



PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS & TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF BUSINESS LEADERSHIP

BACHELOR OF COMMERCE

SEPTEMBER-DECEMBER 2019

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: BUS4213 | BCM302

COURSE TITLE: FINANCIAL MANAGEMENT

EXAM DATE: FRIDAY 6TH DECEMBER 2019

DURATION: 2 HOURS

TIME: 5:30PM-7:30PM

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 exam script consists of **Six (6)** questions.
- Answer ALL **questions in SECTION A (compulsory)** and **Any other three (3)** questions from **SECTION B**
- *ALL PAC University's examination rules and regulations apply*

SECTION A: COMPULSORY

QUESTION ONE (30mks)

- a) Define the following concepts
- i. Dividend (2 Marks)
 - ii. Risk (2 Marks)
 - iii. Residual Theory (2 Marks)
- b) List FIVE Roles of a finance manager (5 Marks)
- c) Determine the initial amount to be invested in a bank given 18% p.a. on deposit for 6 years. If the amount after 6 years will be worth kshs. 324,000 interest rate of a simple amount given future value (4 Marks)
- d) Calculate the current market price of ABC share if the dividend in December 2024 is expected to be Kes 10 per share at a growth rate of 4% and cost of capital of 15%. (4 Marks)
- e) State FOUR roles of liquidity management (4 Marks)
- f) ABC Ltd presents the following data for two projects. Using the NPV method, advice management on the project to invest in, if rate of return is 11% (7 Marks)

Year	Cash Flow A
0	100000
1	40000
2	30000
3	20000
4	5000

SECTION B: ANSWER ANY THREE QUESTIONS

QUESTION TWO (10mks)

- a) Discuss ONE philosophy under dividend theory (2mks)
- b) The equity capitalization rate of ABC ltd 23%. In their financial statements, the company recorded equity value of 9 million. The company has a 7m 10% debenture. The interest rate is 40%. Using the MM theory, calculate
- (i). Total value of firm (3mks)
 - (ii) Weighted Average Cost of Capital using MM (5mks)

QUESTION THREE (10mks)

- a) Differentiate between return and standard deviation (2mks)
- b) Calculate the expected return and standard deviation for the MBT Ltd with following data in its risk management register (8mks)

Year	Return	Probability
1	2000	0.3
2	4000	0.2
3	3000	0.1
4	2000	0.4
5	5000	0.1

QUESTION FOUR (10mks)

- a) Discuss FIVE types of financial ratios (10mks)

QUESTION FIVE (10mks)

- a). Define multiple compounding (1mk)
- b). An investor can get an annual interest rate of 13% on a deposit with the bank. Assume he deposits shs. 10,000, determine the compound sum at the end of the 4th year if compounding occurs
 - (i) Annually (3mks)
 - (ii) Semi annually (3mks)
 - (iii) Quarterly (3mks)

QUESTION SIX (10mks)

- a) Differentiate between equity and debt sources of finance (4mks)
- b) Discuss any THREE emerging issues and trends in financial management (6mks)