



(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2016/2017 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

SUPPLIMENTARY EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCF 200

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 27/09/2017

TIME: 3.00 P.M- 5.00 P.M

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

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SECTION A

QUESTION ONE: CASE STUDY

The following financial information relates to XYZ Co, which has a cost of equity of 12%. Assume that it is now 31 March 2012 and the ordinary share price of the company is shs. 4.17 per share. XYZ Co. has been experiencing trading difficulties due to a continuing depressed level of economic activity.

Income statement information for recent years ending 31 March

Description	2010 Kshs. M	2011 Kshs. M	2012 Kshs. M
Profit before interest and tax	29.3	26.6	25.3
Finance charges(interest)	4.8	5.3	5.5
Profit before tax	24.5	21.3	19.8
Taxation expense	7.3	6.4	5.9
Profit for the end	17.2	14.9	13.9

Statement of financial position information as at 31 March 2011

Description	Ksh. M	Kshs. M
Ordinary shares per value	19.0	
Retained earnings	88.5	
Total equity		107.5
8%bonds Redeemable in two years time		50.0
Total equity and non-current liabilities		157.5

Note: The statement of financial position takes no account of any dividends to be paid. The ordinary share capital of XYZ Co. has not changed during the period under consideration and the 8% bonds were issued in 1999.

Dividend and share price information

Description	2009	2010	2011
Total cash dividend paid (Kshs.M)		9.5	9.5
Share price at end of year Kshs./share	5.94	5.1	4.59

Financial objective of XYZ Co.

The company has declared the objective of maximizing shareholders wealth

Dividend decision

XYZ Co. is considering two alternative dividend choices for the year ending 31 march 2012

- 1) To pay the same total cash dividends as in 2011
- 2) To pay no dividend at all for the year ending 31 March 2012

Financing Decision

XYZ Co. is also considering raising kshs. 50M in new debt finance to support existing business operations

Required:

- a) Analyze and discuss the recent financial performance and the current financial position of XYZ Co. Commending on :
 - i) Achievement of the objective of maximizing shareholders wealth(5mks)
 - ii) The two dividend choices (5mks)
 - iii) The proposal to raise kshs. 50M of new debt finance(5mks)
- b) Discuss the following sources of finance that could be suitable for XYZ Co. in its current position , to meet its need for kshs. 50M to support existing business operations
 - i) Equity finance(5mks)
 - ii) Sale and lease finance(5mks)
- c) Explain factors that influence the formulation of working capital policy in company XYZ (5mks)

SECTION B

QUESTION TWO

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 Using

- a) PBP Method (5mks)
- b) NPV Method (5mks)
- c) IRR Method (6mks)
- d) PI Method (4mks)

QUESTION THREE

Wareng investment company Ltd wants to raise finance from the following sources:-

- i) Issue 100 000 ordinary shares of shs. 10 at shs. 15 each
- ii) Issue 100 000 10% preference shares of shs. 10 at shs. 12 each
- iii) To issue 100 000 15% debentures of shs. 100 at shs. 90 each

- iv) To raise a medium term loan of shs. 5000 000 from a financial institution which will be at an interest rate of 20%p.a
- v) The company will pay an annual dividend to ordinary shares of 14% and a corporation tax of 50%

Required :

- a) The total amount that this company will raise if this plan is realized (5mks)
 - b) the cost of each finance (8mks)
 - c) Weighted Average Cost of Capital (4mks)
- d) Explain at least three requirements to be fulfilled in order for an appraisal method to be seen as viable (3mks)

QUESTION FOUR

- a) state and explain the prime objective of inventory management (8mks)
- b) the following inventory cost relationships has been established for Simba Ltd
 - annual purchase, Sh. 1 080 000
 - Purchase price per unit sh. 30
 - Carrying cost 15% of the purchases
 - Cost per order placed sh. 120
 - Desired safety stock 1 500 units
 - Delivery time 7 days

Required:

- i) Calculate the economic order quantity (5mks)
- ii) What is the optimal number of orders to be placed (3mks)
- iii) Calculate the company's reorder level (4mks)

QUESTION FIVE

- a) Write brief note on the Capital Markets Authority (5mks)
- b) To what extent does the CMA influence share prices of companies quoted on the securities exchange (5mks)
- c) Write brief notes on the trading mechanism of the Nairobi Securities exchange (10mks)