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(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
SECOND YEAR FIRST SEMESTER
EXAMINATION

FOR THE MASTER OF BUSINESS ADMINISTRATION WITH IT

COURSE CODE: MBT831

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 9TH JUNE, 2022

TIME: 9.00 AM – 12NOON

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other THREE (3) Questions in Section B

TIME: 3 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.



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SECTION A**QUESTION ONE**

- a) The capital structure of a concern depends upon a number of factors. State and explain at least five factors affecting capital structure of a firm (10mks)
- b) While financial ratios are very important tools of financial analysis, they have some limitations. State and explain such limitations (7mks)
- c) ABC Ltd has 900,000 shares outstanding at current market price of sh130 per share. The company needs sh.22,500,000 to finance its proposed expansion. The board of directors has decided to issue rights for raising the required funds. The subscription price has been fixed at sh.75 per share.

Required:

- (i) How many rights are required to purchase one new share? (5mks)
- (ii) What is the price of one share after the rights issue (Ex-right price)? (3mks)
- (iii) Consider the effect of the rights issue on the shareholders' wealth under the three options available to the shareholders (Assume he owns 3 shares and has sh75 cash on hand). (5mks)

SECTION B**QUESTION TWO**

- a) On 1/1/2001 you deposit Sh.10,000 to earn 10 percent compounded semiannually. Effective 1/1/2005 the interest rate is increased to 12 percent and at that time you decide to double your balance. You want to determine how much will be accumulated in your account on 1/1/2011 (5mks)
- b) There are four major dividend policies that can be followed by a firm. With the aid of graphical illustrations discuss these policies (10mks)



Question Three

The comparative income statement of the Ogel Supply Corporation at December 31,2012, appears as follows:

	2012	2011
Net sales	sh.990,000	sh.884,000
Cost of goods sold	574,000	503,000
Gross profit	sh.416,000	sh.381,000
Operating expenses:		
Selling expenses	sh.130,000	sh.117,500
General expenses	122,500	120,500
Total operating expenses	sh.252,500	sh.238,000
Income from operations	sh.163,500	sh.143,000
Interest expense	24,000	26,000
Income before income taxes	sh.139,500	sh.117,000
Income tax expense	36,360	28,030
Net income	sh.103,140	sh. 88,970

Required:

Prepare a detailed vertical analysis statement (15mks)



Question Four

- a) You invest sh.40,000 and receive the following cash inflows.

Year	Cash inflows
1	sh.15,000
2	20,000
3	28,000

The interest rate is 10%. Calculate the discounted payback period of your investment (5mks)

- b) Discuss two basic techniques available to study the impact of a particular capital structure to a firm (10mks)

Question Five

The management of XYZ Plc. Is planning an investment program and in need to decide on the appropriate cost of capital for evaluating investment projects. The company has in issue 1M ordinary shares of sh. 0.5 each with a current market price of sh. 0.90 per share Cum-div. it also has in issue sh. 500,000 15% irredeemable debentures with a current market value of sh. 105 (par value of sh. 100) and sh. 300,000, 11% preference shares of Ksh.1 each, currently priced at ksh.0.80 per share. The preference dividends have just been paid but the ordinary dividend and debenture interest are due to be paid in a not too distant future. The ordinary share dividend will be sh. 120,000 this year and management has made its views known that earnings and dividends will grow by 6% per annum into perpetuity.

The extract from the company's balance sheet is as follows;

	Ksh.
Ordinary share of Ksh. 50 each	500,000
16% preference shares	300,000
Debentures	500,000



Reserves	<u>200,000</u>
	<hr/> <u>1,500,000</u>

Assume company tax of 30%

Required;

- a) Advise the management of XYZ. Plc. On the cost of capital to use (10mks)
- b) State five assumptions deemed necessary for WACC. (5mks)



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