



**PAN AFRICA CHRISTIAN UNIVERSITY**

**MASTERS OF BUSINESS ADMINISTRATION**

**END OF SEMESTER EXAMINATION**

**MAY-AUGUST 2017**

**DEPARTMENT: BUSINESS**

**COURSE CODE: MBA 506**

**COURSE TITLE: FINANCIAL MANAGEMENT**

**EXAM DATE: WEDNESDAY 26<sup>th</sup> JULY 2017**

**TIME: 9:00AM-12:00PM**

**INSTRUCTIONS**

- Read all questions carefully before attempting.
- Answer Question 1(Compulsory) and any other FOUR
- Write your **student number** on the answer booklet provided.

**QUESTION ONE [COMPULSORY] – 40 MARKS**

- a) Briefly explain the nature and implication of following types of risks as used in Financial Management
- i. Interest rate risk  
**[3marks]**
  - ii. Operating risk  
**[3marks]**
  - iii. Currency risk  
**[3marks]**
- b) Explain any three characteristics of ordinary shares  
**[9marks]**
- c) Explain five importance of Financial management in a corporate organization **[10 marks]**
- d) Discuss why debt financing is regarded as a “necessary evil” in financing corporate organizations **[12 marks]**

## **QUESTION TWO**

- a) Discuss the three main sources of capital available to a corporate entity clearly articulating the advantages and disadvantages of each  
**[15marks]**

## **QUESTION THREE**

- a) Explain the scope and the role of financial management in a corporate entity  
**[10marks]**
- b) With the help of an illustration, explain briefly why cash today is preferable than the same amount of cash receivable in future  
**[5marks]**

## **QUESTION FOUR**

- a) Briefly discuss three types of decisions made by a finance manager of a firm  
**[5marks]**

- b) Identify any three components of working capital for the firm and briefly discuss how a Finance Manager may use these components to generate cash flow for the firm

[10  
marks]

#### QUESTION FIVE

- a) Distinguish between Coupon rate and Yield in the context of valuation of debt securities

[5marks]

- b) Determine the current market value of a straight coupon bond that pays interest semi-annually and with the following additional features:

Maturity value = Kshs 1,000,000

Coupon rate per year = 12%

Yield to maturity = 10%

Remaining period to maturity = 10 years

Assume no withholding taxes

marks]

[10

#### QUESTION SIX

- a) Explain any five reasons why debenture loans are considered advantageous in financing corporate operations

marks]

[10

- b) Highlight any five reasons why it may be difficult for small (jua kali) companies to raise loan capital in Kenya

[5 marks]