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: MONDAY

TIME: 5.30PM – 8.30PM

INSTRUCTIONS

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

QUESTION ONE

a) Define the following terms:
   i. Optimal capital structure (2 Marks)
   ii. Net Cash operating cycle (2 Marks)

b) Distinguish between:
   i. Mutually exclusive projects and independent projects (4 Marks)
   ii. Soft capital rationing and hard capital rationing (4 Marks)
   iii. Financial structure and capital structure (4 Marks)

c) Discuss how each of the three financial management decisions affects the primary objective of the firm (8 Marks)

d) Explain three types of dividends (6 Marks)

e) Discuss five features of an appropriate capital structure (10 Marks)

QUESTION TWO

A given Chartered University is considering investing in various projects. However, the available capital of Sh15M is not enough to cater for all its 8 capital projects. The following data has been provided:

Project	Required capital (ShM)	Present Value (ShM)
Construction of a new academic building	11	13
Purchase of a University bus	5	7
Construction of a modern library	10	7.2
Construction of a 5 storey men's hostel	9	10.5
Construction of a sports field	8	9
Purchase of ICT equipment	7	6
Purchase of plagiarism software	2	3.5
Constructing a stone wall around the University	6	8

1) Determine the capital rationing of the projects on the basis of:
   a) Net Present Value if the projects are:
      i) Mutually exclusive (3 Marks)
      ii) Independent (4 Marks)

   b) Profitability Index if the projects are:
      i) Mutually exclusive (3 Marks)
      j) Independent (4 Marks)

2) With a reason, advice the University on the best alternative source of additional capital (1 Mark)

QUESTION THREE

a) Highlight the main distinguishing features of each of the following capital structure theories:

i. Traditional Approach (2 Marks)

ii. Net Income approach (2 Marks)

iii. Modiglian and Miller irrelevance theory (2 Marks)

iv. Modiglian and Miller relevance theory (2 Marks)

b) CHEN Ltd expects a net operating income of Sh 300,000. It has 8%, debt worth Sh 2,000,000. The overall cost of capital is 10%. According to NOI approach, calculate:

i. The value of the firm (2 Marks)

ii. The equity capitalization rate (5 Marks)

QUESTION FOUR

A company has an annual demand for material A of 20,000 units per annum. The cost price per unit is sh.200 and stock holding is 20% per annum of the stock value per unit. Delivery cost per batch is sh.500. Lead time is 2 weeks. During this time, 100 units are yet to be consumed. The safety stock is 60 units.

Calculate the:

i) Economic Order Quantity (6 Marks)

ii) Minimum cost (C) (5 Marks)

iii) Reorder point (4 Marks)

QUESTION FIVE

The following information was extracted from the books of TBK Ltd as at 30th Sept 2016

	Sh'000
Annual sales	10,000
Average purchases	7800
Average stock	2,000
Average debtors	6666
Average creditors	800
Cash	5000

Additional information:

1. The company's gross profit margin is 40%
2. All sales are on credit terms
3. Assume a 360 day year.

Required:

a) Estimate the required working capital (3 Marks)

b) Determine the duration of net cash operating cycle (12 Marks)

QUESTION SIX

a) Describe the agency theory (3 Marks)

b) Explain two ways in which agency problem can be minimized (4 Marks)

c) Discuss four factors influencing the dividend policy (8 Marks)