



**MASINDE MULIRO UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

(MMUST)

MAIN/BUNGOMA/WEBUYE/KAPSABET/MUMIAS/NAIROBI CAMPUS

UNIVERSITY EXAMINATIONS

2018/2019 ACADEMIC YEAR

FOURTH YEAR SECOND SEMESTER EXAMINATIONS

FOR THE DEGREE

OF

BACHELOR OF COMMERCE

COURSE CODE: BCF 440

**COURSE TITLE: STRATEGIC FINANCIAL
MANAGEMENT**

DATE: Thursday 30th May 2019 TIME: 8.00-10.00 AM

INSTRUCTIONS TO CANDIDATES

Answer **QUESTION ONE** and **ANY OTHER TWO** questions.

TIME: 2 HOURS

MMUST observes **ZERO** tolerance to examination cheating

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

SECTION A COMPULSORY

QUESTION ONE (30MARKS)

- a) Define strategic financial management and outline the steps to achieving its goal. (5marks)
- b) Two mutually exclusive projects have projected cash flows as follows:

Project	1	2	3	4	5
A	-10000	5000	5000	5000	5000
B	-10000	0	0	0	30000

- i) Determine the internal rate of return for each project (4marks)
- ii) Assuming a required rate of return of 10 percent, determine the NPV for each project. (4mark)

c) Why is management of working capital important to the financial manager? (5marks)

d) A ski resort is studying a half-dozen capital improvement projects. It has allocated shs. 1 million for capital budgeting purposes. The following proposals and associated profitability indexes have been determined. The projects are independent of one another.

Project	Amount	profitability index
A	500000	1.21
B	150000	0.95
C	350000	1.20
D	450000	1.18
E	200000	1.20
F	400000	1.05

- i) With strict capital rationing, which of these investments should be undertaken? (4marks)
- ii) Is this an optimum strategy? (2marks)
- e) Briefly explain three factors that influence dividend pay-out by corporate managers (6marks)

SECTION B CHOSE ANY TWO QUESTION

QUESTION TWO(20 MARKS)

- a) Compute the annual lease payment that a lessor will require if payments are in advance if the purchase price of an asset is shs. 1000000, interest rate of 10 percent, five year lease period and no residual value. (3marks)
- b) A company which has a 40 percent tax rate, wishes to acquire a shs.100000 stamping machine, which would be depreciated on a straight-line basis with an eight year life and no salvage value. An investment tax credit of 10 percent is available at the time the asset is acquired. It would be possible to lease the machine for shs. 15000 per year, payable in advance; it would also be possible to borrow at a 10 percent rate. Using an internal- rate of return analysis, determine the better alternative. (12marks)
- c) Differentiate between operating lease and financial lease (5 marks)

QUESTION THREE (20MARKS)

- a) Distinguish between dividends and share repurchase and explain how these distribution decisions affect firm value. (10marks)
- b) An electronics company repurchased 1 million of 14million shares outstanding at shs 98.00 a share. Immediately before the announcement, market price per share was shs. 91.00

- i) Was the offer price by the company the correct repurchase price? explain (5marks)
 ii) After the repurchase, share price went to shs.105. what would explain this rise if there were no other information concerning the company or stocks in general? (5marks)

QUESTION FOUR (20 MARKS)

- a) Explain the benefits of financial planning to a business organisation. (8marks)
 b) Suppose a company would like to see its sales grow at 20% for the foreseeable future. Its financial statement for the current year is presented below.

Income statements	(000)	Balance Sheet	(000)
Sales	32	Current Assets	16
Costs	28.97	Fixed Assets	16
Gross profit	<u>3.03</u>	Total Assets	<u>32</u>
Taxes	1.03	Current Debt	<u>10</u>
Net income	2.00	Long Term Debt	4
Dividend	1.40	Total Debt	14
Retained earnings	<u>0.60</u>	Common Stock	14
		Retained Earnings	4
		Total Liabilities & Equity	<u><u>32</u></u>

Additional information

The current financial policy of optimum company includes

- Dividend payout ratio (d) = 70 percent
 Debt – Equity ratio (l) = 77.78 percent
 Net profit margin (p) = 6.25 percent
 Asset – sales ratio T = 1

Required:

- i) Determine optimum ltd need for external funds next year (3marks)
 ii) Construct a pro-forma balance sheet for optimum ltd (4marks)
 iii) Calculate the sustainable growth rate for the company. (3marks)
 iv) How can optimum ltd change its financial policy to achieve its growth objectives? (2marks)

