



**REFORMED CHURCH UNIVERSITY**

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**FACULTY OF COMMERCE**

**Bachelor of Commerce Honours Degree in Public Administration**

**Financial Management**

**HPAD 216 Supplementary paper 206**

**Part 2 Semester 1 Examination**

**Total Marks [100]**

Date: March 2022

Time: 3 Hours

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**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. a) Discuss the internal and external factors that influence financing decisions of both public and private companies **(19)**  
 b) Outline any three investment methods that can be used in appraising capital projects at the disposal of a corporation **(6)**
2. Evaluate the various policies and strategies that companies can employ in the management of their finances and businesses in their desire to grow and develop **(25)**
3. 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)**
4. 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)**
  5. The table below shows the components of the capital structure of ABB Limited as at the 31<sup>st</sup> 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 capitalization of the company based on valuations given above. (7)
  - c) Calculate the WACC faced by the company. (8)
6. a) Outline and explain some of the major factors that firms should put into consideration before paying ordinary dividends to their shareholders. (13)
- b) Discuss any 3 policies and 3 theories that are used by firms to explain the essence for or against paying ordinary dividends to shareholders. (12)

*End of paper*