



**JARAMOGI OGINGA ODINGA UNIVERSITY
OF SCIENCE & TECHNOLOGY**

UNIVERSITY EXAMINATIONS 2012/2013

**1ST YEAR 2ND SEMESTER EXAMINATION FOR THE DEGREE
OF MASTER OF SCIENCE IN INFORMATION TECHNOLOGY
SECURITY AND AUDIT**

(KISUMU L.CENTRE)

COURSE CODE: MBM 5123

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 13/8/2013

TIME: 2.00-5.00 PM

DURATION: 3 HOURS

INSTRUCTIONS

- 1. This paper consists of 5 Questions.**
- 2. Answer Question 1 (Compulsory) and any other 2 questions.**
- 3. Write your answers on the answer booklet provided.**

Question One

- a) Explain what you understand by the term 'Agency Theory' as used in financial management. **(4 mks)**
- b) List and discuss at least three solutions to the Agency problem facing financial managers in organizations. **(6 mks).**
- c) Define the concept of 'Time Value' of money. Explain at least four reasons why individuals prefer current cash instead of future cash. **(10 mks).**
- d) Explain what you understand by Wealth maximization as a goal of an organization.

Assuming that a company has the following cash flows in a period of four years, calculate its net Present value.

ct1	=	10,000	k = 10%
ct2	=	5,000	I0 = 50,000/=
ct3	=	8,000	
ct4	=	9,000	

Calculate the NPV of this value after a 4 yr period where:- **(10 mks)**

Where Ct = cash flow during period 't'

K = discount rates (%)

I0 = Initial Capital Investment

n = Time period on which the cash flows are supposed to be earned

Question Two 20marks

- a) In a company an agency problem may exist between the management and shareholders on one hand and the debt holders (creditors and lenders) on the other. List and explain any four solutions to the Agency problem. **(8 mks)**
- b) i) What is an annuity? Name and explain two types of annuities. **(3 mks)**
- ii) Mr. Jack Ombato is considering investing shs. 15000 in a public sector company bond at a rate of interest of 16% per year for a period of 7 yrs.
- 1) How much amount of money will we get after 7 yrs. **(3 mks)**
 - 2) If the company computes interest semi – annually how much will Jack Ombato receive at the end. **(3 mks)**

- 3) If the company computes interest quarterly how much will Jack Ombato get? (3 mks)

Question Three 20marks

- a) Define the term Financial Markets. Name two types of financial markets and briefly explain how they operate within an economy. (8 mks)
- b) Highlight 4 advantages and disadvantages to a company if it is listed at the Nairobi Stock Exchange. (6 mks)
- c) Highlight the low rate of listing of companies in Nairobi Stock Exchange. (6mks)

Question four 20marks

- a) Define the term Accounting rate of return and highlight its advantages and disadvantages in accounting (8 mks)
- b) A company has a five year project whose initial outlay is shs.250, 000. The project has a salvage value of shs.30,000 and its expected cash flow after tax over the same period is as follows;

Year	Earnings after tax
1	40,000
2	60,000
3	30,000
4	30,000
5	50,000

Required:

- Compute the accounting rate of return of this project. (12 mks)

Question five 20marks

- a) Measuring the performance of a business is a rather difficult issue, Ratio analysis is used to determine how a business has performed in a given financial period as compared to previous periods or against the general industry in which the firm belongs. Name and discuss any **four** types of ratio analysis. (8 mks)

b) A company has a **five** year project which is expected to generate the following cash flows;

Year 1 upto 5	Cash Flows
1 st year	shs. 300,000
2 nd year	shs. 150,000
3 rd year	shs. 300,000
4 th year	shs. 250,000
5 th year	shs. 150,000

The project has no savings value and the initial investment in the project is shs. 1,000,000.

Required:

Determine the payback period and payback reciprocal percentage. **(12 mks)**

Question Six 20marks

- a) Explain what you understand by the term weighted average cost of capital and list the steps involved in its computation. **(6 mks)**
- b) Distinguish between Capital Structure & Financial Structure and list any four factors to be considered when making capital structure decisions **(8 mks)**
- c) Name and discuss three motives as to why companies prefer to hold cash money **(6 mks)**