**PAN AFRICA CHRISTIAN UNIVERSITY**

**SCHOOL OF LEADERSHIP, BUSINESS & TECHNOLOGY**

**END OF SEMESTER EXAMINATION FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION**

**SEPTEMBER-DECEMBER 2019**

**CAMPUS: ROYSAMBU**

**DEPARTMENT: BUSINESS STUDIES**

**COURSE CODE: MBA506**

**COURSE TITLE: FINANCIAL MANAGEMENT**

**EXAM DATE: TUESDAY 3RD DECEMBER 2019**

**DURATION: 2 HOURS**

**TIME: 5:30PM-7:30PM**

**INSTRUCTIONS**

- Read the instructions and questions carefully before you write the answers.
- Write your **STUDENT NUMBER** in the Answer Booklet given
- *Write clearly and legibly.*
- This exam script consists of **Six (6)** questions.
- Answer **ALL questions in SECTION A (compulsory)** and **Any other FOUR (4)** questions from **SECTION B**
- *ALL PAC University's examination rules and regulations apply*

**SECTION A: ANSWER ALL QUESTIONS**

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

a) Explain three objectives of financial management in an organization **[6 marks]**

b) Briefly explain three characteristics of ordinary shares as a source of capital **[9 marks]**

c) Explain the meaning of the term working capital **[3 marks]**

d) Explain five importance of Financial management in a corporate organization **[10 marks]**

e) Explain four characteristics of debt capital **[12 marks]**

**SECTION B: ANSWER ANY FOUR QUESTIONS**

**QUESTION TWO**

a) Explain three advantages of using term loans as a source of capital to a business organization **[9 marks]**

b) Explain any three factors that influence the amount of working capital held by a firm

**[6 mark]**

**QUESTION THREE**

a) Explain any three key advantages of using common stock as a source of capital **[6 marks]**

b) Explain three reasons for holding cash in a firm **[6 marks]**

c) Explain the meaning of the term preemptive rights **[3 marks]**

**QUESTION FOUR**

a) You have been appointed as a finance manager of XYZ Ltd. Identify and explain three key functions that you are expected to carry out for the firm
**[6 marks]**

b) Write short notes on the following terms as used in Financial Management:

i. Budgeting **[2 marks]**

ii. Wealth maximization **[2 marks]**

iii. Lease financing **[2 marks]**

c) Distinguish between cumulative and non-cumulative preference shares **[3 marks]**

**QUESTION FIVE**

a) Explain four features of preference shares as a source of capital **[8 marks]**

b) Differentiate between participating and non-participating preference shares **[4 marks]**

c) State three drawbacks of using preference shares as a source of finance **[3 marks]**

**QUESTION SIX**

a) A firm has credit sales worth Kshs 30 million in a year. The opening and closing value of debtors amount to Kshs 1 million and 3 million respectively. Calculate for the firm and interpret:

i. Accounts turnover **[3 marks]**

ii. Debtor's collection days **[3 marks]**

b) State four determinants of the amount of inventory held by a firm **[4 marks]**

c) A firm has an annual demand of 500,000 kgs of a certain raw material used in the production process. Each time, the firm places an order of 50,000 kgs and the ordering cost is Kshs 150 per order. Given that the opportunity cost per Kg of the raw material is Kshs 2, determine the optimal quantity of the raw material to be stocked by the firm.

**[5 marks]**