



**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN/BUNGOMA/WEBUYE/NAIROBI CAMPUS

**UNIVERSITY SPECIAL EXAMINATIONS
2021/2022 ACADEMIC YEAR**

SECOND SPECIAL/ SUPPLIMENTARY EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF COMMERCE**

COURSE CODE: BCF 200

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: MONDAY, 25TH JULY 2022

TIME: 2-4 PM

INSTRUCTIONS TO CANDIDATES

Attempt **QUESTION ONE** and any other **TWO** questions

TIME: 2 Hours

MMUST observes **ZERO** tolerance to examination cheating

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QUESTION ONE

- i. Jambo Ltd paid a dividend of Ksh 2 per share during the previous period. In the next 4 years dividends are expected to grow at 5% p.a. Thereafter, dividends will grow at 10% p.a. indefinitely. The required rate of return is 15% p.a. Determine the intrinsic value of Jambo Ltd stock (5 Marks)
 - ii. An item sells for Sh8 per unit, but a 10% discount is offered for lots of size 300 units or more. A company that consumes these units at a rate of 40 items per day wants to decide whether or not to take advantage of the discount. The set up cost of ordering a lot is Sh 100. The holding cost per unit per day is 60 cents. Determine whether the company should take advantage of the discount offer, assuming the number of working days in a year to be 365 days (5 Marks)
 - iii. Explain any four determinants of a firm's dividend policy (5 Marks)
 - iv. Calculate the yield to maturity (YTM) of a bond with a par value of Sh 1million and coupon rate of 12% paid annually. The bond is currently trading at a price of Sh 1.1 million and has 3 years remaining to maturity. (5 Marks)
- v) The following information relates to ABC Ltd for the 3 months of May, June and July. The company has a policy of maintaining a minimum cash balance of Sh.30,000. The cash balance as at 30th April is Sh.30,000.

<u>Actual Sales</u>	<u>Estimated sales</u>
January Sh. 75,500	May Sh. 105,000
February 7,500	June 120,000
March 90,000	July 150,000
April 90,000	August 150,000

Consider the following additional information:

- a. Cash sales are 60% of total sales. The remaining sales are collected equally during the following two months.
 - b. Cost of goods manufactured is 75% of sales. 80% of this cost is paid after one month and the balance is paid after 2 months of cost incurrence.
 - c. Fixed operating expenses are Sh.15,000 per month and variable operating expenses are 10% of sales each month.
 - d. Semi –annual interest of a 12%, Sh. 500,000 debenture is payable during July.
 - e. Sh.60,000 are expected to be invested in fixed assets in the month of June.
 - f. Advance tax of Sh. 15,000 will be paid in July.
 - g. Assume that fixed expenses do not include depreciation or amortisation.
- Required: Draw a cash budget and determine whether or not borrowing will be necessary during the period and if so when? (10 Marks)

QUESTION TWO

- a) Explain the factors influencing cost of finance. (10 marks)
- b) Kebbi limited has had good trading period and wants to raise further finance from the following sources.
 - The company sold 100,000 ordinary shares of sh.100 with a flotation cost of sh. 20 each
 - It sold 5,000 preference shares of sh.100 at sh. 150 which carry a dividend of 16%
 - It sold 5,000 sh. 100 10% debentures at sh. 80

- It sold 10,000 sh. 50 12% debentures with issue cost of sh.15
The company hopes to earn a return on the above finance of 18%

Required

Compute the cost of ordinary share capital assuming that there is no retention. Take tax rate 30%. (10 marks)

QUESTION THREE

- a) JSC limited wishes to expand its output by purchasing a new machine worth 170,000 and installation costs are estimated at 40,000/=. In the 4th year, this machine will call for an overhaul to cost 80,000/=. Its expected inflows are:

YEAR	1	2	3	4	5	6
INFLOWS	60,000	72,650	35,720	48,510	91,630	83,715

sh.

This company can raise finance to purchase machine at 12% interest rate. Compute NPV and advise management accordingly. (10 marks)

- b) A company is faced with the following 5 investment opportunities:

Investment	Cost	NPV	Profitability index
1	500,000	150,000	1.3
2	400,000	40,000	1.4
3	400,000	40,000	1.1
4	200,000	100,000	1.5
5	160,000	90,000	1.6

This company has ksh.750, 000 available for investment projects, 3 and 4 are mutually exclusive. All of the projects are divisible. Which group should be selected in order to maximize the NPV. Indicate this NPV figure. (10 Marks)

QUESTION FOUR

- a) The following information relates to two potential investment named M and K.

Investment M		investment K	
Probability	return	probability	return
0.3	20%	0.2	20%
0.4	8%	0.6	8%
0.3	-4%	0.2	-4%

Required:

- Determine the expected return for each investment (2marks)
 - Determine the standard deviation of the investments (2marks)
 - The portfolio return if 30% of the total wealth is invested in M (3marks)
 - Advise on which investment to take based on risk (3marks)
- b) On the 1st day of January 2017, you made a resolution to enter into active politics then and resolved to run for a political office on the 1st day of January 2022 of which time you will require a sum of kshs.10,000,000 for your campaigns .your local bank compounds interest at an 8% rate

Required:

- i) How much must you deposit on 1st day of January 2018 so as to have your targeted amount on the next election date (3marks)
- ii) As a keen finance manager you would wish to make equal payments on each 1st day of January 2018 through 2022 to accumulate your set target of ksh.10,000,000, how large must each of the four payments be (3marks)
- iii) K is contemplating purchasing a 3 year bond worth 40,000/= carrying a nominal coupon rate of interest of 10%. K required rate of return is 6%. What should he be willing to pay now to purchase the bond if it matures at par? (2marks)