

**W1-2-60-1-6**

## JOMO KENYATTA UNIVERSITY

**OF**

**AGRICULTURE AND TECHNOLOGY**

# University Examinations 2014/2015

**EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE**

**HBC 2202:** **FINANCIAL MANAGEMENT**

**DATE: AUGUST 2015 TIME: 2 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE (COMPULSORY) AND**

**ANY OTHER TWO QUESTIONS.**

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**QUESTION ONE (30 MARKS)**

(a) Briefly explain the internal and external factors that affect working capital needs. (10 marks)

(b) Deal with each of the following cases independently.

The following projections have been made by EABLTD in terms of their twin investments.

|  |  |  |
| --- | --- | --- |
|  | Beer | Whisky |
| Probability | Return% | Return % |
| 0.25 | 0.35 | (0.15) |
| 0.15 | 0.20 | 0.10 |
| 0.30 | 0.15 | 0.25 |
| 0.10 | 0.10 | 0.30 |
| 0.20 | (0.25) | 0.35 |

**REQUIRED:**

(i) Compute the average rate of return for each project.

ii) Compute the risk of each project.

iii) Which of the two projects would you recommend based on risk/ return

(c) i) The economic survey established the following:

i) The market lending rate 16%

ii) The central banks of Kenya lending rate 9%

iii) The market beta 0.7

Compute the cost of equity using CAPM. (2 marks)

ii) Safaricom Ltd share and performance over the year is summarized as below:

i) Division for the period December 2014 per share = kshs.28/-

ii) The dividends have had a constant growth rate of 9%

iii) The current cost of equity is 12%

**REQUIRED:**

Compute the value of the shares using Gordan Growth Model. (4 marks)

iii) Arap Kenya Investment portfolio for the period is given below:

|  |  |  |
| --- | --- | --- |
| Item | Kshs | Averse |
| Matatu | 2,800,000 | 0.45 |
| Posho Mill | 1,200,000 | 0.35 |

**REQUIRED:**

Compute the Average return of the portfolio. (3 marks)

**QUESTION TWO (20 MARKS)**

Nyando Ltd is considering which capital project to undertake . The cashflows for the projects are as given below which are net of tax.

|  |  |  |
| --- | --- | --- |
|  | Project | Project |
|  | Apida | Dago |
| Year | (Kshs ‘000’) | (Kshs ‘000’) |
| 0 | (200) | (200) |
| 1 | 35 | 218 |
| 2 | 80 | 10 |
| 3 | 90 | 10 |
| 4 | 75 | 4 |
| 5 | 20 | 3 |

The company anticipants a cost of capital of 10%

(a) You are required to advice the company which project to undertake based.

i) Pay back period (4 marks)

ii) Day back period (6 marks)

iii) NPV (6 marks)

iv) IRR (6 marks)

(b) Briefly explain the major advantages of using discounting models in the evaluation of capital projects. (6 marks)

**QUESTION THREE (20 MARKS)**

(a) The Ngamia Well Ltd has appointed you as a Chief Finance Officer briefly explain the possible sources of capital you may tap into to raise funds for the company. (10 marks)

(b) Explain using relevant illustrations the role of financial

manager. (10 marks)

**QUESTION FOUR (20 MARKS)**

(a) Explain the following terms as used in financial management.

i) Credit risk

ii) Interest risk

iii) Foreign exchange risk

iv) Liquidity

v) Political risk (10 marks)

(b) Capital Ltd has provided the following as their capital structure.

12% Debentrues 8,500,000

6% preference shares 4,000,000

Equity shares 13,500,000

The tax rate is 30% with cost of equity at 5.8%

**REQUIRED:**

Compute the Weighted Average Cost of Capital (WACC) (10 marks)