



JARAMOGI OGINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

MASTER IN BUSINESS ADMINISTRATION

TIME: 3.00 HOURS

UNIVERSITY EXAMINATION

MAIN CAMPUS

COURSE CODE: MBA 811/MBM 5123

ACADEMIC YEAR OF STUDY: 2024/2025

COURSE TITLE: Financial Management

DATE:

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**
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QUESTION ONE (15 MARKS)

- a) Discuss the roles of the financial system in Kenya (7 marks)
- b) Determine the equal end of the year payment necessary to amortize fully a Sh.600,000, 10% loan over 4 years. Assume payment is to be rendered:
 - (i) Annually (4 marks)
 - (ii) Semi-annually (4 marks)

QUESTION TWO (15 MARKS)

XYZ Limited currently purchases all its raw materials on credit and sells its merchandise on credit. The credit terms extended to the firm currently requires payment within thirty days of a purchase while the firm currently requires its customers to pay within sixty days of a sale. However, the firm on average takes 35 days to pay its accounts payable and the average collection period is 70 days. On average, 85 days elapse between the point a raw material is purchased and the point the finished goods are sold.

Required:

- a) Discuss why working capital management is important to a firm (7 marks)
- b) Determine the cash conversion cycle and the cash turnover. (8 marks)

QUESTION THREE (15 MARKS)

- a) Firm owners prefer wealth maximization over profit maximization as the major operational goal of the firm' Discuss (5 marks)
- b) Analyse the distinguishing features between Debt Capital and Equity Capital of a firm structure (10 marks)

QUESTION FOUR (15 MARKS)

- a) Discuss the various approaches to capital structure theory: (6 marks)
- b) ABC Ltd belongs to a risk class for which the appropriate capitalization rate is 10%. It currently has outstanding 5000 shares selling at Kshs: 100 each. The firm is contemplating the declaration of dividend of Kshs: 6 per share at the end of the current financial year. The company expects to have net income of Kshs: 50,000 and has a proposal for making new investments of Kshs: 100,000.

Required:

Show that under the MM hypothesis, the payment of dividend does not affect the value of the firm. (9 marks)

QUESTION FIVE (15 MARKS)

- a) Examine the yardsticks used in ratios analysis. (4 marks)
- b) Space Rocket Company had Earnings Before Income and Tax (EBIT) of Kshs: 50 million for the current financial year and an EBIT of Kshs: 40 million for the previous fiscal year, or a 25 percent increase year over year (YOY). Space Rocket Limited reported sales of kshs: 80 million for the current fiscal year and sales of Kshs: 65 million for the previous fiscal year, a 23.08 percent increase. Additionally SpaceRocket reported an Earning Per Share (EPS) of Kshs: 2.50 for the current fiscal year and an EPS of Kshs: 2 for the previous fiscal year, a 25 percent increase.

Required:

- i) Degree of Operating Leverage (DOL) (3 marks)
- ii) Degree of Financial Leverage (DFL) (3 marks)
- iii) Degree of Combined Leverage (DCL) (3 marks)
- iv) What percent change in EPS would be if Space Rocket's sales changed by 1 percent. (2 marks)

QUESTION SIX (15 MARKS)

- a) Discuss the concept of "rate of interest" in the context of financial decisions. (4 marks)
- b) The Mentala Plastics Company has been dumping in the local council waste collection Centre some 30,000 Kg. of unusable chemicals each year. In addition to being an eyesore, the residents of a nearby estate have started complaining of bad odor emanating from the dump and suspect that the company is to blame. The company has received information that these chemicals can be recycled at relatively little cost. The equipment to do it is however rather expensive and, in addition, the chemicals recovered are of a relatively poor quality. Investigations have shown that these chemicals can be sold to another firm at an average price of Sh.35 per Kg. The direct cost of recycling has been calculated at Sh.15 per Kg. but this is before depreciation and taxes. The equipment for this process has an

expected life of 10 years and a current cost of Sh.2 million. At the end of the ten years, it will be virtually worthless. For financial analysis, the company uses the straight line method of depreciation and an average tax rate of 40%. It has a required rate of return of 15%.

Required:

- i. Compute the project's net present value (N.P.V). (3 marks)
- ii. Compute the payback period and the accounting rate of return. (3 marks)
- iii. Compute the internal rate of return (IRR). (3 marks)
- iv. Should this project be undertaken? Explain. (1 mark)
- v. Are there any other important matters that the company should consider in evaluating this project? (1 marks)