



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2017/2018 ACADEMIC YEAR
SECOND YEAR FIRST SEMESTER
MAIN EXAMINATION
FOR THE DEGREE OF MASTERS IN BUSINESS
ADMINISTRATION

COURSE CODE: MBA 808

COURSE TITLE: FINANCIAL ANAGEMENT

DATE: 06/08/2018

TIME: 2.00-4.00 P.M

INSTRUCTIONS TO CANDIDATES

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

TIME: 3 Hours

KIBU observes ZERO tolerance to examination cheating

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This Paper Consists of 2 Printed Pages. Please Turn Over.

Section A (COMPULSORY)

QUESTION ONE

CASE STUDY (30mks)

(Read the information given below and then have a look at the associated questions)
Biz Training Ltd. is considering buying a new online learning system to enable them to deliver the training they do for their corporate clients. They are looking at three different systems and the cost of each system is as follows:

System A	System B	System C
Ksh 120,000	ksh 100,000	ksh 85,000

Each system has a range of functionality, but they do differ quite a bit in what they offer. While they would all do the jobs that Biz Training are looking for, they would need the firm to run their systems very differently and so the expected cashflows from each system are very different. The expected net cash flows (income - expenses) for the systems are as follows:

Year	SystemA(ksh)	SystemB(ksh)	SystemC(ksh)
1	65,000	45,000	15,000
2	55,000	35,000	30,000
3	35,000	35,000	30,000
4	15,000	25,000	40,000
5	25,000	15,000	45,000

The firm is assuming a discount rate of 10%

Required:

a) Payback period for each project

b) Average rate of return

c) net present value

d) Write a report for the firm to use giving recommendations/information as follows:

- Which system they should use on the basis of each investment appraisal method
- Which system would be best overall taking into account the results from all three methods
- Non-financial issues they should be aware of when choosing their system
- The possible limitations of investment appraisal

Section B (CHOOSE ANY THREE QUESTIONS)

Question Two

Discuss the problems that might exist in the relationships between:

- (a) Shareholders and managers, and
- (b) Shareholders and creditors

How might a company attempt to minimise such problems? (15mks)

Question Three

Companies U and L are identical in every respect except that U is unlevered while L has Sh 10 million of 5% bonds outstanding. Assume

- (a) That all of the MM assumptions are met
- (b) That there are no corporate or personal taxes
- (c) That EBIT is Sh 2 million
- (d) That the cost of equity to company U is 10%

Required:

- i. Determine the value MM would estimate for each firm (5mks)
- ii. Determine the cost of equity for both firms (3mks)
- iii. What is the overall cost of capital for both firms(2mks)
- iv. Suppose the value of U is Sh 20 million and that of L is Sh 22 million. Explain the arbitrage process for a shareholder who owns 10% of company L's shares.(5mks)

Question Four

- a) State and explain types of factoring facilities in an organization (5mks)
- b) Assume Jinan bank lends you ksh. 1Million for a period of five years at 15% interest per annum to be compounded annually. Repayment to be at the end of each year. To fully recover for the lender both principle and interest set up a loan amortization table (10mks)