



PAN AFRICA CHRISTIAN UNIVERSITY
SCHOOL OF LEADERSHIP, BUSINESS & TECHNOLOGY
END OF SEMESTER EXAMINATION FOR THE DEGREE OF
BACHELOR OF BUSINESS LEADERSHIP
BACHELOR OF COMMERCE
MAY-AUGUST 2019

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: BUS4213 | BCM302

COURSE TITLE: FINANCIAL MANAGEMENT

EXAM DATE: WEDNESDAY 14th AUGUST 2019

DURATION: 2 HOURS

TIME: 9:00AM-11:00AM

INSTRUCTIONS

- Read the instructions and questions carefully before you write the answers.
- Write your **STUDENT NUMBER** in the Answer Booklet given
- *Write clearly and legibly.*
- This examination script consists of **Six (6)** questions.
- Answer **question ONE** and any other **THREE** Questions.
- Show all your workings
- *ALL PAC University's examination rules and regulations apply*

QUESTION ONE: (COMPULSORY)

- a) With a relevant example, discuss the following terms:
- i) Financial leverage (4 Marks)
 - ii) Value of the firm (4 Marks)
 - iii) Agency problem (4 Marks)
- b) Describe how finance manager makes the following financial decisions to achieve the primary objective of the firm:
- i) Investing decisions (4Marks)
 - ii) Financing decisions (4Marks)
- c) Explain any five principles of capital budgeting (10 Marks)

QUESTION TWO

TING Ltd is considering the construction of a new processing plant. The plant will cost Sh 0.4M to construct and sh50,000 to make it functional. The investment will require inventories of Sh120,000 and accounts payables of Sh90,000. If the plant is constructed, revenues will increase by sh300,000 while operating costs will rise by sh140,000 in each of the next five years. At the end of the fifth year, the plant will have a salvage value of sh100,000. The company is in a corporate tax bracket of 30%, and its required rate of return is 10%.

Determine the:

- a) Net cash flows of the investment (7 marks)
- b) On the basis of Net Present Value, evaluate the viability of the project (3 marks)

QUESTION THREE

MOO & Co. is all-equity financed at a capitalization rate of 14% at the moment. It is considering financing its new projects by borrowing 0.6M at 10% per annum. The company's corporate tax is 30%. If it borrows and pays taxes determine:

- a) The value of the firm (3 marks)
- b) The cost of equity (4 marks)
- c) The overall cost of capital (3 marks)

QUESTION FOUR

- a) Explain the conflict in the two financial objectives (2 Marks)
- b) With a relevant example in each case, explain the following theories:
- i) Residual theory (2 Marks)
 - ii) Clientele effect (3 Marks)
 - iii) Traditional theory of capital structure (3 Marks)

QUESTION FIVE

The following information was extracted from the books of S & L Co. as at 31th Jan 2018

	Sh"000"
Annual sales	35,000
Average purchases	10,000
Average stock	5,000
Average debtors	9,000
Average creditors	3,000
Cash	12,000

Additional information:

1. The company's gross profit margin is 30%
2. All sales are on credit terms
3. Assume a 360 day year.

Required:

- a) Estimate the required working capital (2 Marks)
- b) Determine the duration of net cash operating cycle (8 Marks)

QUESTION SIX

- a) Explain the significance of interest tax shield in capital structure (4 Marks)
- b) Discuss the three disadvantages of split dividend as an alternative to cash dividend

(6 Marks)