



KIBABII UNIVERSITY

**UNIVERSITY EXAMINATIONS
2019/2020 ACADEMIC YEAR
SECOND YEAR FIRST SEMESTER
MAIN EXAMINATION
FOR THE DEGREE OF BACHELOR OF COMMERCE**

COURSE CODE: BCF211

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 16TH NOVEMBER 2020 **TIME: 9.00AM-11.00AM**

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over.

QUESTION ONE

(8marks)

- (a) Explain any four goals of a business firm
- (b) Despite being more risky, ordinary shares are more popular among investors as opposed to preference shares. Justify for the popularity of ordinary shares among shareholders (5 marks)
- (c) Identify any five factors that may influence the level of working capital of a firm (5 marks)
- (d) The following information relate to XYZ Company as at 31 Dec 2019

Sh

Non-current assets	1800000	
Debtors		600000
Inventories		300000
Cash		480000
Trade Payables		345000
Bank overdraft		900000
Retained earnings		600000
Mortgage		975,000

Sales and operating expenses for the year were Ksh 4,000,000 and Ksh 3,375,000 respectively.
Corporation tax is 30%.

Calculate the following ratios

- (i) Current ratio
- (ii) Fixed assets turnover
- (iii) Gross profit margin
- (iv) Return on capital employed
- (v) Debtorsturnover

(12marks)

QUESTION TWO

(a) Mwangi wants to set up a business that requires sh 5,000,000. In order to achieve his dream, he has sh 1,500,000 which he intends to invest in a financial institution paying 12% interest per annum compounded monthly. However, he knows that this option will not enable him raise the required amount. As such, he intends to invest some amount of money in a financial institution that will pay simple interest of 8% per annum that will enable him achieve his target. Determine the amount he should invest at the start of 3rd year (10 marks)

(b) An employee wishes to go home Sh 3,000,000 on retirement in 25 time. In to this, she wishes to be saving some amount of money in a pension scheme at the end of every Months. The scheme pays monthly interest of 1.5%. Determine

(i) The amount she should be saving monthly

(ii) What could be the difference in monthly saving in (i) if the savings were made at the beginning of the months instead of end months? (10 marks)

QUESTION THREE

(a) XYZ limited Company has the following capital structure

100,000 issued and paid Ordinary share @ sh 100.....	sh 1, 000,000
50,000 8% issued and paid up preference shares @ sh 50.....	sh 2,500,000
10% Loan from KCB Bank.....	sh 1,000,000
20,000 10% Debentures @ 100.....	sh 2,000,000
Retained earnings	sh 1,500,000

Addition information

- (i) Ordinary shares are currently selling at sh 130 and floatation cost sh 2
- (ii) Debentures are currently selling at sh 95
- (iii) Preference shares are selling at sh 115

- (iv) Dividend paid on ordinary shares previous year was sh 5. The dividend is expected to grow by 15%
- (v) Corporation Tax is 30%

Required

- (i) Calculate the cost of each component of capital
- (ii) Determine the Weighted Average Cost of Capital(WACC) (10 marks)

QUESTION FOUR

(a) A company is contemplating investing in either project A or B. The following are expected cash flows from the project in shillings

Year	A B	
0	(250000)	(250000)
1	1250,000	1250,000
2	700000	1,100,000
3	680000	700,000
4	500000	300000
	5480000	200000

The company's cost of capital is sh 12%.

- (i) Determine the profitability Index for each project
 - (ii) Advise management on the project to invest in (8 marks)
- (b) An investor is thinking about investing money in the stock market. There are the following two stocks in mind: stock A and stock B. The economy will be in recession or boom. Being an optimistic investor, there is believe of that the likelihood of observing an economic boom is two times as high as observing an economic depression. The following information is also available about the two stocks:

State of the Economy	Probability	R _A	R _B
Boom		10%	-2%
Recession		6%	40%

- (i) Calculate the expected return for stock A and stock B

- (ii) Calculate the total risk (variance and standard deviation) for stock A and for stock B
- (iii) Calculate the expected return on a portfolio consisting of 40% for A.
- (iv) Calculate the risk of the portfolio (12marks)