



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY  
SCHOOL OF BUSINESS AND ECONOMICS**

**EXAMINATION FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION**

**BUSIA LEARNING CENTRE**

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**COURSE CODE:** MBA 811  
**COURSE TITLE:** FINANCIAL MANAGEMENT  
**EXAM VENUE:** **STREAM:** MBA  
**DATE:** **EXAM SESSION:**  
**TIME:** 3.00 HOURS

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**Instructions:**

*Answer any **four (4)** Questions.*

*All questions carry equal marks.*

**Question One**

- Discuss how “Agency Theory” explains the relationship between the management and shareholders of a firm. **(5 marks)**
- Examine the consistency between wealth maximization as a goal of the corporate firm with Agency Theory. **(5 marks)**
- Explain key issues that inform financing decisions in a corporate firm. **(5 marks)**

**Question Two**

As a consultant, Tesia super market has hired you to help them diagnose and cure problems that the company has had in maintaining adequate liquidity. Upon performing liquidity and short-term activity analyses you arrived at the ratios below:

<b>Ratio</b>	<b>Tesia</b>	<b>Industry norm</b>
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Current ratio	4.5	4.0
Quick ratio	2.0	3.1
Inventory turnover	6.0	10.4
Average collection period	73 days	52 days
Average payment period	31 days	40 days

- a) Give your recommendations relative to amount and handling of the following:
- i. Inventory **(3 marks)**
  - ii. Accounts receivable **(3 marks)**
  - iii. Accounts payable **(3 marks)**
- b) Why might your recommendations fail to be effective in improving Tesia's liquidity position? **(6 marks)**

### Question Three.

- a) Long Term Debt Finance is normally acquired at varying cost depending on the type of debt. Clearly explain the meaning of Cost of capital highlighting **four** ways in which cost of capital is important in financing strategy. **(5 marks)**
- b) ABC Ltd. has the following capital structure.

	Ksh.
Equity (expected dividend 12%)	10, 000,000
10% preference	5, 000,000
8% loan	15, 000,000

**Required:**

Calculate the weighted average cost of capital, assuming 50% as the rate of income-tax, before and after tax. **(10 marks)**

### Question Four.

- a) Discuss five functions performed by the Global financial system and the financial markets. **(10 marks)**
- b) Explain five causes of corporate "sickness" linked to managerial deficiencies in the finance function. **(10 marks)**

### Question Five

- a) Explain the greatest challenges financial managers face in real world application of capital budgeting. **(5marks)**
- b) White rose laundry company is considering acquisition of a new washing machine. The initial investment is estimated at Ksh. 1.25 million, and the machine will have a five year life with no salvage value. Using 6% discount rate, determine the Net Present Value of the machine given its expected operating cash inflows shown in the table below. Comment on the viability of this project. **(10 marks)**

Year	Cash inflows (Ksh.)
1	400 000
2	375 000
3	300 000
4	350 000
5	200 000

**Question Six**

Corporate performance measurement has gained immense attention as a critical aspect of strategic financial management.

- a) Examine the rationale for business performance measurement. **(5 marks)**
- b) Discuss pros and cons of
  - i. Non-financial measures **(5 marks)**
  - ii. Balanced scorecard approach **(5 marks)**