



*(Knowledge for Development)*

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2021/2022 ACADEMIC YEAR**  
**FIRST YEAR SECOND SEMESTER**  
**SPECIAL/SUPPLEMENTARY EXAMINATION**  
**FOR THE MASTER OF BUSINESS ADMINISTRATION**  
**COURSE CODE: MBA808**  
**COURSE TITLE: FINANCIAL MANAGEMENT**

**DATE: 21<sup>ST</sup> NOVEMBER, 2022**

**TIME: 2.00PM – 4.00PM**

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**INSTRUCTIONS TO CANDIDATES**

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

TIME: 2 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	15,000	0.80
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, net	113,000	79,000
Inventories	107,100	106,900
Prepaid expenses	5,700	6,100
Total current assets	sh.285,800	sh.222,000

Property, plant and equipment, net	<u>660,000</u>	<u>650,000</u>
Total assets	sh.945,800	sh.887,000
LIABILITIES		
Current liabilities:		
Notes payable	sh. 40,000	sh.33,000
Accounts payable	<u>100,600</u>	<u>57,500</u>
Total current liabilities	sh.140,600	sh.90,500
Long-term debt	<u>400,000</u>	<u>410,000</u>
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)