



**AFRICA
UNIVERSITY**
A United Methodist-Related Institution

“Investing in Africa’s Future”

COLLEGE OF HEALTH, AGRICULTURE & NATURAL SCIENCES

MAC 502 FINANCIAL MANAGEMENT

END OF SECOND SEMESTER FINAL EXAMINATIONS

APRIL 2022

LECTURER: DR. W. MATAMANDE

DURATION: 3 HOURS

INSTRUCTIONS

Do not write your name on the answer sheet

ANSWER ALL QUESTIONS IN THIS EXAM PAPER

Begin your answer for Each Question on a New Page

Credit is Given for Neat Presentation

ANSWER ALL QUESTIONS

Question 1(20 marks)

The college directors of KLC are considering two investment opportunities, Project B2 and Project C3. The initial investment required and the likely net cash inflows arising from the investments in each project are as follows:

Project	Initial Investment \$millions	NET CASH INFLOWS (after tax) \$ millions
B2	10.20	\$1.15 in year 1, and \$3.10 a year from years 2 to 7
C3	9.50	\$4.5 each year for years 1 to 5

Additional notes:

- Project B2 has a residual value of £2.5 million. Project C3 is expected to have no residual value
- Project B2 is to be discounted at 8%. Project C3 is to be discounted at 9%
- Assume cash flows, other than the initial investment, occur at the end of each year

Required

(a) Calculate and rank the projects according to the following measures:

(i) Payback [4 marks]

(ii) NPV [7 marks]

(b) Critically reflect in general terms on **three** key non-financial factors that must be considered before implementing a project with a positive NPV project. [6 marks]

(c) Advise KLC on which project may be preferred. [3 marks]

Question 2(20 marks)

(a) Critically discuss the differing views on profit maximisation, revenue maximization and shareholder value maximization in relation to the financial objective of a company.

[18 marks]

- (b) State, with reasons, your conclusions as to which is the most appropriate financial objective. [2 marks]

Question 3(20 marks)

- (a) Briefly discuss the possible reasons why there may be a limit on capital available for new long-term projects. [10

marks]

- (b) (i) Explain the **three** ratios provided below for CD Pvt. Ltd. [6 marks]
(ii) Compute the market price of the equity of the company using the following information. [4 marks]

EPS	70c
Dividend cover	2
Dividend yield	4.2%

Question 4(20 marks)

- (a) Discuss:

(i) The benefits of preference share capital. [8 marks]

(ii) The drawbacks of preference share capital. [4 marks]

- (b) Explain what services a merchant bank may provide a listed company with an issue of new capital. [8 marks]

Question 5(20 marks)

- (a) Discuss the concept of working capital. (5 marks)

- (b) The following information was extracted from the books of a manufacturing company:

Period Covered 365 days

Average period of credit allowed by suppliers	16 days
Average Total of Debtors Outstanding	480
Raw Material Consumption	4,400
Total Production Cost	10,000
Total Cost of Sales	10,500
Sales for the year	16,000
Value of Average Stock maintained:	
Raw Material	320
Work-in-progress	350
Finished Goods	260

Required:

- (i) Compute the operating cycle in days. **(10 marks)**
- (ii) Compute the amount of working capital required. **(5 marks)**

End of Examination Paper