



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

(MMUST)

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

UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

FOURTH YEAR SECOND SEMESTER EXAMINATIONS

FOR THE DEGREE

OF

BACHELOR OF COMMERCE

COURSE CODE: BCF 440 A

COURSE TITLE: STRATEGIC FINANCIAL MANAGEMENT

DATE: Friday 14th April 2023

TIME: 8.00-10.00PM

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.

QUESTION ONE (COMPULSORY)**(30 marks)**

An employee needs your help in his retirement planning. He is 30 years old and would like to retire at the age of 55 years, he estimates that post retirement he would need an annuity of shs. 12000 per annum for the next 30 years to meet his living expenses. The rate of return on his investment portfolio is expected to be 8 percent per annum.

- a) Determine the retirement corpus needed to provide him an annuity of shs. 12000 per annum for 30 years so that at the end of the period the hisr corpus is completely exhausted. Assume the annuity is needed in the beginning of each year (3marks)
- b) How much should he invest each year to reach the target retirement corpus? Assuming that investments are made at the end of each year. (3marks)
- c) An Investment of shs. 1000 today will return shs. 1000 at the end of year 1, shs 500 at end of year 2 and shs 100 at end of year 3. What is the IRR? (3marks)
- d) The probability distribution of possible net present values for project X has an expected value of shs. 20000 and standard deviation of shs. 10000. Assuming a normal distribution, calculate the probability that the net present value will
 - i) Be zero or less; (3marks)
 - ii) That it will be greater than shs. 30000 (3marks)
 - iii) It will be less than shs. 5000. (3marks)
- e) Why are dividend decisions important to a financial manager and in which way? (8marks)
- f) What are some of the strategic decisions that a finance manager must grapple with to create value for shareholder? (4marks)

QUESTION TWO**(20 marks)**

The following is the statement of financial position for supreme Ltd as at 31st December 2017

Non Current Assets	12,200,000
Current Assets	8,800,000

Total Assets	21,000,000
Equity and Liabilities	
Ordinary shares	2,200,000
Retained Earnings	6,600,000
Long term debt	7,800,000
Accounts Payable	2,200,000
Accrued expenses	2,200,000
Total Assets	21,000,000

Additional information

- i) The company is about to embark on an advertising campaign which expected to raise sales from their present level of shs. 27.5 million to shs. 38.5 million by end of next financial year.
- ii) The firm will have to increase its investment in both current and non current assets to support the projected level of sales. It is estimated that both categories of assets will be to support use in direct proportion to the projected increases in sales.
- iii) For the year ended, the firms net profit were 6% of the years sales but are expected to rise to 7% of projected sales.
- iv) In past year, the dividend payment rate of 80% has been paid annually.
- v) Accounts payable and accrued expenses sre expected to vary directly with sales. In addition notes payable will be used to supply the added funds to finance next years operations.

Required

- a) Estimate the amount of additional funds to be raised through notes payable. (5marks)
- b) Prepare pro-forma statement of financial position for the year ended 31st December 2018 (10marks)
- c) Calculate and compare Supreme Ltd debt-equity ratio before and after growth in sales. (5marks)

QUESTION THREE**(20 marks)**

- a) Explain the types of leasing available to corporations indicating their benefits to the firms (6marks)
- b) The Kraus Corporation which has a 40 percent tax rate wishes to acquire 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% is available at the time the machine 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 10 percent rate. Using an internal rate of return analysis, determine the better alternative. (14 marks)

QUESTION FOUR**(20 marks)**

- a) Discuss how cash management and inventory management models help management to control costs while ensuring sufficient working capital (10 Marks)
- b) Distinguish between Degree of Operating Leverage, Degree of Financial Leverage and Degree of Combined Leverage in leverage analysis. Use relevant expressions and interpretation. (10 marks)