PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS AND TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BACHELOR OF BUSINESS LEADERSHIP

BACHELOR OF BUSINESS AND INFORMATION TECHNOLOGY

SEPTEMBER -DECEMBER 2025 TRIMESTER

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: BCM302|BUS4213

COURSE TITLE: FINANCIAL MANAGEMENT

EXAM DATE: MONDAY 8TH DECEMBER 2025

TIME: 5:00PM-7:00PM

INSTRUCTIONS

- Write your **student number** on the answer booklet provided.
- Read all questions carefully before attempting.
- This examination script consists of **FIVE (5)** questions.
- Answer question **ONE** and ANY other **THREE** Questions.
- Show all your workings
- ALL other PAC University examinations rules and regulations apply

QUESTION ONE: COMPULSORY

a) In the view of agency theory, the shareholder is the most important stakeholder in an organization. Do you agree with this statement? Discuss (6marks)
b) Citing relevant examples, explain any three reasons for agency problem in a learning institution (6marks)
c) Using relevant examples, describe how the above agency problem can be minimized (6marks)
d) Explain any three principles of capital budgeting that can apply in the construction of a new building (6marks)
e) Capital structure does not affect the shareholder's wealth. Discuss this statement citing relevant examples (6marks)

QUESTION TWO

Ateka Co. plans to invest in a new equipment whose estimated cash outlay is sh2.3M. During the first year, its expected revenue is sh500,000 while its operating cost is sh360,000. The revenue is projected to increase by 12% every year for the remaining years while its operating costs might increase by 9% every year for the remaining years. The accounts receivables and payables are estimated at sh170,000 and sh110,000 respectively. The end of the three years, the equipment will be scrapped at sh230,000. The tax rate is 33%.

Required:

a) Estimate the net operating cash flows for each year (6marks)
b) Evaluate the viability of the project based on the Net Present Value, if the required rate of return is 10% (4marks)

QUESTION THREE

a) Citing relevant examples, explain the role of time value of money concept in financial decisions (4marks)
b) Effective working capital management can lead to maximization of shareholders' wealth. Discuss this statement, providing relevant examples (6marks)

QUESTION FOUR

Makena Ltd has a net operating income of sh760,000, the value of equity of Sh3,500,000 and zero debt. MNX Co. has a net operating income of sh760,000, the value of equity of Sh2,800,000 and the value of 17% debt of sh4,600,000. The corporate tax is 30%.

Using the assumptions of traditional approach, determine

a) Value of each firm (2mark)

b) Cost of equity of each firm (3marks)

c) Weighted average cost of capital of each firm (5marks)

QUESTION FIVE

a) Discuss the key distinguishing features of any two dividend policy theories (4marks)

b) Cashflows are more useful in capital budgeting than profits. Discuss this statement citing relevant examples (6marks)