PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

SEPTEMBER-DECEMBER 2020

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: BCOM302/BUS4213

COURSE TITLE: FINANCIAL MANAGEMENT

EXAM DATE:

QUESTION ONE (COMPULSORY) 10 MARKS

The following information was obtained from the final accounts of ABC Limited:

Current assets =1900, 000

Average stock=780,000

Quick assets=1,120,000

Over draft= 750,000

Cost of goods sold= 4,475,000

Required;

a. Calculate the following financial ratios for ABC Limited:

i. Current ratio (2 Marks)

ii. Acid test (2 Marks)

iii. Adjusted acid test ratio (2 Marks)

iv. Average stock turnover (2 Marks)

b. Give a brief explanation of your findings above. (2 Marks)

QUESTION TWO 10 MARKS

a) Explain three Characteristics of a sound capital budgeting evaluation technique. (6 marks)

b) Discuss two implications of NPV and IRR as capital budgeting evaluation techniques. (4 marks)

QUESTION THREE 10 MARKS

a) Distinguish between the goals of profit maximization and shareholder wealth maximization (6marks)

b) Explain the two limitations of the good of profit maximization (4marks)

QUESTION FOUR 10 MARKS

ABC Ltd requires 2,000 units of a component in its manufacturing process in the coming year which costsSh.50 each. The items are available locally and the lead time in one week. Each order costs Sh.50 to prepare and process while the holding cost is Shs.15 per unit per year for storage plus 10% opportunity cost of capital.

Required

a) How many units should be ordered each time an order is placed to minimize inventory costs? (3 Marks)

b) What is the reorder level? (3 Marks)

c) How many orders will be placed per year? (2 Marks)

d) Determine the total relevant costs. (2 marks)

QUESTION FIVE 10 MARKS

a) Discuss five dangers of holding inadequate stock. (5 Marks)

b) Explain the following approaches used in working capital management:

  i. Conservative approach. (3 Marks)

  ii. Matching approach (2 Marks)

QUESTION SIX 10 MARKS

Discuss the following dividend policy theories:

a) MM theory (2 marks)

b) Residual Theory (2 marks)

c) Bird in hand Theory (2 marks)

d) Tax Theory (2 marks)

e) Agency Hypothesis (2 marks)