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UNIVERSITY EXAMINATIONS

BACHELOR OF COMMERCE YEAR THREE SEMESTER ONE

UNIT CODE: FNCE 3111 **UNIT NAME: ADVANCED FINANCIAL MANAGEMENT**

SEMESTER: MAY - AUGUST 2022 **ACADEMIC YEAR: 2021/2022**

DATE: JULY 2022 **TIME: 2:00 HOURS**

INSTRUCTIONS: Answer question one (30 marks) and any other two

QUESTION ONE (20 MARKS)

a) Two firms Jud ltd and Fintech Ltd have similar attributes in all aspects except in Capital Structure. Both firms have generated EBITD of Sh 1,500,000.Both companies use a straight line basis to compute depreciation which has been estimated to be Sh 100,000 for each firm. The discounting cost of equity is 12%.Jud Ltd is levered and has taken a loan of sh 2 million and paying an interest rate at 13%.Required:

   i) Using NI approach determine the value of both firms and compute WACC for the firms. (10 marks)

   ii) According to NI discuss what will be the effect on Jud Ltd increasing Loan to Sh 4 million. (4 marks)

b) Explain the term corporate governance and explain ethical issues to be considered in financial management (8 marks)

c) Discuss the stakeholders' theory as described in corporate finance (8 marks)

QUESTION TWO (20 MARKS)

a) Discuss the Franco Modigliani and Menton Miller (MM) propositions under capital structure decisions (8 marks)

b) A company is considering investing into projects whose cash flows are as follows :

YEAR	Cash flows project A (Sh 'millions)	Cash flow for Project B (Sh 'millions)
0	(10)	(20)
1	(20)	(10)
2	-	30
3	80	100

The company's cost of capital is 12% . The amounts available for investment are restricted to Sh 20 million, Sh 25 million and 20 million in years 0, 1, 2 respectively .None of the project can be delayed or deferred however they are divisible.

Required:

i) Formulate a LP model to solve the for optimal solution (4 marks)

ii) Solve the problem using graphical method (8 marks)

QUESTION THREE (20 MARKS)

a) Elaborate the reasons for hard capital rationing (4 marks)

b) A project has the following cash flows

Year 1 Cash flow	Year 1 Probability	Year 2 Cash flow	Year 2 Probability
60,000	0.3	150,000	0.3
		160,000	0.5
		170,000	0.2
80,000	0.4	160,000	0.3
		180,000	0.5
		200,000	0.2
100,000	0.3	180,000	0.3
		200,000	0.5
		220,000	0.2

The projects initial cash outlay is Sh 100,000 with a cost of capital of 10%.

Required:

Determine:

i. The projects expected monetary value (EMV) (10 Marks)

ii. The projects NPV (6 marks)

c) Highlight the key factors that can influence capital budgeting decisions for financial managers in an organization (4 marks)

QUESTION FOUR (20 MARKS)

a) Define the following terms as used in corporate finance:

- Acquiring effective control (2 Marks)
- Acting concert (2 Marks)
- Competing takeover offer (2 Marks

b) Distinguish between Horizontal mergers and vertical mergers (4 marks)

c) Discuss the signaling effect dividend theory policies and their significance contribution (10 marks)

Seraphin. Madrid.

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