PAN AFRICA CHRISTIAN UNIVERSITY

MASTERS OF BUSINESS ADMINISTRATION

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: MBA 506

COURSE TITLE: FINANCIAL MANAGEMENT

EXAM DATE: FRIDAY 5th AUGUST 2016
TIME: 5.30PM-8.30PM

INSTRUCTIONS

- Read all questions carefully before attempting.
- Answer QUESTION ONE AND ANY OTHER THREE
- Write your **student number** on the answer booklet provided.

QUESTION ONE (COMPULSORY) – 40 marks

a) Briefly explain the nature and implication of following types of risks as used in Financial Management

   i. Interest rate risk **(3marks)**

   ii. Operating risk **(3marks)**

   iii. Currency risk **(3marks)**

b) Explain any three characteristics of ordinary shares **(9 marks)**

c) Explain five importances of Financial management in a corporate organization **(10 marks)**

d) Discuss why debt financing is regarded as a "necessary evil" in financing corporate organizations **(12 marks)**

QUESTION TWO

a) Discuss the three main sources of capital available to a corporate entity clearly articulating the advantages and disadvantages of each **(15mrks)**

b) Briefly discuss **three types** of decisions made by a finance manager of a firm **(5mrks)**

QUESTION THREE

a) Distinguish between Coupon rate and Yield in the context of valuation of debt securities **(4mrks)**

b) Determine the current market value of a straight coupon bond that pays interest semi-annually and with the following additional features:

   Maturity value = Kshs 1,000,000

   Coupon rate per year = 12%

   Yield to maturity = 10%

   Remaining period to maturity = 10 years

   Assume no withholding taxes **(10 mrks)**

c) If your required rate of return per year in the above circumstance rose to 12%, determine the maximum price you would be willing to pay for the bond **(6mrks)**

QUESTION FOUR

a) Using the Dividend Valuation Model (DVM), determine the value of a common stock share of XYZ Company Ltd given that the share paid a dividend of Kshs. 6 per share this year. Further, the dividends are expected to grow at a constant rate of 4% per year and the investor's required rate of return on common stock is 7% **(6mrks)**

b) Explain the scope and the role of financial management in a corporate entity **(10mrks)**

c) With the help of an illustration, explain briefly why cash today is preferable than the same amount of cash receivable in future **(4mrks)**

QUESTION FIVE

a) Write brief notes on the following terms within the context of corporate financial management:

i. Required rate of return **(3mrks)**

ii. Preference shares **(2mrks)**

iii. Annuity cash flow **(2mrks)**

b) Okal is considering an investment project whose cash flows are projected as below:

End of Period	Cash flow (Kshs)
1	400,000
2	300,000
3	450,000
4	500,000
5	700,000

Okal considers a required rate of return of 12% P.a sufficient after taking into account the expected inflation and the risk of the project's cash flows.

Determine the present value of the expected cash flows **(8mrks)**

c) Determine the value of a preference share that has a par value of Kshs 100 and pays dividend at a rate of 8% per share; given that the discounting rate is 12% p.a. **(5mrks)**

QUESTION SIX

a) Determine the future value of Kshs 10,000 deposited in a bank account at the end of every year for the next 7 years if the bank pays a compound interest at a rate of 12% per year **(6mrks)**

b) Martin is planning to start a poultry project 10 years from now. He expects to raise Kshs 2 million as capital for the project. Towards this end, he has approached the bank manager who has advised him to open a savings account with the bank and start depositing money every end of the month. The bank Manager has offered to pay martin a compound interest on deposits at a rate of 12% p.a. as long as Martin does not make any withdrawals in the intermediate period. Martin doesn't know how much he should be depositing every year in order for him to accumulate the required amount by end of the 10^{th} year. He has approached you for an advice. Using the knowledge you have on time value of money and cash flow valuations, advice Martin **(8mrks)**

c) Determine the Number of years that a deposit of Kshs 100,000 is expected to remain in an account earning interest at a rate of 12% p.a. if the owner of the account expects to withdraw Kshs 300,000 at the end (assume no withdrawals are made) **(6mrks).**