



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF INFORMATICS
UNIVERSITY EXAMINATION FOR THE MASTER OF SCIENCE I.T SECURITY
AND AUDIT
1ST YEAR 2ND SEMESTER 2016/2017 ACADEMIC YEAR
MIN CAMPUS

COURSE CODE: MBM 5123

COURSE TITLE: FINANCIAL MANAGEMENT

EXAM VENUE;

STREAM:

DATE;

EXAM SESSION:

TIME: 3 HOURS

Instructions:

- 1. Answer any FOUR questions**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

Question one

‘Financial Management is an application of general managerial principles to the area of financial decision making’. Justify the statement and comprehensively outline the objectives of financial management. **(15 Marks)**

Question two

Designing an ideal capital structure is one of the most important decision areas of the financial management. As a financial manager in a big company, explain why a company should device an ideal capital structure? What factors would you consider while devising an ideal capital structure? **(15 Marks)**

Question three

(A) Dagoreti Enterprises Limited has borrowed from the market by issue of a debenture with the coupon rate of 10.5%. It is a profitable enterprise paying 36% tax.

(a) What is the cost of debt if it sells (i) at par (ii) at 5% premium (iii) at 5% discount to the face value? **(3 Marks)**

(b) If instead of debt, the firm had issued a preference share with the promised dividend of 10.5%, what would be the cost of preference share when it sells (i) at par (ii) at 5% premium (iii) at 5% discount to the face value? **(3 Marks)**

(c) Why do you think that there is a difference in the cost of debt and Preference capital despite identical features and cash flows? **(3 Marks)**

(B) Distinguish between the following;

- (i) Explicit and implicit cost **(2 Marks)**
- (ii) Average and Marginal cost **(2 Marks)**
- (iii) Specific and Combined cost **(2 Marks)**

Question Four

(A) Discuss the concept of Capital Budgeting. Why do you think the capital budgeting decisions are vital for any firm? **(6 Marks)**

(B) The following project is under the consideration of X Company limited. Using NPV method, advice the company on the viability of the project. Show all your working. **(9 Marks)**

Initial Outlay	Sh.100000
Estimated Life	5 Years
Scrap value	Sh.10000
Profit after Tax:	
End of Year 1	Sh.6000
2	Sh.14000
3	Sh.24000
4	Sh.16000
5	Nil

Depreciation is to be calculated under straight line method. The cost of capital may be taken at 10%

Question Five

‘Firms are making efforts to cut down operating cycle chain because a significant amount of funds get tied up in it’. Discuss in content of Kenyan firms. **(15 Marks)**

Question Six

Agency conflicts are the direct outcome of the multiplicity of stakeholders in a firm and their resolution lies in the convergence of varied stakeholders. Analyse the statement. **(15 Marks)**