



**PAN AFRICA CHRISTIAN UNIVERSITY**

**END OF SEMESTER EXAMINATION FOR THE DEGREE OF**

**SEPTEMBER-DECEMBER 2021**

**CAMPUS: ROYSAMBU**

**DEPARTMENT: BUSINESS**

**COURSE CODE: BCM302/BUS4213**

**COURSE TITLE: FINANCIAL MANAGEMENT**

**EXAM DATE:**

**TIME:**

**INSTRUCTIONS**

- This examination script consists of **SIX (6)** questions.
- Answer question **ONE** and ANY other **THREE** Questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

**Question One (compulsory)****(10 marks)**

The college directors of KLC are considering two investment opportunities, Project B2 and Project C3. The initial investment required and the likely net cash inflows arising from the investments in each project are as follows:

PROJECT	INITIAL INVESTMENT Shs million	NET CASH INFLOWS (after tax) Shs million
B2	10.20	Shs 1.15 in year 1, and Shs 3.10 a year from years 2 to 7
C3	9.50	Shs 4.5 each year for years 1 to 5

Additional notes:

- Project B2 has a residual value of Shs 2.5 million. Project C3 is expected to have no residual value
- Project B2 is to be discounted at 8%. Project C3 is to be discounted at 9%
- Assume cash flows, other than the initial investment, occur at the end of each year

(a) Calculate and rank the projects according to the following measures:

(i) Payback (4 marks)

(ii) NPV (6marks)

**Question Two****(10 marks)**

Critically discuss the differing views on the following in relation to the financial objective of a company

- Profit maximization (3 marks)
- Revenue maximization (3 marks)
- Shareholder value maximization. (4 marks)

**Question Three** **(10 marks)**

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- a. Explain potential conflicts of interests between **two** stakeholder groups in a company. (4 marks)
- b. Explain how the conflicts in part (a) above can be resolved, from an international perspective. (6 marks)

**Question Four** **(10 marks)**

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- 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 Five** **(10 marks)**

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Lolwe Ltd has established that annual quantity for a given item is 4000 units. The cost of placing an order is Sh. 5000 and the price per unit is sh. 2000. Inventory holding cost percentage is 20% of purchase cost.

Required:

- a) Formulate the best (optimal) entry policy for this item :
  - i. Quantity to order (EOQ) (3 marks)
  - ii. Frequency for ordering (2 marks)
  - iii. Re-order level/point; For ROP take lead-time to be 15 days while one year has 300 working days (3 marks)
  - iv. Total cost associated with the policy. (2 marks)

**Question Six** **(10 marks)**

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Discuss **five** dividend theories stating the assumptions in each. (10 marks)