PANAFRICACHRISTIAN UNIVERSITY

BACHELORS OF COMMERCE

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: BUS4213

COURSE TITLE: FINANCIAL MANAGEMENT
VALLEY ROAD CAMPUS - EVENING

EXAM DATE: THURSDAY;JULY 30th 2015

TIME: 17.30HRS – 20.30HRS

INSTRUCTIONS

- This examination script consists of **six(6)** questions.
- Answer any **five (5)**questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

QUESTION ONE

a) Define Financial Management (2 marks)
b) Describe the role of a financial manager in a business organization. (8 marks)
c) Although profit maximization is the main goal of a firm, there are nonfinancial objectives that limit the achievement of the financial objectives. Discuss. (10 marks)

QUESTION TWO

a) Explain the scope of Capital Budgeting. (6 marks)
b) The following data relates to project XYZ for a certain company.

			In Pounds (£)
Year	0	Outflow	10,000
Year	1	Inflow	4,000
Year	2	Inflow	4,400
Year	3	Inflow	3,600

Using a discount rate of 10% determine:

(i) The Net Present Value, NPV (6 marks)
(ii) The Internal Rate of Return, IRR (6 marks)

(iii) Whether the project is viable in each case (2 marks)

QUESTION THREE

a) Discuss the importance of valuation of shares and the situation under which it can be useful. (10 marks)
b) Assuming that a bond will pay Kshs. 8,000 interest annually into perpetuity, calculate the value of the bond if the current yield is 8%. (10 marks)

QUESTION FOUR

a) Discuss five features of a sound capital structure. (10 marks)
b) Fortitude Ltd. is financed partly by equity and partly by debentures. The equity proportion is maintained at two-thirds of the total. The cost of equity is 18% and that of debt 12%. A new project is being considered which will cost Kshs. 10 million and will yield a return before interest of Kshs. 2 million per year in perpetuity. Assuming a tax rate of 30% state whether the project is viable. (10 marks)

QUESTION FIVE

a) Outline the factors that may constrain a company from paying dividends to its shareholders at the end of a financial year. (10 marks)
b) Describe the Modigliani and Miller dividend irrelevance proposition. (10 marks)

QUESTION SIX

a) Explain five reasons as to why financial innovation and private investments have contributed towards growth of developing countries. (10 marks)

b) Explain the factors which influence the decision on whether to borrow in a domestic currency or foreign currency. (10 marks)