(*Knowledge for Development)*

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER

MAIN EXAMINATION

FOR THE MASTER OF BUSINESS ADMINISTRATION

COURSE CODE: MBA808

COURSE TITLE: FINANCIAL MANAGEMENT

DATE:9TH JUNE, 2022 **TIME: 9.00AM – 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.

SECTION A

QUESTION ONE

i) The following are net cash-flows from three projects, A, B and C which have an initial investment of ksh. 40, 000

project	A	B	C
Year	Shs.	Shs.	Shs.
1	8000	16000	10000
2	16000	24000	15000
3	24000	20000	25000
4	16000	8000	12000
5	10000	2000	10000

Required:

If the net present value decision rule is applied, which projects should the company accept if the required rate of return is 10% (15mks)

ii)On 1/1/2001 you deposit $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. Determine how much will be accumulated in your account on 1/1/2011. (5mks)

i) With the use of well-illustrated diagram, Explain four major dividend policies that can be followed by a firm (10mks)

SECTION B

QUESTION TWO

a) XYZ, Inc., with a 14 percent cost of capital after taxes is considering a project with an expected life of 4 years. The project requires an initial certain cash outlay of sh.50,000. The expected cash inflows and certainty equivalent coefficients are as follows:

Year After-Tax Cash Flow Certainty Equivalent Adjustment Factor

1 10,000 0.95

2	15,0000.80
3	20,000 0.70
4	25,000 0.60

Assuming that the risk-free rate of return is 5 percent, compute the NPV and IRR of the project (10mks)

b) State and explain ways to maximize profitability from accounts receivable (5mks)

QUESTION THREE

a) Describe five factors to consider in determining capital expenditure (10mks)

b) Assume that the Carter Company issues a sh.1,000, 8%, 20-year bond whose net proceeds are sh.940. The tax rate is 40%. Calculate the before-tax cost of debt and after tax cost of debt (5mks)

QUESTION FOUR

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

2012 **2011**

ASSETS

Current assets:

Cash sh.60,000 sh.30,000

Accounts receivable, net113,000 79,000

Inventories 107,100 106,900

Prepaid expenses5,700 6,100

Total currents assets sh.285,800 sh.222,000

Property, plant and equipment, net 660,000 650,000

Total assets	sh.945,800	sh.887,000
LIABILITIES		
Current liabilities:		
Notes payable	sh. 40,000	sh.33,000
Accounts payable	100,600	57,500
Total current liabilities	sh.140,600	sh.90,500
Long-term debt	400,000	410,000
Total liabilities	sh.540,600	sh.500,500
STOCKHOLDERS' EQUITY		
Common stock, no-par	sh.200,000	sh.200,000
Retained earnings	205,200	186,500
Total stockholders' equity	sh.405,200	sh.386,500
Total liabilities and stockholders' equity	sh.945,800	sh.887,000

Required:

Prepare a detailed vertical analysis statement. (15mks)

QUESTION FIVE

a) The shares of ABC limited are currently retailing at a price of sh. 140. The firm paid dividends of sh. 5 per share last year. The future dividends are expected to grow at a rate of 7% p.a into perpetuity. The required rate of return is 10% p.a. you are required to estimate the stock's intrinsic value and advice whether the stock could be a good buy or not (5mks)

b) State and explain five essential features of a sound capital mix of a firm (10mks)