REFORMED CHURCH UNIVERSITY

FACULTY OF COMMERCE

BACHELOR OF COMMERCE HONOURS IN ENTREPRENEURSHIP AND BUSINESS DEVELOPMENT

FINANCIAL MANAGEMENT

HEBD 213

PART 2 SEMESTER 1 EXAMINATION

Total Marks [100]

DATE: December, 2024

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 the principal-agent relationship and its role in the agency problem, highlighting the key conflict of interest that may arise between parties in organizations. (25 marks)

2. a) A sum of $ 25000 becomes $ 27250 at the end of 3 years when calculated at simple interest. Find the rate of interest. (5 marks)

b) The difference between simple interest and compound interest compounded annually on a certain sum of money for 2 years at 8% per annum is $12.80. Find the principal. (5 marks)

c) You plan to retire in twenty years. If the annual (year-end) amount you save each year increases annually at a 6 percent rate (the growth rate of your income) and will be $1,000 initially at year end, and if you can earn 8 percent on your savings, how much will your retirement fund be worth in 20 years? (7 marks)

d) You wish to save annually an increasing (6% growth rate) amount (because your salary increases annually), and you wish to be worth $100,000 in 10 years. If you can earn 10% compounded annually on your savings, how much should your first (end-of-year) amount saved be? (8 marks)

3. Explain the concept of dividend policy and its importance in financial management.

(25 marks)

4. a) ABC company has a structure of 80% equity, and 20% debt by relative to the market values. Its cost of equity capital is 11.5% and its loan notes have a pre-tax cost of debt of 7%. The corporate tax rate of 30% is applicable. Calculate ABC company's weighted average cost of capital? (15 marks)

b) Explain the impact of high levels of gearing on the cost of capital? (10 marks)

5. You are a financial analyst for Lin-G Group. The director of Capital Budgeting has asked you to analyse 2 proposed capital investments, Projects X and Y. Each project has a cost of $10 000, and the cost of capital for each project is 12%. The project's net cash-flows are as follows:

	EXPECTED NET CASHFLOW	
Year	Project X	Project Y
0	(10 000)	(10 000)
1	6 500	3 500
2	3 000	3 500
3	3 000	3 500
4	1 000	3 500

Calculate the following for each project:

a) Pay Back period (8 marks)
b) Net Present value (NPV) (10 marks)
c) Internal Rate of Return (IRR) (4 marks)
d) Discuss the rationale behind the use of IRR in evaluating projects. (3 marks

6. Explain the primary objectives of financial management in an organization citing how these objectives contribute to the overall success and sustainability of the company. (25 marks)

END OF PAPER