



B

(Knowledge for Development)
KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 200

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 26/07/2021

TIME: 9.00 AM-11.00 A.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

This Paper Consists of 3 Printed Pages. Please Turn Over. 

SECTION A

QUESTION ONE (COMPULSORY)

- a) What is the scope of finance functions? (4marks)
- b) Distinguish between the term Agency theory and Agency costs. (2marks)
- c) Distinguish between weighted average cost of capital and marginal weighted average cost of capital (6marks)
- d) Distinguish between business risk and financial risk (4marks)
- e) Highlight the various measures that would minimize agency problems between the owners and management. (4 marks)
- f) ABC Ltd has issued a 5 year zero coupon rate bond with maturity value of shs 100,000. The bond is issued at a discount rate of 32%. Determine the rate of return of the bond (5 marks)
- g) Kokoto ltd is an all equity firm whose beta factor is 1.2, the interest rate on T.Bills is currently at 8.5% and the market rate of return is 14.5%. Determine the cost of equity k_e , for the company. (5marks)

SECTION B (ANSWER ANY TWO QUESTIONS)

QUESTION TWO

The following is the capital structure of XYZ ltd as at 31/12/2020

	shs m.
ordinary share capital shs.10 par value	600
Retained earnings	300
10% preference share capital sh.20 par value	100
12% debenture sh.100 par value	<u>200</u>
	1200

Additional information

Corporate tax is 30%

Preference shares were issued 10 years ago and are still selling at par value MPS=Par value

The debenture has a 10 year maturity period. It is currently selling at sh.90 in the market.

Currently the firm has been paying dividend per share of shs 5. The DPS is expected to grow at 5% p.a in future. The current MPS is sh.40.

Required

Determine the WACC of the firm (14 marks)

What are the weaknesses associated with WACC when used as the discounting rate, in project appraisal. (6 marks)

QUESTION THREE

Miwani ltd wants to raise new capital to finance a new project. The firm will issue 200,000 ordinary shares (shs 10 par value) at sh16 with sh1 floatation costs per share, 75, 000 12% preference shares (shs 20 par value) at sh 18 with sh 150,000 floatation costs, 50,000 18% debentures (shs 100 par) at sh 80 and raised a sh 5,000,000 18% loan paying total floatation costs of shs 200,000. Assume 30% corporate tax rate. The company paid 28% ordinary dividend which is expected to grow at 4% p.a.

Required

- a) Determine the total capital to raise net of floatation costs (6marks)
- b) Compute the marginal cost of capital (14marks)

QUESTION FOUR

- a) Briefly explain the main objectives of a business entity (6 marks)
- b) Why do different sources of finance have different costs (8 marks)
- c) State and explain financial intermediaries and their functions in Kenya. (6 marks)

QUESTION FIVE

- a) What is venture capital? (4marks)
- b) Explain the difference between an ordinary annuity and an annuity due (2marks)
- c) Company ABC is expected to generate post tax earnings of shs 200,000 per annum and companies in the same trade will generally have a P/E ratio of 8. On account of company ABC LTD size, a ratio of 6 is considered more appropriate. The issued share capital is 1,000,000 ordinary shares of shs 50 each.

Required

- i) Value of shares (2marks)
- ii) Value of the business (2marks)
- d) Identify and explain five reasons why companies in your country may seek “cross border” listing (10marks)