GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS
MAY - AUGUST 2023 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCFI 402

COURSE TITLE: STRATEGIC FINANCIAL MANAGEMENT

DATE: 31 JULY 2023   **TIME: 8:00 AM – 11:00 AM**

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY.**
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: All exam rooms are under CCTV surveillance during the examination period.

SECTION A: COMPULSORY
QUESTION ONE

a) Describe the functions of strategic financial management **[6 Marks]**

b) Write a short note on the following clearly indicating their significance in financial management.

    i.   Economic Analysis **[5 Marks]**

    ii.   Industry Analysis **[5 Marks]**

    iii.   Company Analysis **[5 Marks]**

c) Distinguish between systematic risk and unsystematic risk **[4 Marks]**

d) What are the factors affecting investment decisions in portfolio management. **[7 Marks]**

e) Explain the factors/determinants for determining Dividend Policy **[8 Marks]**

SECTION B: ANSWER ANY THREE QUESTIONS
QUESTION TWO

a) Differentiate between Economic Value Added (EVA) and Market Value Added (MVA)
[4 Marks]

b) The following information relate to a firm in manufacturing industry.

    Total assets = Shs100 000

    ROA =30%

    Cost of Capital = 10%

Required:

Calculate the Economic Value Added **[6 Marks]**

c) It is proposed that there be a change in taxation to a system, which penalizes corporate retained earnings and favours distribution of profits, thereby effectively forcing all companies to distribute all earnings.

Required:

Examine the implications of such a change from the view point of:

    i.   Corporate financial management; and **[5 Marks]**

    ii.   Financial system and financial institutions **[5 Marks]**

QUESTION THREE

a) What is financial modeling?
[2 Marks]

b) Discuss various tools and techniques of financial modeling.
[9 Marks]

c) Financial models have helped in day to day business. In the light of the statement explain the applications of financial modeling.
[9 Marks]

QUESTION FOUR

a) Two firms has the following mixed streams of cash flows.

Cash Flow Stream

Year	A (sh)	B (sh)
1	50 000	10 000

2	40 000	20 000
3	30 000	30 000
4	20 000	40 000
5	10 000	50 000
Totals	150 000	150 000

Required:

i. Find the present value of each stream, using a 15 percent discount rate. **[6 Marks]**

ii. Compare the calculated present values, and discuss them in light of the fact that the undiscounted total cash flows amount to sh150 000 in each case. **[4 Marks]**

b) Norohna and Co. is considering two mutually exclusive projects. The expected values for each project's cash flows are as follows:

Year	Project A	Project B
0	- 3,00,000	- 3,00,000
1	1,00,000	2,00,000
2	2,00,000	2,00,000
3	2,00,000	2,00,000
4	3,00,000	3,00,000
5	3,00,000	4,00,000

The company has decided to evaluate these projects using the certainty equivalent method. The certainty equivalent coefficients for each project's cash flows are as follows:

Year	Project A	Project B
0	1.00	1.00
1	0.95	0.90
2	0.90	0.80
3	0.85	0.70
4	0.80	0.60
5	0.75	0.50

Required:

Given that this company's normal required rate of return is 15 percent and the after-tax risk-free rate is 8 percent, which project should be selected? **[10 Marks]**

QUESTION FIVE

a) You attended a seminar on Corporate Financial Management and one facilitator said the following, "Without a strategy the organization is like a ship without a rudder, going around in circles. It is like a tramp; it has no place to go. Most business failures are due to lack of strategy, or the wrong strategy, or lack of implementation of a reasonably good strategy. Without appropriate strategy and its effective implementation, failure is a matter of time". Discuss this statement. **[10 Marks]**

b) Explain the argument for and against the wealth maximization goal of a firm **[10 Marks]**