THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

AUGUST - DECEMBER 2018 TRIMESTER

FACULTY OF COMMERCE

MBA EVENING PROGRAMME

CFI 520: FINANCIAL MANAGEMENT

Date: DECEMBER 2018	**Duration: 3 Hours**
INSTRUCTIONS: Answer ALL Questions	

Q1. a) Discuss the theoretical concepts which underlie a company's weighted cost of capital(WACC indicating the formula and purpose of the WACC
(15 marks)

b) An extract from the balance sheet of ABC Ltd

	Shs
Issued share capital	
Ordinary share of Shs 25 each	25,000,000
Retained Earnings	35,000,000
Undated 15% unsecured loan stock	25,000,000
Undated 7% preference shares of Shs 100 each	15,000,000
Capital Employed	100,000,000

The ordinary shares are currently quoted at Shs 125 each, the loan stock Shs 85 per 100 and the preference shares at Shs 65 each. The cost of equity shares is 16% and the company Is a tax payer at 33%.

Required :
Calculate the weighted average cost of capital. **(10 marks)**

NB. Ignore Retained Earnings.

Q2. a) Define an *annuity* and indicate when it is used in project appraisal?
(3 marks)

b) Calculate the present value of KES 250 receivable annually for 21 years plus KES 1200 receivable after 22 years, assuming an interest rate of 11% ? **(7 marks)**

c) i) What should you do to ascertain demand for a new product and how should you quantify the projected demand ? **(5 marks)**

ii) You are evaluating a project which requires cash outflows of KES 50,000 immediately, and KES 150,000 a year later with annual inflows of KES 40,000 for 10 years, starting in three years' time. Your cost of capital is 15%, evaluate the project? **(10 marks)**

Q3. a) A company has a share price of KES 500 and is just about to pay a dividend of KES 50. Recent dividend growth has been around 6% a year.

i) You are to calculate the cost of capital above? **(3 marks)**

ii) Write and name the Dividend Valuation Model you have used. **(2 marks)**

b) Nectar Enterprises in Kitui is planning to build a factory costing £ 300,000. The factory will be able to produce 15,000 packs of honey each year for ten years. Each pack will cost £ 10 to produce and will retail for £50. In addition there will be annual costs of £ 500,000.

i) Calculate the net present at a cost of capital of 13% and decide whether it is worthwhile. **(10 marks)**

ii) Indicate how sensitive your decision will be to changes in the volume of honeys packs sold, the retail prices of the packs, and the annual fixed costs. Consider each of the above factors separately. **(10 marks)**

Q4. Kweya has in the past years faced a serious liquidity challenge. "Cash forecasting has taken centre stage in the current downturn of scarce cash flows with Organizations of all sizes and shapes needing to know how cash is flowing through the Business'' The Treasurer Magazine July/August 2009. Cash and liquidity manager article.
Prepare a paper for your board on the straight forward principles and benefits and fundamentals of cash forecasting and management. **(25 marks)**

END