

WOMEN'S UNIVERSITY IN AFRICA



Addressing gender disparity and fostering equity in University Education

FACULTY OF MANAGEMENT AND ENTREPRENEURIAL SCIENCES

DIPLOMA IN BUSINESS MANAGEMENT

MAIN PAPER

DM 214:

FINANCIAL MANAGEMENT

INTAKE 4:

SECOND YEAR FIRST SEMESTER

DATE:

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

Answer any **three** questions.

Question 1

- a) Explain what is meant by the Agency Problem in Financial Management. [5]
- b) Discuss the different options used by shareholders to minimize the Agency Problem. [20]

Question 2

- a) The following financial Information relates to Progress Limited.

	2018	2019
Operating Earnings	\$107 000	\$164 000
Market Price per share	\$2,50	\$4,50
Number of Ordinary Shares	250 000	250 000
Ordinary Dividend Paid	\$25 000	\$50 000

The company's rate of corporate tax for both years is 25%.

Required.

- (i) Calculate the Earnings per share for both years. [3]
- (ii) Calculate the Price/Earnings ratio for both years [3]
- (iii) Calculate the Dividend Yield for both years [3]
- (iv) Calculate the Dividend Cover for both years [3]
- (v) Calculate the Dividend Payout ratio for both years. [3]
- b) Explain the broad and specific objectives of financial statement analysis in financial management. [10]

Question 3

The following net cash flows relate to two projects:

NET CASH FLOWS (IN \$ 1,000)						
YEAR	0	1	2	3	4	5
PROJECT A	-60	20	20	20	20	20
PROJECT B	-72	45	22	20	13	13

- (i) Calculate the payback period of each project [4]
- (ii) Calculate the NPVs for each project, assuming 10% cost of capital. [4]
- (ii) Calculate the Profitability Index for each project [4]

- (iii) What is the IRR of each project? [8]
- (iv) Which of the two projects would you prefer if they are mutually exclusive, given a 15% discount rate? [5]

Question 4

Discuss the critical issues considered by firms in formulating dividend policy. [25]

Question 5

- a) Examine the differences between Ordinary equity and Preferred equity [10]
- b) Explain why it is that, for a given firm, that the required rate of return on equity is always greater than the required rate of return on its debt? [10]
- c) The Mountaineer Airline Company has consulted with its investment bankers and determined that they could issue new debt with a yield of 8%. If Mountaineer ' marginal tax rate is 39%, calculate the after-tax cost of debt to Mountaineer? [5]

Question 6

Explain the different defensive strategies against hostile takeovers available to a firm.

END