



(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: 3RD OCTOBER, 2022

TIME: 9.00AM – 12NOON

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other THREE (3) Questions in Section B
2. Question **one** carries **40**marks and each of the other THREE questions carry **20** marks each.

TIME: 3 Hours



KIBU observes ZERO tolerance to examination cheating

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SECTION A

QUESTION ONE

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

ASSETS	2012	2011
Current assets:		
Cash	sh. 60,000	sh. 30,000
Accounts receivable, net	sh. 113,000	sh. 79,000
Inventories	sh. 107,100	sh. 106,900
Prepaid expenses	sh. 5,700	sh. 6,100
Total current assets	sh. 285,800	sh. 222,000
Property, plant & equipment, net	sh. 660,000	sh. 665,000
Total assets	sh. 945,800	sh. 887,000
LIABILITIES		
Current liabilities:		
Notes payable	sh. 40,000	sh. 33,000
Accounts payable	sh. 100,600	sh. 57,500
Total current liabilities	sh. 140,600	sh. 90,500
Long-term debt	sh. 400,000	sh. 410,000
Total liabilities	sh. 540,600	sh. 500,500
STOCKHOLDERS' EQUITY		
Common stock, no-par	sh. 200,000	sh. 200,000
Retained earnings	sh. 205,200	sh. 186,500

Total stockholders' equity	sh. 405,200	sh.386,500
Total liabilities & stockholders' equity	sh. 945,800	sh. 887,000

Additional information

1. Sales of sh. 990,000 for the year 2012
2. Cost of goods sold is sh. 574,000

Required: calculate

- a) Accounts receivable turnover (3mks)
- b) Day's sales in receivables (3mks)
- c) Debt ratio for 2012 and 2011 (2mks)
- d) Rate of return on total stockholders equity (2mks)

ii) Within financial management context, discuss the problems that might exist in the relationship between

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

How might a company attempt to minimize such problems? (12mks)

iii) State and explain atleast four importance of Working Capital management to a company (8mks)

SECTION B

QUESTION TWO

i) Countries XYZ and ABC have chosen to provide their electricity supply to industries in different ways. Country XYZ, electricity supply is provided by a nationalized industry while ABC electricity supplies are provided by a number of private sector companies.

Required;

- a) Explain how the objectives of the nationalized industry in the country XYZ might differ to those in private sector companies in country ABC (5mks)
- b) Briefly discuss whether investment planning and appraisal techniques are likely to differ in the nationalized industry and private sector companies (5mks)

ii) ABC. Plc. Share had been found to be 1.25 reflecting the fact that its excess return varies more than proportionately in relation to the excess return in the market. The directors believe that this relationship will continue into the future. If the market index return is 15% and the return of treasury bills is 12% calculate the cost of equity of ABC. Plc (5mks)

QUESTION THREE

Consider the two projects whose after-tax cash inflows are not even. Assume each project costs sh. 1,000,000.

Cash Inflow

Year	A(Sh.)	B(sh.)
1	100,000	500,000
2	200,000	400,000
3	300,000	300,000
4	400,000	100,000
5	500,000	
6	600,000	

Required: Calculate the payback period of each project and advice management (10mks)

ii) While ratios are very important tools of financial analysis, they have some limitations. State and explain such limitations (5mks)

QUESTION FOUR

i) The capital structure of a pharmaceutical company before a 2-to-1 stock split was

Common stock (sh.5 par, 400,000 shares)	sh. 2,000,000
Additional paid in capital	sh. 1,000,000
Retained earnings	<u>sh. 7,000,000</u>
Total shareholders' equity	<u>sh. 10,000,000</u>

Calculate the capital structure of the company after split (5mks)

ii) "Apart from accounting and economics, finance also draws on supportive disciplines such as marketing, production and quantitative methods in day to day decision making of a firm". Explain (10mks)

QUESTION FIVE

i) On 1/1/2011 you deposited sh.10,000 to earn 10 percent compounded semiannually. Effective 1/1/2015 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 1/1/2021. (5mks)

ii) Discuss how diversification helps to in risks management in a portfolio (5mks)

iii) Discuss the problem of Capital Asset Pricing Model in portfolio risk and management (5mks)