



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE OF
AGRIBUSINESS MANAGEMENT
3RD YEAR 1ST SEMESTER 2018/2019 ACADEMIC YEAR
MAIN CAMPUS**

COURSE CODE: BBM 3317

COURSE TITLE: FINANCIAL MANAGEMENT

EXAM DRAFT

DURATION: 2 HOURS

INSTRUCTIONS

- 1. Answer Question One (Compulsory) and any other Two questions**
- 2. Candidates are advised not to write on the question paper**

QUESTION ONE

- a) For the past five years the market price per share (MPS) and the dividend per share (DPS) for Salama Company Ltd were as follows.

	2012	2013	2014	2015	2016
	Ksh.	Ksh.	Ksh.	Ksh.	Ksh.
MPS as at 31 st Dec.	40	45	53	50	52
DPS for the year	-	3	4	3	-

Required:

- a) Determine the estimated cost of equity (shareholders' percentage yield) for each of the years involved. (10 marks)
- b) Discuss the main function of a central bank (10 marks)
- c) Discuss the factors determining the use of long term or short term financing among firms (10 marks)

QUESTION TWO

Mali Ltd had the following capital structure as at 31 Dec 2000

	Ksh 000
Ordinary share capital (sh 20 par value)	10000
Retained earnings	12000
12% preference share capital (sh 10 par value)	4800
10% debentures (shs 1000 par value)	<u>7200</u>
	34000

Additional information

- The current price per ordinary share, preference share and debenture is Ksh 50, sh 24, and sh 1200 respectively.
- For the year ended 31st Dec 2000 the company paid an ordinary dividend of sh. 6, par share. Analysts estimate that the company's earnings and dividends will grow at an annual rate of 15% indefinitely.
- The corporate tax rate is 30%

Required:

- a) Compute the company's weighted average cost of capital (10 marks)
- b) Explain the roles of a financial manager (10 marks)

QUESTION THREE

- a) Discuss methods of issuing new shares in the stock exchange market (8 marks)
- b) Explain the urgency problems that may be experienced as a result of the agency relationship between the shareholders and debenture holders and hence generate the possible remedies to these problems (8 marks)
- c) Security X has a covariance of return of 2% with the market return. If the risk free rate is 8% and the expected rate of return is 14%. The standard deviation of the market return is 2%.

Required

What is the required rate of return on security X? (4 marks)

QUESTION FOUR

- a) Explain why capital budgeting decisions are important to a business venture (5 marks)
- b) Cranjet industry is expanding its product line. The cost and the expected cash flows are given in the following table. The firm uses a discount rate of 16%

Year	Ksh
0	-2575000
1	600000
2	875000
3	875000
4	875000
5	875000

Required:

- i) Calculate the NPV of the project
- ii) Compute the IRR of the project
- iii) Compute the payback period of the project
- iv) Advise the management whether to pick the project or not (15 marks)

QUESTION FIVE

The following information was extracted from the financial statements of Mariana Company Ltd for the year ended 30th September 1962

Turnover - sh 10000000

Profit after taxation 50% - sh 2000000

Ordinary dividend declared 80% of the profits after taxation

The market price of ordinary shares sh 32 per share

Issued share capital

14% preference share of sh. 8 each. Sh. 2400000

Ordinary shares of sh 8 each sh 6400000

Required:

a) Calculate the following ratios

- i) The dividend yield on the ordinary shares
- ii) The cover for the preference and ordinary shares dividend
- iii) The earnings yield
- iv) The price (P/E) earnings ratios (15 marks)

b) Explain the usefulness and shortcomings of each of the above ratios (5 marks)