



**PAN AFRICA CHRISTIAN UNIVERSITY**

**END OF SEMESTER EXAMINATION FOR THE MASTERS IN BUSINESS  
ADMINISTRATION (MBA)**

**CAMPUS: ONLINE**

**DEPARTMENT: BUSINESS**

**COURSE TITLE: BUS 506 - FINANCIAL MANAGEMENT**

**EXAM DATE: APRIL, 2025**

**TIME ALLOWED: 3HRS**

**INSTRUCTIONS**

- Read the instructions and questions carefully before you write the answers.
- Write your **STUDENT NUMBER** in the Answer Booklet given
- Answer ANY FOUR questions
- Cell Phones or smart watches are not allowed in the exam room. If you brought your cell phone or smart watch with you it must be switched off - **not** in silent mode - and stored away in your book bag.
- No digital or written or printed materials are allowed within your reach during the entire exam period.
- Time allocated - 3 Hours

## ANSWER ANY FOUR QUESTIONS

### QUESTION 1 - 10 MARKS

EVEC Ltd, an investor in factory machinery equipment manufacturer, plans to choose the better of two investments, A and B. Each requires an initial outlay of \$10,000. The Management has made pessimistic and optimistic estimates of the returns associated with each investment as follows:

	<b>Probability</b>	<b>Returns</b>
<b>ASSET A</b>		
PESSIMISTIC	0.25	13
MOST LIKELY	0.5	15
OPTIMISTIC	0.25	17
<b>ASSET B</b>		
PESSIMISTIC	0.25	7
MOST LIKELY	0.5	15
OPTIMISTIC	0.25	23

- Calculate the Expected Return on the Assets A and B (4Marks)
- Calculate the Standard Deviation (4 Marks)
- Calculate the coefficient of variation (2 Marks)

### QUESTION 2 - 10 MARKS

The following information was obtained from ABC Ltd, a fast-growing company in Nairobi. The Board of directors need to make important decision on the capital structure, and they have required advice from you. Given that the cost of debt ( $K_d$ ) is 8%, and the cost of equity ( $K_e$ ) is 12%, use the information tabulated here below to answer the questions that following:

	Scenario A	Scenario B	Scenario C
Earning before Interest and Tax	500,000	500,000	500,000
Interest	80,000	112,000	40,000
Share Capital	1,800,000	1,500,000	1,900,000
Debt	1,000,000	1,400,000	500,000

- Calculate the Earnings before tax (3 Marks)
- Calculate the Value of equity for each of the three scenarios (3 Marks)
- Weighted average cost of capital under the three scenarios. (4 Marks)

### QUESTION 3 - 10 MARKS

ZAP Technologies reported that the business earnings, dividends, and its stock price are expected to grow at 7 percent per year in the future. ZAP's common stock sells for \$23 per share, its last dividend was \$2.00, and the company will pay a dividend of \$2.14 at the end of the current year Using the discounted cash flow approach, calculate the cost of equity

### QUESTION 4 - 10 MARKS

Dividend payment form part of the management decisions in distributing earnings to the shareholders. Explain how Stock split is used as a type of dividend. Identify the advantages and disadvantages of stock splitting to the company's shareholders

### QUESTION 5 - 10 MARKS

Different Capital Budgeting Techniques may suit different situations, objectives, and preferences of the investor. Identify at least three capital budgeting techniques and explain why the investor would prefer to use each of them in their decision making on capital investments.

### QUESTION 6 - 10 Marks

ZED Ltd is considering raising \$ 500 million by issuing shares to the market. Given a beta of 1.6, the risk-free rate is 9 percent, and the expected return on the market at 13 percent, Calculate the firm's cost of equity using the capital Asset Pricing Model ( CAPM)