



PAN AFRICA CHRISTIAN UNIVERSITY

BACHELORS OF COMMERCE

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: BCM302/BUS4213

COURSE TITLE: FINANCIAL MANAGEMENT

ROYSAMBU CAMPUS - DAY

EXAM DATE: WEDNESDAY

TIME: 9.30PM – 12.30PM

INSTRUCTIONS

- This examination script consists of **six(6)** questions.
- Answer question ONE and ANY other four Questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

QUESTION ONE

- a) Explain two objectives of an effective inventory management (4Marks)
- b) Describe the agency theory (3 Marks)
- c) Discuss each of the three financial management decisions in relation to the primary objective of the firm (9 Marks)
- d) Explain five features of an appropriate capital structure (10 Marks)
- e) Distinguish between the following terms:
 - i. Mutually exclusive projects and independent projects (4 Marks)
 - ii. Soft capital rationing and hard capital rationing (4 Marks)
- f) Explain three types of dividends (6 Marks)

QUESTION TWO

A company is considering buying a new machine at a cost of sh.47million with an economic life of 5 years. Installation cost is 0.5 million and the working capital is 2.5million and no salvage value. At the end of 5 years, the working capital is recovered. The required rate of return is 10%.The company's tax rate is 30%. The expected net profits before tax and depreciation are

Year	1	2	3	4	5
Profits (Sh'million')	12	15	16	18	30

Determine:

- a) The initial cash flows (2 Marks)
- b) The operating cash flows (6 Marks)
- c) The terminal cash flows (2 Marks)
- d) The NPV of the project and comment (5 Marks)

QUESTION THREE

- a) Highlight the main distinguishing features of each of the following capital structure theories:
 - i. Traditional Approach (4 Marks)
 - ii. Net Income approach (4 Marks)
 - iii. Modiglian and Miller irrelevance theory (4 Marks)
 - iv. Modiglian and Miller relevance theory (4 Marks)
- b) BADCO is expecting Earnings Before Interest and Tax of 2M. The company has 10% 8M debt. The equity capitalization rate is 12%. Using the Net Income Approach, calculate:
 - i. The value of the firm (5 Marks)
 - ii. The cost of capital (2 Marks)

QUESTION FOUR

A company has an annual demand for material P of 40,000 tons per annum. The cost price per ton is sh.3,000 and stock holding is 20% per annum of the stock value. Delivery cost per batch is sh.350. Lead time is 2 weeks. During this time, 100 units are remaining to consume. The safety stock is 60 units.

Calculate the:

- i) EOQ (6 Marks)
- ii) Minimum cost (C) (5 Marks)
- iii) Reorder point (4 Marks)

QUESTION FIVE

The following data has been extracted from the financial records of MINTO limited.

Raw materials	sh12/unit
Direct labour	sh6/unit
Overheads	sh. 160,000

Additional information

Selling price per unit	sh.40
Output in units sold	30,000
Average storage period for raw material	25 days
Average storage period for finished goods	22 days
The suppliers give 60 days credit facility	
Average collection period is 60 days	

Duration of the production cycle is 20 days and materials are issued at the beginning of each production cycle.

15% of the average working capital is kept as cash for contingencies.

Required:

- a) Determine the duration of net operating cycle (6 Marks)
- b) Estimate the required working capital (9 Marks)

QUESTION SIX

- a) Explain four factors influencing the dividend policy (8 Marks)
- b) Explain various ways in which capital budgeting is important (7 Marks)