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UNIVERSITY EXAMINATIONS

2023/2024 ACADEMIC YEAR

FOURTH YEARS FIRST SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BCOM/BBM/BCE

COURSE CODE: BCF 421E

COURSE TITLE: STRATEGIC FINANCIAL MANAGEMENT.

DATE: 14 DECEMBER, 2023

TIME: 9.00 - 11.00 AM

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

SECTION A

QUESTION ONE COMPULSORY (30 MARKS)

- a) "In this global world economy with numerous financial challenges, organizations that won't embrace Strategic Financial Management have a blink future. "In reference to this statement justify why Strategic financial Management is the way to go for organizations' (4 Marks)
- b) Control of a firm is a matter of great concern to stock holders briefly explain the effect of various financing option on control(4Marks)
- c) You are the CEO of Bondeni investment company ltd, at the end of last year the company made a net income of 70 million. The company has fixed assets amounting to ksh.200 million and Current assets amounting to 120 million. The board has proposed retention of 50 million from net income for internal growth. As the CEO of the company advice the board on the maximum internal growth rate for the company.(7Marks)
- d) Recent study by the County government has shown that 80 percent of new businesses fail before their third year in business. As a final year, Finance student advice the County on possible causes of Business failure and remedies(5Marks)
- e) Kim is contemplating purchasing of a 3year bond worth 40,000 carrying a nominal coupon rate of interest 10%.Kim required rate of return is 6%. What should he be willing to pay now to purchase the bond if it matures at par value(6 Marks)
- f) Capital rationing is the strategy of picking up most profitable project to invest the available funds. Discuss the two types of capital rationing and give two reasons for each type (4Marks)

SECTION B

QUESTION TWO

The following extract was extracted from xyz ltd books at 31st December 2022

Net fixed asset	300
Current assets	100
Total	400
Financed by:	
Ordinary shares capital	100
Retained Earnings	70
10% Debentures	150
Trade creditors	50

Additional information

- i) The sales for the year 2022 amounted to 500,000. The sales will increase by 20% during the year 2023 and 15% during 2024
- ii) The after tax return on sales is 12% which will be maintained in future
- iii) The company's Dividend payout ratio is 80%. This will be maintained during the forecasting period
- iv) Additional financing from external sources will be effected through issue of commercial paper by company

Required:

- a) Determine the amount of external financing for 2 years up to 31st December 2024 (10 Marks)
- b) Prepare a proforma balance sheet as at 31st December 2024. (10 Marks)

QUESTION THREE

a) The following balance sheet was prepared from Mask limited as at 31st December 2022

Non-Current Assets	Amount(000)
Land & Buildings	1,500,000
Machinery	3,000,000
Current Assets	
Inventories	2,000,000
Accounts Receivables	500,000
Cash	500,000
Total Assets	7,500,000
Equity & Liabilities	
Equity Capital @ shs 5 per share	800,000
Retained profits	3,100,000
Non-Current Liabilities	
10% Debenture	800,000
12% Bank Loan	400,000
Current Liabilities	
Accounts Payable	2,400,000
Total equity & Liabilities	7,500,000

Additional information

- i) Earnings Before Interest and tax shs.4,000,000
- ii) Market Value of Equity shs.1,000
- iii) Sales shs.3,000,000

Required:

- a) Using ALTMAN formula of bankruptcy, calculate the Z score and comment on the company's financial distress (12Marks)
- b) Discuss the advantages of debt financing to a firm(8Marks)

QUESTION FOUR

You been provided with the balance sheet of Joy ltd as at 31st December 2022 below. The company has received a large order and is considering use of bank loan which will increase its borrowing. As a result of the order it has decided to forecast its cash requirements for January, February and March. The company usually collects 20% of its sales in the month of sales,70% in the subsequent month following the month of sales and 10% in the second month after sales.

JOY LTD BALANCE SHEET AS AT 31ST DECEMBER 2022

Detail	shs (000)	Sh(000)
Accounts payable	360	Cash 50
Bank loan	400	Accounts Receivable 530
Accruals	212	Inventories 545
Long-term debts	450	Net Fixed Assets 1,836
Common stock	100	
Retained Earnings	1439	
Total	2,961	2,961

Purchases of materials for production are made in the month prior the sale amounts to 60% of sale in the subsequent month. Payments for these purchases occur in the month after purchases. Labor cost including overtime are expected to be shs.150, 000 in January, Shs 200,000 in February and Shs.160, 000 in March. Joys administrative: taxes and other cash expenses are expected to be shs.100,000 per month throughout the three month. Actual sales in November and December and projected sales for January to April are as follows:

Month	shs.000
Nov	500
Dec	600
Jan	600
Feb	1,000
March	650
April	750

Required

- a) Cash budget for January, February and March 2022(11 Marks)
- b) Determine the amount of additional bank borrowing necessary to maintain a cash balance of 50,000(3 Marks)
- c) Explain conditions under which bank loan is ideal for financing investments(6Marks)

QUESTION FIVE

- a) Strategic financial analysis helps in effective financial management. Discuss the statement in line with the scope of strategic financial management (6 Marks)
- b) Bondeni Company had ordinary share capital amounting to 100 million and retained earning brought forward from the previous year of ksh.50Million, calculate the sustainable growth rate of the company and comment on company's expansion (6Marks)
- c) Describe four factors to consider before a decision to repurchase shares is made(4Marks)
- d) Describe some reasons behind the treatment of dividends as a residual(4Marks)