



(Knowledge for Development)  
**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**FIRST YEAR YEAR SECOND SEMESTER**

**MAIN EXAMINATION**

**FOR THE DEGREE OF MASTERS IN BUSINESS ADMINISTRATION**

**COURSE CODE: MBA 808**

**COURSE TITLE: FINANCIAL MANAGEMENT**

**DATE:** 13/05/16  
~~2015~~

**TIME:** 8:30 - 11:30 AM.

**INSTRUCTIONS TO CANDIDATES**

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

TIME: 3 Hours

KIBUCO observes ZERO tolerance to examination cheating

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### Question one

- a) Project A has the following cash flows over its useful life of 3 years. The market value (abandonment value) has also been given.

Year	cashflow Sh '000'	abandonment value sh '000'
0	(4 800)	4 800
1	2000	3 000
2	1875	1900
3	1750	0

Required:

- Determine when to abandon the project assuming a discount rate of 10% (6mks)
  - Give reasons why abandonment value should be considered in the above project (4mks)
- State and explain the assumptions underlying the use of WACC (10mks)
  - Explain the concepts of gross and Net working Capital (5mks)
  - State and explain cash collection and payment methods for efficient cash control (5mks)

### Question two

- a) The earnings and dividends of ABC Plc in the last years have been as follows

Year	earnings Ksh '000'	Dividends ksh '000'
2004	2 000	750
2005	2550	960
2006	2750	1030
2007	3250	1225
2008	3500	1312

The company is an all equity company with 5 million shares in issue, each with a market price of ksh. 3.50 ex-div. Estimate the cost of ordinary shares (15mks)

- b) State and explain factors influencing the working capital requirements of a firm (5mks)

### Question three

Consider two companies AB Plc and YZ Plc in the same risk class, which are identical in all respects except that AB Plc is an all equity company while YZ is a debt- equity company (levered). YZ capital structure includes 8% ksh. 2 million debt which is also its market value. The earnings before tax of both companies are the same at sh. 1 million per annum. Assume the cost of equity in all equity company is 20% and the cost equity in the debt- equity company is 21% what would be the position of the ;

- Traditional view (10mks)
- M&M view (10mks)

Regarding the values of both AB Plc and YZ Plc

### Question four

2.

- a) In establishing optimum credit policy , the financial manager must consider some decision variables which influence the level of receivables , state and explain this variables (12mks)
- b) State and explain situations underlying the conflict between shareholders and managers of a firm (8mks)

**Question five**

- a) State and explain types of factoring facilities in an organization (10mks)
- 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)