



REFORMED CHURCH UNIVERSITY

FACULTY OF COMMERCE
BACHELOR OF COMMERCE HONOURS DEGREE IN
PUBLIC ADMINISTRATION

FINANCIAL MANAGEMENT

HPAD 206

PART 2 SEMESTER 1 EXAMINATION

TOTAL MARKS [100]

DATE: JUNE 2023

Time: 3 Hours

INSTRUCTIONS

1. This paper has *six (6)* questions
2. Answer question *one (1)* and *any* other *three (3)*
3. Each question carries *25 marks*
4. Start each question on a new page

Question 1

- a) Explain the major goal of financial management, highlighting how this can be achieved (10 marks)
- b) 'Managing finance entails making key decisions with the goal of maximising the value of the firm and the wealth of shareholders', Explain any three such decisions which are made by finance managers. (15 marks)

Question 2

ABC Ltd obtained a loan of \$1 000 000 to finance its expansion and is being charged an interest rate of 15% per annum. The loan is to be repaid in 5 equal instalments payable at the end of each year for the next 5 years.

- i) Determine the annual instalments (5 marks)
- ii) Draw up the loan amortisation schedule showing the breakdown of the amount calculated above. (20 marks)

Question 3

Choto Limited's capital structure is as summarized below:

5 million issued ordinary shares with a current market value of \$4.00 each.

3 issued issued preference shares with a current market value of \$4.00 each.

15% long term debt of \$8 million to be settled at the end of 5 years from today.

It is also given that ordinary and preference shares have costs of 20% and 16% respectively. The corporate tax rate in the economy is 40%.

- a) Calculate the company's weighted average cost of capital (WACC). (15 marks)
- b) Explain the effects of WACC on the goals of financial management and firm value. (10 marks)

Question 4

Examine the theories and factors that firms should put into consideration when formulating policies for use in rewarding their ordinary shareholders. (25 marks)

Question 5

- a) ABB Limited has just declared a dividend of \$2.00 per share to its ordinary shareholders. Calculate the current market price of the share given that:
 - (i) Its cost of capital is 10%pa. (4 marks)
 - (ii) The dividend is set to grow at 8% per annum while the cost of capital is as given in (i) above. (6 marks)
- b) Tabhita Limited is contemplating a copper mining project that has an initial cost of \$ 15 million for acquisition of machinery and equipment. The table below summarises the project's expected net cash flows if it is to be undertaken:

Year	1	2	3	4
Cash Flow (\$m)	8	15	20	25

Calculate the net present value (NPV) of the project given that the firm's cost of capital is 15%pa. Interpret your answer. (15 marks)

Question 6.

- a) P. Ltd has 1000, 10% preference shares with a nominal value of \$15.00. After a period of 7 years these shares will be converted to ordinary shares. It also has 10 000 ordinary shares with a nominal value of \$10.00 and the company has just paid a dividend of \$4.00 per share on these ordinary shares and this dividend is expected to increase at a rate of 6% per annum forever. Investors are demanding a return of 12% per annum on preference shares and 9% on ordinary shares. P. Ltd's board of directors has just decided to redeem the preference shares at fair market price. How much should they pay for each preference share? (20 marks)
- b) Explain any two strategies that shareholders can use to reduce shareholder-agents conflict. (5 marks)

End of Paper