PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS & TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF BUSINESS LEADERSHIP

BACHELOR OF COMMERCE

SEPTEMBER-DECEMBER 2019

CAMPUS: VALLEY ROAD

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: BUS4213|BCM302

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 q**uestions in SECTION A (compulsory)** and A**ny other three (3)** questions from **SECTION B**
- *ALL PAC University's examination rules and regulations apply*

SECTION A: COMPULSORY

QUESTION ONE (30mks)

a) Define the following concepts
   i. Financial Management (2 Marks)

   ii. Modigliani and Miller Theory of Dividends (2 Marks)

   iii. Agency Theory (2 Marks)

b) Explain THREE major decisions in Financial Management (6 Marks)

c) Determine the rate of interest that will yield kshs. 324,000 after 6 years if the initial amount invested was kshs. 120,000. (4 Marks)

d) Calculate the current market price of a safaricom share if the dividend in the next 6 years is expected to be Kes 8 per share at a growth rate of 5%. The cost of capital is 10% (4 Marks)

e) Differentiate Return on Assets and Quick Asset Ratio (4 Marks)

f) ABC Ltd presents the following data for two projects. Using the payback period method, advice management on the project to invest in (6 Marks)

Year	**Cash Flow A**	**Cash Flow B**	C
0	100000	200000	40000
1	40000	50000	90000
2	30000	60000	60000
3	20000	80000	30000
4	5000	23000	50000

SECTION B: ANSWER ANY THREE QUESTIONS

QUESTION TWO (10mks)

a) Discuss the prepositions of the traditional method of capital structure as presented by Ezra Solomon (2 Marks)

b) ABC Ltd reported an EBIT of Kes 8 million in 2019. The company borrowed a loan of Kes 5 million at 6% interest rate. The equity capitalization rate was 15%. In their financial statements, the company recorded a total of 1million shares at Kes 8 per share. Using the NI theory, calculate
   (i). Total value of firm (3mks)

   (ii) Weighted Average Cost of Capital using MM (5mks)

QUESTION THREE (10mks)

a) Differentiate between Risk and Uncertainty (2mks)

b) Calculate the expected return and standard deviation for the MBT Ltd with following data in its risk management register (8mks)

Year	Return	Probability	
1	30000	0.3	
2	40000	0.2	
3	30000	0.1	
4	20000	0.4	
5	5000	0.1	

QUESTION FOUR (10mks)

a) Discuss the prepositions of Residual theory and Walter's Dividend theory (10mks)

QUESTION FIVE (10mks)

Mr. A deposits some amount in a bank account over 5 years as follows:

Year	Amount in Kes
1	115,000
2	140,000
3	129,000
4	160,000
5	180,000

How much will it accumulate if interest is received at 8% (4mks)

Discuss THREE major decisions in liquidity Management (6mks)

QUESTION SIX (10mks)

a) List FOUR sources of finance for a company (4mks)

b) Discuss any THREE emerging issues and trends in financial management (6mks)