

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS
RESIT/SPECIAL EXAMINATIONS**

**EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE IN
PROCUREMENT AND MASTER OF BUSINESS ADMINISTRATION**

MBAD 831: FINANCIAL MANAGEMENT

STREAMS: MBAD Y1S2/MPLM Y1S2

TIME: 3 HOURS

DAY/DATE: TUESDAY 24/07/2018

2.30 P.M – 5.30 P.M

INSTRUCTION:

- **Answer question one and any other two questions**
- **Do not write anything on the question paper**
- **The present value table is attached on the question paper**

1. (a) Outline the features of a good investment appraisal techniques. [4marks]

(b) Mavuno limited intends to invest in a machine X. The machine costs ksh 200,000 and the economic life of the machine is 10 years and has no scrap value. The corporation tax rate is 50% and the required rate of return is 10%. Depreciation is on straight line basis. The expected profits before depreciation and taxes is as follows:

Year	1	2	3	4	5
Profit (sh)	40,000	50,000	30,000	60,000	70,000

Required :

- (i) Determine the net cash flows. [5marks]
- (ii) Compute the net present value of the machine and advise the management on whether to undertake the investment or not. [5marks]

(c) Explain briefly the following sources of funds:

- (i) Leasing [2marks]
- (ii) Venture capital [2marks]
- (iii) Provision for depreciation [2marks]
- (iv) Trade credit [2marks]

(d) XYZ bank pay 12% interest per annum on deposits. If interest is paid on deposit quarterly and ksh 100,000 is deposited into the bank at the start of year 1 . How much will it amount to at the end of 5 years? [4marks]

(e) Differentiate between investment function and financing function of a finance manager. [4marks]

2. (a) The earnings yield of excel limited is 20% and the current market per ordinary share is ksh 100. Each share has a par value of ksh 50. The dividend of the current year is expressed as 10% of the par value.

Required :

Compute the following financial ratios;

- (i) Earnings per share [2marks]
- (ii) Dividend cover [2marks]
- (iii) Price earning ratio [2marks]

(b) Explain the significance of the following financial ratios;

- (i) Debtors turnover [2marks]
- (ii) Interest cover [2marks]
- (iii) Return on capital employed [2marks]
- (iv) Current ratio [2marks]

(c) The following information related to Juba limited, a company listed on the securities exchange.

- (i) The dividend per share for the year ended 31st December 2007 was ksh 2.50
- (ii) The dividend is expected to increase at a rate of 15% per annum for the next two years after which the growth rate would stabilize at 5% per annum.
- (iii) The required rate of return is 10%.

Required :

Calculate the theoretical value of the share. [4marks]

(d) Differentiate between discountin and compounding [2marks]

3. (a) The following information was obtained from the books of Holla ltd.

(i) The company sold 10,000 ordinary share at ksh 100 with a floatation cost ksh 20 each.

(ii) It sold 5000 preference shares of ksh 100 at ksh 150 each. The preference shares pay dividend at 16%.

(iii)It sold 5000 ksh 100, 10% debentures at ksh 80 each

(iv)It sold 10,000 ksh 50, 12% debentures with issue cost of ksh 15 each.

The company hopes to earn a return of 18% on the above finances and the corporate tax rate is 40%.

Required :

(i) Determine the cost of ordinary share capital assuming there will be no retention. [10marks]

(ii) What are the uses of weighted average cost of capital. [4marks]

(b) Explain why cash flows are preferred to accounting profits in investment appraisal.

[4marks]

(c) Why is debt finance said to be cheaper source of fund compared to equity finances?

[2marks]

4. (a) Explain the agency conflict between shareholders and managers and state how such conflicts can be resolved. [6marks]

(b) Identify the circumstances under which NPV and IRR methods differ in ranking the investment projects. [4marks]

(c) An investor is considering to invest in a bond that has a face value of ksh 1000 with a maturity period of 5 years and a coupon rate of 9% per annum. The bond is currently selling in the secondary market at a price of ksh 1200. The corporation tax rate is 30% and the cost of capital is 12%.

Required :

Compute the yield to maturity of the bond. [3marks]

(d) What factors would a firm consider in sourcing funds for investment? Explain your points. [4marks]

(e) Explain any three managerial roles of a finance manager in an organization. [3marks]

