exceeding 15 years, citing their higher profitability potential. MCL Management is considering purchasing new machinery worth FRW 50 million (net of issues costs) that will increase production for the next four years. MCL's new current debt to equity ratio will be 35:65 which is similar for other firms operating in the same industry.

MCL has produced estimates of relevant cash flows and other financial information associated with a new investment. These are shown below:

FRW '000'				
Year	1	2	3	4
Pre-tax operating cash flows	12,500	13,800	15,000	26,000

Additional Information:

- i) The new investment will be financed as follows:
 - The risk free debt (redeemable in four years): 40% of the total financing.
 - The rights issue of equity: 60% of the total financing.
 - Issue Costs: 2% on the gross debt issued and 3% on the gross equity issued.
- ii) The investment geared equity beta is 1.38.
- iii) The machine will attract a capital allowance at 25% per year on a reducing balance basis.
- iv) The corporate tax rate is 30%. Tax is payable in the year that the taxable cash flow arises.
- v) The risk free rate is 10% and the market return 12%.
- vi) The after tax realizable value of the machine at the end of year 4 is estimated to be FRW 5 million.

Last year, the board of directors recommended both internal and external audits for MCL. These audits revealed inconsistencies in the financial statements, particularly concerning the accounting treatment of property, plant, and equipment, where depreciation and revaluation methods were inconsistently applied. Similar issues were noted in the valuation of mineral inventories, with management unable to clearly explain the inventory valuation methodology used. External auditors further identified that revenue from contracts was recognized prior to the delivery of goods to customers, resulting in an overstatement of both revenue and non-current assets.

One of the board members is concerned that MCL may be experiencing overtrading. The adjusted financial information for the company, after all issues identified by the auditors have been resolved, is as follows:

	2021		2022	
	FRW'000'	FRW'000'	FRW'000'	FRW'000'
Credit sales income		13,000		18,200
Cost of sales		8,500		9,200
Current assets				
Inventory	3,100		3,500	
Trade receivables	2,000		3,000	
		5,100		6,500
Current liabilities				
Trade payables	2,250		2,900	
Overdraft	1,850		3,200	
		4,100		6,100
Networking capital		1,000		200
Long - term debt		4,000		4,000

Below are the averages of 2022 for the companies in the same industry with MCL

Inventory days	60 days
Trade receivables days	30 days
Trade payables days	45 days
Current ratio	1.6 times
Quick ratio	0.7 times

Assume 360 days for both years.

During the meeting they discussed also about the formulation of a dividend policy for MCL.

Some believed that there should be a dividend policy in place which will have a good impact on the shareholder's wealth and valuation of the firm. Proponents of the Modigliani and Miller approach argue that a corporation's dividend policy does not influence its overall value.

In the last quarter, the chairperson of the board issued a warning to management, stating that shareholders were dissatisfied and felt that management was prioritizing their personal interests over the maximization of shareholder wealth.

Required:

a) As a manager at a consulting firm, you have been engaged by MCL to act as an independent advisor. Please prepare a formal report addressing the following:

i) **Determine the Adjusted Present Value (APV) and the Internal Rate of Return (IRR) of the proposed project, and critically evaluate whether MCL Ltd should undertake the investment.** (22 Marks)

ii) **Using ratio analysis, evaluate whether MCL is considered to be overtrading and suggest remedies for it.** (15 Marks)

b) **Provide FIVE arguments in support of the statement made by the Chairperson at MCL's Board of Directors and suggest five ways to resolve the issues raised.** (10 Marks)

c) **The Directors of MCL have contacted you to explain to them THREE key considerations that a company must take into account in formulating a particular dividend policy.** (3 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

In early 2026, the global financial environment has been affected by rising geopolitical tensions due to the conflict between Iran and the United States. The situation has severely disrupted oil supply chains across the Middle East and the Persian Gulf, causing crude oil prices to rise sharply to over USD 130 per barrel. As a result, Global inflation expectations have increased, and central banks around the world, including the National Bank of Rwanda (BNR)-have responded by restricting monetary policy.

In February 2026, BNR raised its Central Bank Rate (CBR) by 50 basis points, from 6.75% to 7.25% per annum, showing that more increases may follow. The interbank rate currently stands at 7.34% per annum, and market analysts expect it to rise to between 10.50% and 11.00% per year within six months if inflationary pressures persist. In Kenya, the Central Bank of Kenya (CBK) base lending rate stands at 8.75% per year, with the Nairobi interbank rate averaging 9.48% per year.

Terimbere Commercial Bank (TCB) is a mid-sized commercial bank headquartered in Kigali, Rwanda. TCB has an established correspondent banking relationship with Savannah Bank Kenya (SBK), a Nairobi-based commercial bank. TCB regularly borrows funds from SBK for liquidity management and for the inter-bank financing of trade transactions in the East African region.

Market Information as at April 2026:

1. Prevailing USD/FRW exchange rate: 1,385FRW
2. Interest rate futures contract price is quoted at 90 per annum.
3. Interest rate swap fixed rate offered is 9.80% p.a. (TCB pays fixed and receives floating)
4. Currently Rwanda interbank rate is 7.34% per annum
5. The available future contract is 90-day standardized contract with Notional Value per contract FRW 500,000,000

Loan Details

TCB's treasury (reserve management) team has entered into negotiations with SBK to draw down a 6-month floating rate loan of FRW 12,000,000,000 (FRW 12 billion) commencing 1 July 2026. The loan will attract interest at the Rwanda interbank rate + 1.75% per annum, repriced at the start of the borrowing period based on the prevailing interbank rate on that date.

TCB's Chief Finance Officer (CFO), Ms. Mutesi Aline, is deeply concerned about the upward interest rate trajectory driven by global geopolitical events. She has commissioned the bank's risk management team to evaluate three interest rate hedging instruments available in the market (i)Forward Rate Agreement (FRA), (ii)Interest Rate Futures Contract and (iii) Interest Rate Swap. Following TCB's hedging decision, the CFO, Ms. Mutesi Aline, is invited to a regional treasury forum in Nairobi. A Kenyan banker suggests that TCB should have

considered a swaption rather than a plain interest rate swap, arguing that swaptions offer greater strategic flexibility particularly during periods of geopolitical uncertainty such as the current Iran and US crisis, when interest rate movements are highly unpredictable.

Ms. Mutesi returns to Kigali and asks her risk management team to prepare a comprehensive briefing note.

Required:

- a) As the risk management analyst at Terimbere Commercial Bank, assist Ms Mutesi in determining:
 - i) **The FRA settlement payment or receipt if the interbank rate on 1 July 2026 rises to 10.50% per annum.** (5 Marks)
 - ii) **The profit or loss on the future position assuming the settlement futures price falls to 89.50 at the hedging date assuming TCB rolls over the contracts over the full loan period.** (7 Marks)
 - iii) **The net interest payment under the swap if the interbank rate rises to 10.50% on the loan start date.** (6 Marks)
- b) Using the TCB's case, **distinguish between an interest rate swap and a swap option with examples, clearly explaining what each instrument is and how each would apply in TCB's situation with SBK.** (4 Marks)
- c) **State and briefly explain THREE advantages of a swaption over a plain interest rate swap that would be relevant to TCB's situation in the current volatile rate environment.** (3 Marks)

(Total: 25 Marks)

QUESTION THREE

New Tech Solution Ltd (NTS) is a Rwandan technology company listed on the Rwanda Stock Exchange (RSE) with 10 million ordinary shares outstanding. NTS is specialized in financial technology (FinTech), cloud computing, and enterprise software solutions. In recent years, NTS has faced increasing competition from Best Software Tech Ltd (BST), a Ugandan technology firm listed on the Uganda Securities Exchange (USE) with 3 million ordinary shares outstanding. BST has aggressively expanded its East African market presence, eroding NTS's customer base and market share in Rwanda, Uganda, Kenya, and Tanzania.

To consolidate its regional dominance and neutralize the competitive threat, NTS is now intending acquiring BST through a cross-border merger. The transaction would involve NTS (the predator company) absorbing BST (the target company) to form a unified East African technology giant. All monetary values for NTS are reported in Rwandan Francs (FRW) and for BST in Ugandan Shillings (UGX). The current exchange rate is: 1 USD=FRW1,300=UGX 3,720.

The following financial data is available for the two companies:

Description	NTS (FRW)	BST (UGX)
Annual sales (million)	520,000	180,000
Net income (million)	52,000	27,000
Market price per share (MPS)	FRW 78,000	UGX 27,000
Earnings per share (EPS)	FRW 5,200	UGX 9,000

Both NTS and BST operate under a corporate tax regime of 30% a factor that will significantly influence the valuation of the transaction and post-acquisition profitability. In light of the proposed cross-border acquisition, NTS's management has expressed concern regarding the potential dilution of post-acquisition earnings per share (EPS). Consequently, the Chief Finance Officer has been assigned to structure an appropriate share exchange offer and determine an optimal exchange ratio that safeguards shareholder value while maintaining the attractiveness of the deal to BST shareholders.

The transaction is further subject to regulatory scrutiny in both jurisdictions. In Rwanda, approval authority rests with the Rwanda Development Board (RDB) and the Ministry of ICT under the Rwanda ICT Act (2022), while in Uganda, oversight is exercised by the Uganda Communications Authority. Although both governments support regional digital integration, they have raised concerns regarding foreign ownership thresholds, data sovereignty, and national security risks associated with cross-border technology infrastructure.

In addition, NTS's board must address growing expectations from institutional investors, notably the African Development Bank and the International Finance Corporation, who are advocating for strong Environmental, Social, and Governance (ESG) compliance and transparent corporate social responsibility (CSR) practices. Building on the outcomes of COP29, Uganda has formally aligned with the Green Digital Action framework, while Rwanda has furthered its commitment to a carbon-neutral economy by 2050 through its updated NDC 3.0 which includes strategies for low-emission infrastructure. As such, the proposed acquisition must not only achieve financial and strategic objectives but also demonstrate alignment with sustainability and responsible cross-border business practices.

Required:

- Determine the maximum exchange ratio that NTS management should agree to basing on their concern and the total premium (in FRW) that the shareholders of BST would agree to receive, at this exchange ratio. (5 Marks)**
- Evaluate the NTS's post-acquisition EPS assuming that the two companies agree on an offer price of UGX 27,000 per share of BST. (3 marks)**
- Determine the NTS's post-acquisition EPS assuming that for every 100 ordinary shares of BST, the shareholders are offered two, 12% debentures of FRW 1,500,000 par value. Assume that interest on debentures is tax-deductible. (5 Marks)**

d) With reference to the proposed cross-border merger between NTS (Rwanda) and BST (Uganda), discuss the impact of government activities on international transactions. (6 Marks)

e) Discuss how Corporate Social Responsibility (CSR) considerations can influence the success of cross-border mergers and acquisitions and the long-term sustainability of the merged entity in the East African region. (6 Marks)

(Total: 25 Marks)

QUESTION FOUR

Kigali Investment Holdings Limited (KIHL) is one of Rwanda's leading privately-owned conglomerates, headquartered in Kigali. Established in 2008, KIHL has grown rapidly by leveraging Rwanda's stable macroeconomic environment and pro-investment policies. The company operates through three main strategic divisions:

- **Manufacturing division** - Produces construction materials (cement blocks, tiles, and metal fixtures) mainly supplying Kigali's booming real estate sector.
- **Real estate division** - Develops mid- to high-end residential estates and commercial office spaces in Kigali and secondary cities such as Musanze and Huye.
- **Treasury & investments division** - Manages surplus cash through investments in financial securities, including government bonds, equities, and strategic property acquisitions.

Current Strategic Context (2026)

Rwanda is experiencing strong economic growth driven by urbanization, infrastructure expansion, and increasing foreign investment. KIHL has recently secured several long-term supply contracts with construction companies involved in government-backed housing projects. However, the company is facing rising competition in manufacturing, increasing borrowing costs, and pressure to improve operational efficiency and shareholder returns.

As a result, KIHL's Board of Directors has instructed the Finance Director, Mr. Nkurunziza, to carefully evaluate new investments using rigorous financial analysis techniques.

SECTION 1: Manufacturing Equipment

KIHL's manufacturing division is considering the acquisition of new production equipment to enhance output and increase revenue. The project requires an initial investment of FRW 5,500,000 and is expected to have a useful life of three years. At the end of this period, the equipment is projected to have a scrap value of FRW 880,000. The investment is anticipated to generate annual sales revenue of FRW 6,600,000 while incurring annual operating costs of FRW 4,290,000. For evaluation purposes, the project will be assessed using a cost of capital of 10% per annum.

SECTION 2: Portfolio Risk Assessment

In addition to the equipment decision, KIHL's treasury team is assessing two further investment opportunities to deploy surplus capital. The investments are of different natures, one is a Fixed Income Asset (Government Bond), and the other is a Real Estate Investment. The annual cash inflows from both investments are uncertain and depend on the prevailing economic conditions, as shown below:

Government Bond			Real Estate	
State of Economy	Probability	Annual Cash Inflow (FRW)	Probability	Annual Cash Inflow (FRW)
Strong Growth	0.2	8,200,000	0.25	9,500,000
Moderate Growth	0.5	9,800,000	0.45	9,200,000
Recession	0.3	6,200,000	0.3	14,800,000

Additional Information:

- Over a three-year investment horizon, the Government Infrastructure Bond requires an initial outlay of FRW 18,000,000. It is evaluated using a discount rate of 8% per annum.
- In comparison, the Commercial Real Estate investment requires a higher initial outlay of FRW 22,000,000 over the same three-year period. This option is assessed using a higher discount rate of 12% per annum.

In addition to evaluating the financial returns, the treasury team recognizes the importance of analyzing the risk profile of each investment before making a final decision. Although both investments opportunities has the same three-year period, they differ significantly in terms of risk exposure. The Government Infrastructure Bond is generally considered low risk due to its fixed income nature and government backing, providing more predictable returns. On the other hand, the Commercial Real Estate investment is subject to higher uncertainty, including market fluctuations, occupancy risk, and changes in property values. These factors may lead to variability in expected returns compared to the relatively stable bond investment. A thorough understanding of these risk differences is essential for the company, as it ensures that investment decisions align with its overall risk tolerance and capital preservation objectives.

Required:

- As a financial Analyst of Kigali Investment Holdings Limited (KIHL), with reference to Section 1, prepare a report that:
 - Evaluate equipment project investments using the Net Present Value (NPV). (3 Marks)
 - Compute the percentage change required in EACH of the following variables for the project to be REJECTED, and comment on which variable the project is MOST sensitive to cost of equipment, scrap value and sales revenue. (4 Marks)
- As a financial analyst in KIHL's treasury team, with reference to Section 2:
 - Analyse the dispersion of NPVs for EACH investment. (14 Marks)
(Hint: standard deviation of the NPV for each investment.)
 - Using the Coefficient of Variation, advise the Finance Director which investment is more viable and justify your recommendation. (4 Marks)

(Total: 25 Marks)

End of Question Paper

Present Value Table

Present value of \$1, that is $(1 + r)^{-n}$

where r = interest rate; n = number of periods until payment or receipt.

Periods		Interest rates (r)								
(n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
Periods		Interest rates (r)								
(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.074	0.065

Annuity Table

Present value of an annuity of 1, ie $[1-(1+r)^{-n}]/r$

Where r = discount rate; n = number of periods.

Periods		Interest rates (r)								
(n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814
13	12.134	11.348	10.635	9.986	9.394	8.853	8.358	7.904	7.487	7.103
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606
Periods		Interest rates (r)								
(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566	1.547	1.528
3	2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174	2.140	2.106
4	3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690	2.639	2.589
5	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127	3.058	2.991
6	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498	3.410	3.326
7	4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812	3.706	3.605
8	5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078	3.954	3.837
9	5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303	4.163	4.031
10	5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494	4.339	4.192
11	6.207	5.938	5.687	5.453	5.234	5.029	4.836	4.656	4.486	4.327
12	6.492	6.194	5.918	5.660	5.421	5.197	4.988	4.793	4.611	4.439
13	6.750	6.424	6.122	5.842	5.583	5.342	5.118	4.910	4.715	4.533
14	6.982	6.628	6.302	6.002	5.724	5.468	5.229	5.008	4.802	4.611
15	7.191	6.811	6.462	6.142	5.847	5.575	5.324	5.092	4.876	4.675

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