



(Knowledge for Development)

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2017/2018 ACADEMIC YEAR**  
**FIRST YEAR SECOND SEMESTER**  
**SPECIAL/SUPPLIMENTARY EXAMINATION**  
**FOR THE MASTER OF BUSINESS ADMINISTRATION**

**COURSE CODE: MBA 808**

**COURSE TITLE: FINANCIAL MANAGEMENT**

**DATE: 17/10/2018**

**TIME: 9:00 AM**

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**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

This Paper Consists of 4 Printed Pages. Please Turn Over.

**SECTION A ( COMPULSOY)**

**QUESTION ONE**

Q1 a) Corporate financial management deals with financial aspects of corporate entities with optimal use of then very scarce financial resources. Financial management involves decision making. Discussion any five decisions that are commonly made in relation to the company stakeholders (5 marks)

(b) Geight Ltd is examining two projects, A and B the cash inflows are as follows:-

	A (000)	B (000)
Initial outflows	240,000	240,000
Time 1	200,000	200,000
Time 2	100,000	120,000
Time 3	20,000	220,000

Using discount rates of 8% and then 16%, calculate the NPVs and state which project is superior. Why do you get a different preference depending on the discount rate used? (5 marks)

c) "The finance manager spends most of his time making managerial finance decisions as opposed to routine functions". Discuss.(5mks)

d) If you were a president of a large publicly owned corporation would you make decisions to maximize shareholder welfare or your own personal interest? What are some actions stockholders could take to ensure that management's interest and those of stockholders coincided? (6 marks)

d) Suppose that a company's expected dividend now is kshs 3.48 per share. Its dividend are expected to grow at 15% for six years and then at a rate of 8% indefinitely. The capitalization rate is 12%. What is the price of the share today? (5 marks)

e) Define agency relationship from the context of a public limited company and briefly explain how it arises and highlight the various measures that would minimize agency problems between the owners and management (4mks)

## **SECTION B ( CHOOSE ANY THREE QUESTIONS)**

### **QUESTION TWO**

Q2a). There has been controversy especially in a number of shareholders meeting regarding the payment and non payment of dividends. In some companies the directors are recommending non payment of dividends while in others, the shareholder hold view that the recommended dividend is too low.

#### **Required.**

- i) In line with the above statement explain any three factors to be considered by the directors in the design of dividend policy (4 marks)
  - ii) Should the shareholders be ones to decide how much divided to be paid? Explain your position (6 marks)
- b) Does the payment of dividends influence the share price? Explain using examples (10 marks)

### **QUESTION THREE**

Q3a) An investor expects a perpetual sum of sh. 500,000 annually from his investment. What is the value of this perpetuity of the interest rate is to be at 10 % (4 marks)

- b) What is the present value of an oil royalty expected to pay shs. 3000 end of year 1, ksh.4000 end of year 2, shs. 5000 end of year 3, shs. 6000 end of year 4 and shs.7000 end of year 5. Assume that the rate of interest is 8% semi annually?( 6mks)
- c) List and explain five factors that should be taken into account by a business man in making a choice between financing short term and long term sources(10mks)

### **QUESTION FOUR**

Q4a) Transzoia Ltd, a large manufacturer of windscreen wipers, hold 100 days stock. This contrasts with 50 days held by its main competitors. Describe what might explain this difference and suggest solution to any problem area. (10mks).

- b) Explain the tension managers have to cope with when judging the correct level of working capital. Also outline working capital policies used to manage the tension. (10mks)

### **QUESTION FIVE**

Q5a) Nairobi transporters Ltd have had a very good trading year and they would like to extend the business to make use of the favourable trading conditions. They have planned to raise additional finance from various sources as follows:-

- To raise 150, 000 ordinary shares (sh. 10 nominal values) at shs 12 each.
- To Issue 200, 000 13% preference shares (sh. 10 nominal value) at 12 each.

- To issue 200,000 15% debentures of sh. 100 at sh. 90 each.
- Finally they plan to raise a medium term loan of sh. 5 million from a non banking financial institution which will be at an interest of 20% p.a. Find out the total amount and average cost that the company will raise if the plan is to be realized. Assume a corporate tax is 5%. (10 mks).

b) The Capital Asset Pricing Model (CAPM) has been identified as a method for estimating the cost of Equity Capital. Identify and describe how this model might be applied in actual practice by a company. What is the major weakness in using CAPM as a method of valuing a firm? (10 marks)