(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2017/2018 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER

MAIN EXAMS

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: **BCF 200**

COURSE TITLE: **FINANCIAL MANAGEMENT**

DATE: 10/08 / 2018 **TIME:** 9.00 - 11.00 A.M

INSTRUCTIONS TO CANDIDATES

Answer Question One and any other Two (2) Questions

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

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SECTION A

QUESTION ONE (COMPULSORY)

Akuot Limited has Ksh. 15 million to invest in two projects. The company would like to invest 9 million in Oil drilling and Ksh. 6 million in a Wheat mill. The details of the two projects are given below:

Probability	Expected Earnings Wheat Mill (%)	Expected Earnings Oil Drilling
0.2	70	-25
0.3	45	35
0.4	10	60
0.1	-35	75

Required:

i) Calculate the expected return and risk of the two projects (10marks)

ii) What is the expected Return of the portfolio (5 marks)

iii) Compute the risk of the portfolio (10marks)

iv) Which of the two projects would you recommend based on return and risk (5marks)

SECTION B (ANSWER ANY TWO QUESTIONS)

QUESTION TWO

a) Discuss five objectives of financial management (10 marks)

b) Despite the large investment in the stock exchange and the various government activities, only a few companies are listed at the stock exchange. This was the opening remark by the quest speaker in a seminar whose theme was "Developing out capital market". Highlight five advantages and disadvantages of companies being listed at the stock exchange.
(10 marks)

QUESTION THREE

a) Discuss four reasons why profit maximization is seen as the Cardinal goal of a firm

(8 marks)

b) Find the price of bond with a coupon rate of 12% having 5 years to maturity. Its par value is ksh. 10,000 and the discount rate is 12% (2 marks)

c) The financial management function is usually associated with the Chief Financial Officer. Discuss five roles and functions of a finance manager (10 marks)

QUESTION FOUR

XYZ ltd. has the following capital structure as at 31^{st} March 2010:

	Shs.
Ordinary share capital (400, 000 shares)	16,000,000
10% preference share capital	2,000,000
14% Bond capital	14,000,000

Additional Information

1. The market price of each ordinary share as at 31^{st} March 2010 was sh. 40
2. The firm paid a dividend of Sh. 4 for each ordinary share for the Year ended 1^{st} March 2010.
3. The annual growth rate in dividend is 7%
4. The corporation tax rate is 30 %

Required:

(i) Compute the Weighted Average Cost of Capital of the firm as at 31^{st} March 2010

(10 marks)

(ii) The firm intends to issue a 15% Sh. 4 million bond during the year ending 31^{st} March 2011. The existing bonds will not be affected by the issue. The dividend per share for the year ending 31^{st} March 2011. The dividend per share for the year ending 31^{st} March 2011 is expected to be sh.6 while the average Market price per share over the same period is estimated to be Sh 60. The average annual growth rate in dividends is expected to remain at 7%. Compute the Weighted Average Cost of Capital as at 31^{st} March 2011.

(10 marks)

QUESTTION FIVE

a) Company ABC Ltd want to invest in one of the following two projects, A and B which require an initial cash outlay of Kshs. 1 000 000 and will pay an interest of 10% p.a on this money. This projects will generate the following cash flows

Year	Project A Shs.	Project B Shs.
1	500 000	600 000
2	40 000	160 000
3	100 000	40 000
4	600 000	500 000
5	160 000	100 000

Required: advice the investor using

i. PBP Method (5 marks)

ii. NPV Method (5 marks)

b) Kenya limited requires 2,000 components in the coming year which costs shs.50 each. The items are available locally at a lead time of one week. An order costs shs.50 to prepare and process while the holding costs amounts to shs.15 per unit per year for storage plus a 10% opportunity cost of order costs.

i. Compute the number of units that should be ordered each time to minimize inventory cost (3marks)

ii. What is the re-order level (2marks)

iii. How many orders will be placed in the year (2marks)

iv. Determine total cost (3marks)