MURANG'A UNIVERSITY OF TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF COMMERCE

UNIVERSITY ORDINARY EXAMINATION

2020/2021 ACADEMIC YEAR

THIRD YEAR **FIRST** SEMESTER EXAMINATION FOR, BACHELOR OF AGRICULTURAL MANAGEMENT AND ENTERPRENEURSHIP
Bed SCIENCE, BIT, BPSM

BCF 200– FINANCIAL MANAGEMENT

DURATION: 2 HOURS

Instructions to candidates:

1. Answer question One and Any Other Two questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

SECTION A: ANSWER ALL QUESTIONS IN THIS SECTION

QUESTION ONE (30 MARKS)

a) Outline four major cause of conflict between shareholders and the management (4marks)
b) Differentiate between financial risk and business risk (2marks)
c) The first procedures in financial analysis is to obtain useful information .Identify four main sources of financial information (4marks)
d) List three advantages of good corporate governance (3marks)
e) Outline five distinct steps involved in capital budgeting process (5marks)
f) Sound financial planning is essential is essential for the success of an enterprise list three benefits of financial planning (3marks)
g) Highlight three significance of the cost of capital (3marks)
h) State two advantages of residual dividend theory (2marks)
i) Kamau has invested KS 140, 00 at the rate of 12% p.a for two years .Calculate the future value of interest is paid.
   i. Semi-annually (1mark)
   ii. Quarterly (1mark)
   iii. Monthly (1mark)
   iv. Daily (1mark)

SECTION B – ANSWER ANY TWO QUESTIONS IN THIS SECTION

QUESTION TWO (20 MARKS)

a) Capital rationing is a very prevalent situation in companies. Examine five advantages of practicing capital rationing (10marks)
b) Clay works centre ltd has the following financial data

Profit after tax Kshs 60,000,000

Total dividend for the year Kshs 36,000,000

Market price per share Kshs 40

Number of ordinary shares 12,000,000

Using this data, determine the following investor ratios and explain their significance.

   i. Earnings per share (2marks)
   ii. Dividend per share (2marks)
   iii. Price-earnings ratio (2marks)
   iv. Dividend pay-out ratio (2marks)
   v. Retention ratio (2marks)

QUESTION THREE (20 MARKS)

a) The capital structure of a firm is determined by various internal and external factors Discuss five main factors that affect the capital structures decision   (10marks)

b) Sidai company management is contemplating investing in project X which has the following cash flows with an initial investment of KS 300,000 and useful life of10 years. The cost of capital is 14%.

Year	Cash flows (Kshs)
1	31,000
2	32,000
3	33,000
4	34,000
5	35,000
6	36,000
7	37,000
8	38,000
9	39,000
10	40,000

Required.

    i.   Calculate the NPV of this project   (8marks)

    ii.   State weather the project is acceptable or not and give a reason for your answer. (2marks)

QUESTION FOUR (20 MARKS)

a) Describe five roles of Nairobi securities exchange   (5marks)

b) Explain five benefits of working capital management   (10marks)

c) Aqua ltd has a proposal for a project whose cost is Kshs 1000,000 and an economic useful life of 8 years. It has a residual value of Kshs 40,000. The corporate tax rate is 30% and depreciation is calculated on straight line basis. The earnings before depreciation and tax expected from the project are as follows.

Year	Earnings before depreciation and tax
1	240,000
2	300,000
3	280,000
4	400,000
5	500,000
6	600,000
7	310,000
8	350,000

Required:

a) Calculate the depreciation   (2marks)

b) Determine the accounting rate of return (AAR) of this project   (3marks)