



(University of Choice)

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY (MMUST)

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

UNIVERSITY EXAMINATIONS

2021 / 2022 ACADEMIC YEAR

MAIN EXAM

FOURTH YEAR SEMESTER TWO EXAMINATIONS
FOR THE DEGREE
OF

BACHELOR OF COMMERCE

COURSE CODE: BCF 440

COURSE TITLE: STRATEGIC FINANCIAL MANAGEMENT

DATE: Thursday 28TH APRIL 2022

TIME: 3-5PM

INSTRUCTIONS TO CANDIDATES

Answer QUESTION ONE and ANY OTHER TWO (2) questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 5 Printed Pages. Please Turn Over.

QUESTION ONE (30 MARKS)

- (a) What is the meaning and scope of strategic financial management? **(6marks)**
 b).Conceptually, strategy of a firm consists of two inseparable parts: business strategy and corporate strategy. (i) Distinguish between business strategy and corporate strategy. ii) Identify the key elements considered to develop and formulate such master strategy **(8 marks)**
 (c) Kibor and sons Co. is analyzing a new line of business and estimates the possible returns on investment as

Probability	0.1	0.2	0.3	0.1	0.3
Possible return	-10%	5%	20%	35%	50%

- i) What are the expected return and standard deviation? **(3 marks)**
 ii) Assume that the parameters in (a) pertain to a normal probability distribution. What is the probability the return will be less than 10 percent. **(3 marks)**
 d) Explain five considerations to be made when estimating cash flows related to a project. **(5 marks)**
 e) Janet Kilwake buys a piece of equipment for Ksh. 200000, the puts down Ksh. 40000 and make 160000. Her opportunity cost is 4 percent and the lender s interest is 8 percent. Find the Weighted average cost of capital (WACC). **(5 marks)**

QUESTION TWO (20MARKS)

- (a) Write short note on Appraisal of projects under inflationary conditions. **(3marks)**
 (b) A company is considering two mutually exclusive projects. A and B Project A costs Ksh. 30,000 and Project B Ksh. 36,000. You have been given below

PROJECT A		PROJECT B	
NPV Estimate	Probability	NPV Estimate	Probability
3000	0.1	3000	0.2
6000	0.4	6000	0.3
12000	0.4	12000	0.3
15000	0.1	15000	0.2

Required

- (i) Compute the risk attached to each project i.e., Standard Deviation of each probability distribution. **(7 marks)**
 (ii) Which project do you consider more risky and why **(2 marks)**
 (iii) Describe risk management model and its utility for managing liquidity risk and exchange rate risk. **(8 marks)**

QUESTION THREE (20MARKS)

TABLE C.1

Present Value of \$1: $PVIF = 1/(1 + k)^t$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	12%	14%	15%	16%	18%	20%	24%	28%	32%	36%
1	.9901	.9804	.9709	.9615	.9524	.9434	.9346	.9259	.9174	.9091	.8929	.8772	.8696	.8621	.8475	.8333	.8065	.7813	.7576	.7353
2	.9803	.9612	.9426	.9246	.9070	.8900	.8734	.8573	.8417	.8264	.7972	.7695	.7561	.7432	.7182	.6944	.6504	.6104	.5739	.5407
3	.9706	.9423	.9151	.8890	.8638	.8396	.8163	.7938	.7722	.7513	.7118	.6750	.6575	.6407	.6086	.5787	.5245	.4768	.4348	.3975
4	.9610	.9238	.8885	.8548	.8227	.7921	.7629	.7350	.7084	.6830	.6355	.5921	.5718	.5523	.5158	.4823	.4230	.3725	.3294	.2923
5	.9515	.9057	.8626	.8219	.7835	.7473	.7130	.6806	.6499	.6209	.5674	.5194	.4972	.4761	.4371	.4019	.3411	.2910	.2495	.2149
6	.9420	.8880	.8375	.7903	.7462	.7050	.6663	.6302	.5963	.5645	.5066	.4536	.4323	.4104	.3704	.3349	.2751	.2274	.1890	.1580
7	.9327	.8706	.8131	.7599	.7107	.6651	.6227	.5835	.5470	.5132	.4523	.3996	.3759	.3538	.3139	.2791	.2218	.1776	.1432	.1162
8	.9235	.8535	.7894	.7307	.6768	.6274	.5820	.5403	.5019	.4665	.4039	.3506	.3269	.3050	.2660	.2326	.1789	.1388	.1085	.0854
9	.9143	.8368	.7664	.7026	.6446	.5919	.5439	.5002	.4604	.4241	.3606	.3075	.2843	.2630	.2255	.1938	.1443	.1084	.0822	.0628
10	.9053	.8203	.7441	.6756	.6139	.5584	.5083	.4632	.4224	.3855	.3220	.2697	.2472	.2267	.1911	.1615	.1164	.0847	.0623	.0462
11	.8963	.8043	.7224	.6496	.5847	.5268	.4751	.4289	.3875	.3505	.2875	.2366	.2149	.1954	.1619	.1346	.0938	.0662	.0472	.0340
12	.8874	.7885	.7014	.6246	.5568	.4970	.4440	.3971	.3555	.3186	.2567	.2076	.1869	.1685	.1372	.1122	.0757	.0517	.0357	.0250
13	.8787	.7730	.6810	.6006	.5303	.4688	.4150	.3677	.3262	.2897	.2292	.1821	.1625	.1452	.1163	.0935	.0610	.0404	.0271	.0184
14	.8700	.7579	.6611	.5775	.5051	.4423	.3878	.3405	.2992	.2633	.2046	.1597	.1413	.1252	.0985	.0779	.0492	.0316	.0205	.0135
15	.8613	.7430	.6419	.5553	.4810	.4173	.3624	.3152	.2745	.2394	.1827	.1401	.1229	.1079	.0835	.0649	.0397	.0247	.0155	.0099
16	.8528	.7284	.6232	.5339	.4581	.3936	.3387	.2919	.2519	.2176	.1631	.1229	.1069	.0930	.0708	.0541	.0320	.0193	.0118	.0073
17	.8444	.7142	.6050	.5134	.4363	.3714	.3166	.2703	.2311	.1978	.1456	.1078	.0929	.0802	.0600	.0451	.0258	.0150	.0089	.0054
18	.8360	.7002	.5874	.4936	.4155	.3503	.2959	.2502	.2120	.1799	.1300	.0946	.0808	.0691	.0508	.0376	.0208	.0118	.0068	.0039
19	.8277	.6864	.5703	.4746	.3957	.3305	.2765	.2317	.1945	.1635	.1161	.0829	.0703	.0596	.0431	.0313	.0168	.0092	.0051	.0029
20	.8195	.6730	.5537	.4564	.3769	.3118	.2584	.2145	.1784	.1486	.1037	.0728	.0611	.0514	.0365	.0261	.0135	.0072	.0039	.0021
25	.7798	.6095	.4776	.3751	.2953	.2330	.1842	.1460	.1160	.0923	.0588	.0378	.0304	.0245	.0160	.0105	.0046	.0021	.0010	.0005
30	.7419	.5521	.4120	.3083	.2314	.1741	.1314	.0994	.0754	.0573	.0334	.0196	.0151	.0116	.0070	.0042	.0016	.0006	.0002	.0001
40	.6717	.4529	.3066	.2083	.1420	.0972	.0668	.0460	.0318	.0221	.0107	.0053	.0037	.0026	.0013	.0007	.0002	.0001	*	*
50	.6080	.3715	.2281	.1407	.0872	.0543	.0339	.0213	.0134	.0085	.0035	.0014	.0009	.0006	.0003	.0001	*	*	*	*
60	.5504	.3048	.1697	.0951	.0535	.0303	.0173	.0099	.0057	.0033	.0011	.0004	.0002	.0001	*	*	*	*	*	*

*The factor is zero to four decimal places.

- a) Explain the following dividend theories indicating how they impact on stock value in the financial markets
- i) Dividend relevant theory (3marks)
 - ii) Dividend irrelevant theory (3marks)
- i) Compute the annual lease payment that a lessor will require if payments are in advance if the purchase price of an asset is shs. 400000, interest rate of 12 percent, six year lease period and no residual value. (3marks)
- ii) When does a company decide to use leasing as a financing alternative? (2 marks)
- d) Why is management of working capital important to a finance manager? (6 marks)
- i) What is a proforma invoice, and when is it used (3 marks)

QUESTION FOUR (20MARKS)

- a) Explain various costs associated with stock management and how economic order quantity (EOQ) is determined under conditions of certainty. (6 marks)
- b) Differentiate between Debts financing and Equity financing (4 marks)
- c) Using agency theory, the function of strategic financial management can be deconstructed into four major components based on the mathematical concept of Expected Net present value (elaborate on this statement highlighting clearly the four major components) (10 marks)

TABLE C.2

Present Value of an Annuity of \$1 Per Period for n Periods:

$$PVIFA = \sum_{t=1}^n \frac{1}{(1+k)^t} = \frac{1 - \frac{1}{(1+k)^n}}{k}$$

Number of Payments	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	12%	14%	15%	16%	18%	20%	24%	28%	32%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.8929	0.8772	0.8626	0.8481	0.8345	0.8215	0.8085	0.7955	0.7826
2	1.9794	1.9416	1.9135	1.8861	1.8594	1.8334	1.8080	1.7833	1.7591	1.7355	1.6901	1.6467	1.6057	1.5656	1.5278	1.4988	1.4688	1.4376	1.4055
3	2.9410	2.8839	2.8266	2.7701	2.7242	2.6790	2.6345	2.5911	2.5483	2.5069	2.4018	2.3216	2.2832	2.2459	2.2143	2.1865	2.1613	2.1384	2.1169
4	3.9020	3.8077	3.7171	3.6299	3.5460	3.4651	3.3872	3.3121	3.2397	3.1699	3.0373	2.9137	2.8550	2.7982	2.6901	2.5887	2.4943	2.4100	2.0957
5	4.8534	4.7155	4.5797	4.4518	4.3285	4.2124	4.1002	3.9927	3.8897	3.7908	3.6018	3.4331	3.3522	3.2743	3.1272	2.9966	2.7454	2.5320	2.3452
6	5.7955	5.6014	5.4172	5.2421	5.0757	4.9173	4.7655	4.6229	4.4899	4.3553	4.1114	3.8807	3.7845	3.6947	3.4976	3.3355	3.0205	2.7594	2.5412
7	6.7282	6.4720	6.2303	6.0021	5.7864	5.5824	5.3903	5.2064	5.0330	4.8684	4.5638	4.2883	4.1604	4.0386	3.8115	3.6466	3.2423	2.9370	2.6775
8	7.6517	7.3355	7.0397	6.7627	6.4932	6.2308	5.9753	5.7266	5.4848	5.2499	4.8676	4.6389	4.4973	4.3436	4.0776	3.8712	3.4212	3.0758	2.7860
9	8.5660	8.1622	7.7861	7.4353	7.1078	6.8017	6.5152	6.2469	5.9953	5.7590	5.3382	4.9464	4.7716	4.6065	4.3000	4.0310	3.5655	3.1842	2.8681
10	9.4713	8.9526	8.5582	8.1899	7.8477	7.5301	7.2366	6.9659	6.7101	6.4717	6.1446	5.8582	5.7161	5.5888	4.9441	4.1925	3.6819	3.2889	2.9504
11	10.3676	9.7868	9.2526	8.7605	8.3064	7.8869	7.4987	7.1390	6.8032	6.4851	5.9377	5.4527	5.2337	5.0286	4.6580	4.3271	3.7757	3.3551	2.9776
12	11.2551	10.5753	9.9540	9.3651	8.8633	8.3938	7.9427	7.5161	7.1607	6.8137	6.1944	5.6693	5.4206	5.1971	4.7932	4.4392	3.8514	3.3668	3.0133
13	12.1337	11.3464	10.6150	9.9556	9.3936	8.8527	8.3377	7.9038	7.4869	7.1034	6.4335	5.8424	5.5831	5.3423	4.9595	4.5207	3.9124	3.4272	3.0404
14	13.0037	12.1062	11.2951	10.5631	9.8966	9.2950	8.7455	8.2442	7.7862	7.3667	6.6282	6.0021	5.7245	5.4675	5.0081	4.6166	3.9616	3.4587	3.0609
15	13.8651	12.8493	11.9179	11.1184	10.3797	9.7122	9.1079	8.5595	8.0607	7.6461	6.8009	6.1422	5.8474	5.5755	5.0916	4.6755	4.0013	3.4834	3.0764
16	14.7179	13.5777	12.5611	11.6523	10.8378	10.1059	9.4466	8.8514	8.3126	7.8237	6.9740	6.4651	5.9542	5.6685	5.1624	4.7296	4.0333	3.5206	3.0882
17	15.5623	14.2919	13.1661	12.1657	11.2741	10.4773	9.7632	9.1216	8.5436	8.0216	7.1096	6.7329	6.0472	5.7487	5.2223	4.7746	4.0591	3.5177	3.0971
18	16.3983	14.9920	13.7955	12.6959	11.8096	10.8276	10.0591	9.3719	8.7556	8.2014	7.2497	6.4674	6.1280	5.8178	5.2732	4.8122	4.0799	3.5294	3.1059
19	17.2260	15.6765	14.3238	13.1239	12.0653	11.1381	10.3356	9.6036	8.9501	8.3649	7.3658	6.5954	6.1982	5.8775	5.3162	4.8435	4.0967	3.5386	3.1090
20	18.0456	16.3514	14.8775	13.5983	12.4622	11.4699	10.5940	9.8181	9.1285	8.5136	7.4694	6.6331	6.2593	5.9288	5.3527	4.8696	4.1103	3.5458	3.1129
25	22.0232	19.5235	17.4131	15.6221	14.0939	12.7834	11.6556	10.6748	9.8226	9.0770	7.8431	6.8729	6.4641	6.0971	5.4689	4.9476	4.1474	3.5640	3.1220
30	25.8077	22.3965	19.6004	17.2920	15.3725	13.7648	12.4090	11.2578	10.2737	9.4269	8.0532	7.0027	6.5680	6.1772	5.5168	4.9789	4.1601	3.5693	3.1242
40	32.8347	27.5555	23.1148	19.7928	17.1591	15.0463	13.3317	11.9246	10.9574	9.7791	8.2438	7.1050	6.6418	6.2335	5.5482	4.9966	4.1659	3.5712	3.1250
50	39.1961	31.4226	25.7298	21.4622	18.3559	15.7619	13.8007	12.2325	10.9617	9.9148	8.3045	7.1327	6.6665	6.2463	5.5541	4.9995	4.1666	3.5714	3.1250
60	44.9550	34.7689	27.6756	22.6235	18.9293	16.1614	14.0392	12.3766	11.0480	9.9672	8.3240	7.1401	6.6651	6.2402	5.5555	4.9999	4.1667	3.5714	3.1250