MURANG'A UNIVERSITY OF TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF COMMERCE

UNIVERSITY ORDINARY EXAMINATION

2023/2024 ACADEMIC YEAR

FOURTH YEAR **FIRST** SEMESTER EXAMINATION FOR BACHELOR OF SCIENCE IN ACTUARIAL SCIENCES

AMC 410 – PRINCIPLES OF FINANCIAL MANAGEMENT

DURATION: 2 HOURS

INSTRUCTIONS TO CANDIDATES:

1. Answer questions 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) A financial Manager performs both the routine functions and the Managerial Finance Functions. Describe the managerial finance functions of a financial manager and show the link between each of them. (8 marks)

b) As a financial analyst, a firm in need of funds for acquisition of heavy machinery for starting a new line of production has approached you for your advice on the best source of finance for the venture. Between debt and equity, which of the two sources of finance would you recommend for financing the acquisition of the machinery, assuming that the debt/equity ratio for the firm is above 60%? Justify your answer. (4 marks)

c) In your own understanding, can the following be considered as sources of finance to a business entity? Explain your answer.
   i. Outstanding/accrued Expenses (3 marks)
   ii. Trade Creditors (3 marks)

d) Financial system in any economy must have strong and well established financial intermediaries. Giving examples of these intermediaries, justify their existence in the Kenyan financial system. (8 marks)

e) Taxal Co. Ltd has issued bonds amounting to KES 800 million and it is obligated to redeem them at the end of the 6^{th} Years from to date. How much should the Company deposit annually into a sinking fund account where it earns 14% interest annually to accumulate the KES. 800 million in 6 years. (4 marks)

SECTION B: ANSWER ANY TWO QUESTIONS IN THIS SECTION

QUESTION TWO (20 MARKS)

a) Quoted/listed companies have their securities traded in Nairobi Securities Exchange. As a prospective investor what:
   i. Are some of the factors that you would consider when buying securities of a listed Company? (10 marks)
   ii. Would be the role of Central Depositor System (CDS) in the process of such acquisition of securities. (5 marks)

b) After the completion of your Bachelor's Degree, you have secured an employment as a Financial Analyst. You have found out that you need to purchase a car for ease of commuting to and from your work place. After reviewing your earnings, you have determined that you can afford to pay KES 92,000 per month for three years towards purchase of a new car. Your bank tells you that the applicable interest rate for car finance is 1.5% per month for the 36 months. Compute the amount that you can be able to borrow from the bank. (5 marks)

QUESTION THREE (20 MARKS)

a) Capital markets are important in any economy. Classifying security market into its two main classes, describe the role played by each of the class in the Kenyan economy. (10 marks)

b) Zam Enterprise Management has set the minimum cash balance to be equal to KES 10,000. The variance of its daily flows is KES 6,250,000 (that is standard deviation of KES 2,500) and the interest rate on marketable securities is 9% p.a. The transaction cost for each sale or purchase of securities is KES 20.

   Required:

   i. The target cash balance (2.5 marks)
   ii. The upper limit (2.5 marks)
   iii. The Average Cash Balance (2.5 marks)
   iv. The spread (2.5 marks)

QUESTION FOUR (20 MARKS)

Udex Panel Company Ltd. manufacturers panel board for the construction industry. Its capital structure is as outlined below:

9% Bonds @ KES 100	KES 600,000
7% Preference Shares @ KES 100	KES 200,000
Ordinary Shares (25,000 shares)	KES 600,000
Retained Earnings	KES 400,000

Additional information:

i. The market price of ordinary shares is KES 40 each and the Company had paid a dividend of KES 4 per share last year.
ii. The expected growth of the Company's dividend is approximately 5% per year.
iii. The Company has a marginal rate of 30% p.a. while shareholder tax rate is 25% p.a.
iv. Preference shares were issued at KES 90 each.
v. Bonds' floatation cost was KES 5 per Bond and they are redeemable after 10 years at a premium of 10%.

Required:

Weighted Average cost of Capital (20 marks)