REFORMED CHURCH UNIVERSITY

FACULTY OF COMMERCE

Bachelor of Commerce Honours Degree in Public Administration

Financial Management

HPAD216 / HHRM112 206

Part 2 Semester 1 Examination

Total Marks [100]

Date: November 2019

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

1. Discuss any five decisions, policies and strategies that firms can employ in the management of finances in their desire to grow and develop. (25)

2. Donor Limited has set aside \$20 000 000 for investment in five capital projects that are at its disposal:

Project	Capital Required (\$000)	Total PV of Expected Cash Flows (\$000)
A	5 000	6 200
B	10 000	12 800
C	6 000	7 200
D	8 000	9 800
E	4 000	5 000

(a) Determine the net present values (NPVs) of the above cash flows and rank them on the basis of the NPV and profitability index (PI) appraisal methods. (15)

(b) Demonstrate the total NPV to be generated under rationing of the capital budget above based on the appraisal techniques given above. (10)

3. Discuss the motives for the various types of mergers and acquisitions that firms can come up with in their desire to accumulate assets and grow shareholders' wealth. (25)

4. Taneta Limited is a Zimbabwean firm which is contemplating investing in two projects A and B. The following table summarises the possible states of the economy, their probabilities and corresponding returns to the projects A and B:

		Return	Return
State of the Economy	**Probability**	**Project P (%)**	**Project Q (%)**
Recession	0.20	-8	-5
Normal	0.30	15	18
Boom	0.30	20	25
Super Boom	0.20	25	30

By assuming that the company invests 40% of its funds in P and the remaining 60% in Q:

(a) Calculate the expected return and standard deviation of each of P and Q. (8)

(b) Compute the covariance and correlation coefficient of the two projects P and Q. Appraise your answers. (5)

(c) Determine the coefficient of variation (CV) of each project and interpret your findings (3)

(d) Evaluate the return and standard deviation of the portfolio of the two projects. Interpret your results. (6)

(e) Comment on the investment decisions that rational and risk averse investors would make based on the two capital projects. (3)

5. The table below shows the components of the capital structure of ABB Limited as at the 31st of October 2019:

Capital Component	Market Valuation	Cost of Capital (%)
Ordinary Equity	5 million shares at $2.00 each	-
Preference Equity	2 million shares at $2.00 each	18
Debt Equity	Long Term Debt =$8 million	16

It is also given that the company faces a tax rate of 37.5%, and an ordinary dividend of $0.40 has been declared and set to grow at 8% per annum.

(a) Calculate the costs of ordinary equity and debt after taxation. (5)

(b) Evaluate the total capitalisation of the company based on valuation given above. (7)

(c) Calculate the Weighted Average Cost of Capital (WACC) faced by the company. (8)

6. (a) Explain the major factors that firms should put into consideration before paying ordinary dividends to their shareholders. (13)

(c) Discuss any three policies and three theories that are used by firms to explain the essence for or against paying ordinary dividends to shareholders. (12)

End of paper