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UNIVERSITY REGULAR EXAMINATIONS

2013/2014 ACADEMIC YEAR

SEMESTER EXAMINATION

DEPARTMENT OF BUSINESS MANAGEMENT & ECONOMICS

COURSE CODE: BCF 200

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 21ST AUGUST, 2014 **TIME: 9:00A.M.-12NOON**

INSTRUCTIONS

- Answer question one (1) and any other three (3) questions

QUESTION ONE

- **i)** A financial system performs some interrelated functions that are essential to a modern economy. State and explain this functions (6 marks)
- **ii)** List and explain users of financial analysis information and explain their interest on this ratios (7 marks)
- **iii)** A finance company advertises that it will pay a lump sum of Kshs 8000 at the end of 6 years to investors who deposit annually Kshs 1000 for 6 years. What interest rate is implicit in this offer? (6 marks)
- **iv)** Consider an 8 year, 10 percent preference stock with par value of Kshs 1000. Its required rate of return is 9%. Calculate its value. (3 marks)
- **v)** Explain the consistency principle of cash flow estimation of a project (3 marks)

QUESTION TWO

a) List and explain atleast six main entry barriers that result in positive NPV projects (6 marks)

b) Explain atleast six assumptions of economic order Quantity (EOQ) and state its formula (7 marks)

QUESTION THREE

Veil Limited earnings and dividends have been growing at a rate of 18% per annum. This growth rate is expected to continue for 4 years. After that the growth rate will fall to 12 % for the next 4 years. There after the growth rate is expected to be 6% forever. If the last dividend per share was kshs 2 and the investors required rate of return on Veil's equity is 15 per cent. What is the intrinsic value of the share? (15 marks)

QUESTION FOUR

a) The cost of capital is affected by several factors some beyond the control of the firm and other depend on the investment and financing policies of the firm. Explain (10 marks)

b) Explain atleast four dimensions of a firms credit policy (5 marks)

QUESTION FIVE

a) The capital structure of Idaho Ltd in book value terms is as follows

	'000 000'
Equity capital (20 million shares, kshs 100 per share)	Ksh 2000
Preference share capital 12% (500,000 shares Kshs 100 per)	Kshs 50
Retained earnings	Kshs 350
Debentures 14% (1200,000 debenture kshs 100 per)	Kshs 120
Long term loans 13%	Kshs 80

Kshs 800

The next expected dividend per share is Kshs 2. The dividend per share is expected to grow at the rate of 12%. The market price per share is Kshs 50 preference stock redeemable after 10 years is currently selling for Kshs 85 per share. Debentures redeemable after 5 years are selling for kshs 90 per debenture. The tax rate for the company is 30%. Calculate the Weighted Average Cost of Capital WACC. (15 marks)