

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

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

MBAD 831: FINANCIAL MANAGEMENT

STREAMS: MBAD (ODEL) Y2S1

TIME: 3 HOURS

DAY/DATE: WEDNESDAY 16/04/2025

2.30 P.M. – 5.30 P.M.

INSTRUCTIONS: Answer question ONE and any other THREE QUESTION ONE

a) Describe any four ways that could be used to mitigate agency conflict between Shareholders and Auditors (8 marks)

b) The following is the capital structure of XYZ ltd as at 31/12/2022

	Sh ‘ Millions ‘
Ordinary share capital sh10 par value	400
Retained earnings	200
10% preference share capital sh.20 par value	100
12% debenture shs.100par value	<u>200</u>
	<u>900</u>

Additional information;

1. Corporate tax rate is 30%.
2. Preference shares were issued 10yrs ago and are still selling at par value MPS = par value
3. The debenture has a 10-year maturity period. It is currently selling at shs90 in the market.
4. Currently the firm has been paying dividend per share of shs. 5. The DPS is expected to grow at 5% p.a in future .The current MPS is shs 40.

Required;

- i. Compute the companies Weighted Average Cost of Capital (WACC) (10 marks)

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c) A company is considering a project whose initial cost is 10,000 and useful life of 5 years. The company required rate of return is 10% and the corporate tax rate is 50%. Depreciation is on the straight-line basis. The cash flows before depreciation and tax are as follows.

Year	Kshs
1	5000
2	3000
3	2000
4	6000
5	6000

Required;

- i. Determine the Net cash flows (5 marks)
- ii. Compute;
 - a) Payback period (3 marks)
 - b) Accounting rate of return (ARR) (3 marks)
- iii. Compute the Net Present Value of the project and advise the management of the company (5 marks)
- d) Explain three features of a good investment appraised technique (6 marks)

QUESTION TWO

a) The following information relates to Meka limited, a company listed on the securities exchange. The dividend per share for the year ended 31st Dec 2007 was ksh.2.50. 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. The required rate of return is 10%

Required;

- Calculate the theoretical value of the share (5 marks)
- b) Explain any three managerial roles of a finance manager in an organization (6 marks)
- c) Outline four limitations of the Capital Asset Pricing Model (CAPM) as an investment appraisal technique (4 marks)
- d) Explain benefits of good corporate governance to an organization (5 marks)

QUESTION THREE

- a) Explain the following dividend theories.
- i. M-M dividend theory (4 marks)
 - ii. The bird -in-hand theory (3 marks)
 - iii. The clientele effect theory (3 marks)
- b) The following data was extracted from the financial statement of Jambo ltd for the year ended 31st December 2020

	Shs.
	Sh '000'
Revenue from operation	2520
Net profit	360
Cost of revenue from operations	1920
Long term debts	900
Trade payables	200
Average inventory	800
Current assets	760
Fixed assets	1440
Current liabilities	600
Net profit before interest and tax	800

Required;

- i. Gross profit ratio. (3mks)
- ii. Inventory Turnover Ratio. (2mks)
- iii. Current ratio. (2 mks)
- iv. Working capital ratio. (3mks)

QUESTION FOUR

- a) Daima investment bank has provided the following information relating to two of its securities namely: A and B .

State of economy	Probability (Pi)	Security returns (%)	
		A	B
Stable	0.30	12	6
Expansion	0.40	15	7.5
Recession	0.30	10	5

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Required;

- i. The expected return for each security. (4 marks)
 - ii. The Standard deviation for each security. (4 marks)
 - iii. Determine the expected return of a portfolio constituting 60% of security A and 40% of security B. (4 marks)
- b) Distinguish between the following risks as used in finance
- i. Systematic risks and unsystematic risk (4 marks)
 - ii. Financial risk and operating risk (4 marks)

QUESTION FIVE

- a) Describe the factors that affect the cost of finance (8 marks)
 - b) Briefly explain the following sources of funds
 - i. Preference Share Capital (2 marks)
 - ii. Venture Capital (2 marks)
 - iii. Mortgage Finance (2 marks)
 - c) Critically discuss the wealth maximization goal of the firm (6 marks)
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