



PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS AND TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

MAY-AUGUST 2018

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: MBA506

COURSE TITLE: FINANCIAL MANAGEMENT

EXAM DATE: WEDNESDAY 8TH AUGUST 2018

TIME: 9:00AM-12:00PM

INSTRUCTIONS

- Read all questions carefully before attempting.
- Answer **Question one and any other three questions.**
- Write your **student number** on the answer booklet provided.
- *Write clearly and legibly.*
- *ALL PAC University's examination rules and regulations apply*

QUESTION ONE [COMPULSORY] – 40 MARKS

- a) State three objectives of financial management in an organization
marks]

[3

- b) Briefly explain **three** characteristics of ordinary shares as a source of capital [6 marks]
- c) State **two** features of an annuity cash flow [4 marks]
- d) Write brief notes on the following terms as used in Financial Management:
- i. Yield on debt securities [2 marks]
 - ii. Required rate of return [2 marks]
 - iii. Zero-coupon bonds [2 marks]
 - iv. Time value of money [2 marks]
 - v. Coupon rate [2 marks]
- e) Determine the future value (FV) of an annuity of Kshs. 20,000 paid into a bank account at the end of every year for 6 years given that the account earns a compound interest at a rate of 14% P.a [4 marks]
- f) Calculate the intrinsic value of a preference share that has par value of Kshs 100 and earns dividend at a fixed rate of 12% p.a. given that the market discount rate is 14% P.a [3 marks]
- a) Explain five importance of Financial management in a corporate organization [10 marks]

QUESTION TWO

- a) Determine the price of an ordinary share of Cohort Company Ltd given that the share currently pay a dividend of Kshs. 2 per share. Further, the dividends are expected to grow at a constant rate of 8% per year over the next three years and thereafter at 4% p.a. The investor's required rate of return on common stock is 10% [8 marks]
- b) Determine the future value of a deposit of Kshs. 800,000 earning interest at a rate of 14% to perpetuity [5 marks]
- c) Calculate the number of years that a deposit of Kshs 100,000 is expected to remain in an account earning interest at a rate of 12% p.a. if the owner of the account expects to withdraw Kshs 500,000 at the end (assume no withdrawals are made) [7 marks]

QUESTION THREE

- a) Identify and explain the four key decisions involved in financial management [8 marks]
- 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 1,500,000
 Coupon rate per year = 8%
 Required rate of return = 12%
 Period to maturity = 10 years [12 marks]

QUESTION FOUR

- a) Identify and explain any four types of risks faced by a business entity [8 marks]
- b) Determine the annual rate of return (r) of an investment with a present value of \$1000 and a future value of \$1500 five years from now [6 marks]
- c) Calculate how much an investor would be willing to pay for a zero-coupon bond whose maturity value is Kshs 3,000,000 and matures after 7 years, given that the market capitalization rate is 6% p.a. [6 marks]

QUESTION FIVE

- a) Distinguish between Coupon rate and Yield in the context of valuation of debt securities [4 marks]
- b) Suppose the returns of two investments in a portfolio under different states of the economy are given as below:

State of economy	Probability	Return of investment A	Return of investment B
Recession	0.2	-15%	20%
Normal	0.5	20%	30%
Boom	0.3	60%	60%

Given that the weights of investment in the portfolio for investments A and B is 60%:40%, Determine:

- i. The expected return of each investments A and B [4 marks]

- ii. The standard deviation (risk) of each investments A and B [6
marks]
- iii. The risk of the portfolio of A and B [6
Marks]

QUESTION SIX

- a) Explain any five reasons why debenture loans are considered advantageous in financing corporate operations
[10 marks]
- b) Discuss any five reasons why it may be difficult for small (jua kali) companies to raise loan capital in Kenya
[10 marks]