MURANG'A UNIVERSITY OF TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF COMMERCE

UNIVERSITY ORDINARY EXAMINATION

2022/2023 ACADEMIC YEAR

FOURTH YEAR **FIRST** SEMESTER EXAM FOR BACHELOR OF SCIENCE IN ACTUARIAL SCIENCE

AMC 410– PRINCIPLES OF FINANCIAL MANAGEMENT

DURATION: 2 HOURS

Examination Date: 15th December, 2022

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

QUESTION ONE: COMPULSORY (30 MARKS).

a) Managerial functions require skillful functions require skillful planning, control and execution of financial activities. Three of these functions are closely related and once a decision is made on one it leads to immediate decision on the subsequent one and so on. Describe the three closely related managerial finance functions and show how each is subsequently related to the next one. (6marks)

b) Capital rationing is prevalent during capital expenditure decisions in companies. Describe the advantages of capital rationing in companies. (5marks)

c) The Kenyan financial system has well a established primary and secondary market. In five points, justify the reasons for the establishment of these markets in any economy. (5marks)

d) Mema Co. Ltd has an obligation to redeem KES 500 million Bonds in 6 years from today. How much should the company deposit annually in the sinking funds account where it earns 14% interest p.a to accumulate KES 500 million in 6 years. (4marks)

e) Companies are bound to use both Equity and Debt finance. However, the gearing level should be kept below 67% otherwise the company may be forced into receivership and subsequently liquidation. Describe any five factors that a company must consider in deciding to use Debt finance. (10marks)

SECTION B: ANSWER ANY TWO QUESTIONS.

QUESTION TWO: (20 MARKS)

a) A manufacturing company employs the Baumol's Model as one of its cash management techniques. The company makes cash payments of KES 300,000 per week. The interest rate available on marketable securities is 12% and every time the company sells marketable securities, it incurs a cost of KES 200.

   Assuming that you are the company's Finance Manager, provide the Board of Directors with the following to enable factual decision making.

   i) The optimal amount of marketable securities to be converted into cash ever time the company makes the transfer. (3marks)

   ii) The total number of transfers from marketable securities to cash per years. (3marks)

   iii) The total cost of maintaining the cash balance per year. (3marks)

   iv) The company's average cash balance. (3marks)

b) There are many sources of capital available to companies in money are capital markets.

   Required:

   Reasons behind the different source of capital/ finance having different costs. (8marks)

QUESTION THREE: (20 MARKS)

The following information is reported in a daily newspapers with respect to shares traded on the Nairobi securities exchange:

Last 12 months		Security	Prices		Share Traded
High (KES)	Low (KES)		Yesterday (KES)	Previous (KES)	
200.00	75.00	KAK Ltd Ord. KES 5.00	120.00	130.00 CD	10,000
90.50	43.50	Expresso Kenya Ltd Ord. KES 5.00	-	43.50	-
40.00	4.00	ATT Ltd 7% Pref KES 10	S	-	-
362.00	102.00	Ungano Ltd Ord. KES 5	317.00 CB	318.00	3,600
140.00	90.00	Balco Bank Ltd Ord. KES 10	90.00 XD	90.00	12,000

Required:

a) Justification as to why prices of share keep on changing. (5marks)

b) (i) What does CD against KAK Ltd.'s share price mean? (2marks)

(ii) Under yesterday's price column for Expresso Kenya Ltd, there is a dash (-). Explain why the dash. (2marks)

(iii)ATT Ltd yesterday's price column indicate 'S' (Suspended). Point out the reasons as to why a company's shares may be suspended from trading in Nairobi Securities Exchange. (5marks)

(iv) Explain the 'CB' against Ungano Ltd yesterday's share price. (2marks)

(v) What is the meaning of the Ord KES 10 against Balco Bank Ltd? (2marks)

(vi) Explain why share traded column is blank for Expresso Kenya Ltd are ATT Ltd. (2marks)

QUESTION FOUR: (20 MARKS)

Fox ltd Company has 10,000 Equity share of KES 100 each. The shares are currently trading at KES 24 per share at NSE and the company had paid a divided of KES 1.80 per share last year. The expected growth rate of the company's dividend is approximately 5% per year.

Retained earnings amount to KES 400,000 and the company's income tax rate is 40% while shareholder's individual tax rate is 25% p.a.

The company has a massive expansion plan and has issued the following securities for financing the expansion.

i) Issued 6,000, 12% preference shares of KES 100 each redeemable at a premium of 10% with a 15 year maturity. These shares were issued at a discount of KES 5 per share and the company incurred a floatation cost of KES 5 per share.

ii) Issued 4,000 10% Bonds of KES 100 each. The cost of floatation of the Bonds was 5% of the total issued amount.

Required:

Weighted Average Cost Of Capital for Fox Ltd Company. (20marks)