MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

***THIRD* YEAR *FIRST* SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 310**

**COURSE TITLE:** **BUSINESS FINANCE**

**DATE: 24TH FEBRUARY 2017 TIME: 11-13 HOURS**

**INSTRUCTIONS TO CANDIDATES**

Answer Question **ONE** and any other **THREE** questions

*This paper consists of* ***THREE*** *printed pages. Please turn over.*

**QUESTION ONE**

1. Define agency relationship in the context of a public limited company and briefly explain how this arises. **(4 marks)**
2. Discuss the various causes of agency problems between the owners and management on one hand and the bond holders on the other. **(6 marks)**
3. Highlight the various measures that would minimize agency conflict between the owners and the bond holders. **(7 marks)**
4. Firms can either use debt or equity capital to finance their investments. Even then, when using debt capital, a company must be cautious. Discuss considerations that a company takes into account when deciding to use debt finance. **(8 marks)**

**QUESTION TWO**

1. Discuss the meaning of cost of finance. **(1 mark)**
2. Discuss reasons why you think the computation of cost of finance is necessary. **(8 marks)**.
3. Outline factors that influence the cost of finance for corporate bodies.

**(8 marks)**

**QUESTION THREE**

The following is the capital structure of company ABC as at 31/12/2015.

|  |  |
| --- | --- |
| Ordinary share capital Sh.10 par value  Retained earnings  10% preference share capital Sh.20 par value  12% debenture Sh.100 par value | Sh.‘’000”  400,000  200,000  100,000  200,000  900,000 |

**Additional information**

1. Corporate tax rate is 30%

2. Preference shares were issued 10 years ago and are still selling at par value MPS = Par value

3. The debenture has a 10 years’ maturity period. It is currently selling at Sh.90 in the market.

4. Currently the firm has been paying dividend per share of Sh.5. The DPS is expected to grow at 5% p.a. in future. The current MPS is Sh.40.

**Required**

a) Compute the cost of each capital component. **(6 marks)**

b) Determine the WACC of the firm**. (6 marks)**

c) Outline the weaknesses associated with WACC when used as the discounting rate, in project appraisal. **(3 marks)**

**QUESTION FOUR**

Panda Limited is considering the purchase of a new machine for its production process. Two alternative machines, Slower and Faster, which will cost Sh.6,000,000 and Sh.7,000,000 respectively are available in the market. The anticipated cash flows after taxation of each machine are as follows:

|  |  |  |
| --- | --- | --- |
|  | **Cash flow** | |
| **Year** | **Slower** | **Faster** |
| 1  2  3  4  5 | 600,000  1,800,000  2,000,000  3,000,000  2,400,000 | 1,800,000  2,400,000  3,000,000  1,800,000  1,600,000 |

**Required;** Assuming the cost of capital is 10%, for each machine compute;

1. Payback period **(2 marks)**
2. Compute the net present value of each machine. **(4 marks)**
3. Internal rate of return (IRR) **(4 marks)**
4. Profitability Index. **(2 marks)**
5. Assuming the machines were mutually exclusive which one would you select and why? **(3 marks)**

**QUESTION FIVE**

1. Explain the benefits that are enjoyed by investors because of the existence of an organized security changes. **(6 marks)**
2. Briefly describe the benefits of the Central Depository System (CDS) to the following parties;
3. The government **(2 marks)**
4. The Capital Markets Authority (CMA). **(2 marks)**
5. Investors. **(2 marks)**
6. Explain factors that have influenced shares prices in the Kenyan economy over time. **(3 marks)**

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MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

***FOURTH YEAR* *FIRST* SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 410**

**COURSE TITLE:** **FINANCIAL MANAGEMENT**

**DATE: 27TH FEBRUARY 2017 TIME: 14-16 HOURS**

**INSTRUCTIONS TO CANDIDATES**

Answer Question **ONE** and any other **THREE** questions

*This paper consists of* ***THREE*** *printed pages. Please turn over.*

**QUESTION ONE**

1. In most cases the finance manager spends most of his time making managerial finance decisions as opposed to routine functions. Discuss this statements in the context of corporate entities. **(10 marks)**
2. Managers and shareholders are important parties associated to corporate bodies. Within a financial management context, discuss the problems that might exist in the relationship between shareholders and managers, and discuss how a corporate might attempt to minimize such problems. **(15 marks)**

**QUESTION TWO**

An investor forecasts project’s annual cash flows of Sh. 36,000 and an initial cost of Sh. 150,000. The useful life of the project is 10 years. The cash flows are further broken as shown below:

Revenue 375,000

Variable costs 300,000

Fixed costs 30,000

Depreciation 15,000 345,000

Before tax profit 30,000

Tax (30%) 9,000

After tax profits 21,000

Add back depreciation 15,000

Net annual cash flows 36,000

Assume that the variables used in the forecasts are as follows:

1. Unit price.
2. Unit variable costs.
3. Fixed costs

Assume further that the pessimistic, expected and optimistic estimates are:

***Variable Pessimistic Expected Optimistic***

Unit price (Sh.) 3,500 3,750 3,800

Unit variable costs (Sh.) 3,600 3,000 2,750

Fixed costs (Sh.) 40,000 30,000 20,000

**Required**; Assuming the cost of capital is 10% and depreciation method adopted is straight line;

1. Determine expected NPV of the project. **(2 marks)**
2. Rank the variables in terms of their sensitivity to forecasted cash flows. **(13 marks)**

**QUESTION THREE**

Eurobond Ltd is considering three possible capital projects for next year. Each project has a 1-year life, and project returns depend on next year’s state of the economy. The estimated rates of return are shown in the table below:

State of the Probability Rate of Return

economy of occurrence A B

Recession 0.25 10% 9%

Average 0.50 14 13

Boom 0.25 16 18

**Required:**

i. Compute each projects expected rate of return **(4 marks)**

ii. Compute the variance and standard deviation of each project*.* **(6 marks)**

iii. Compute the co-efficient of variation for each project**(2 marks)**

iv. Which is a better project and why?**(3 marks)**

**QUESTION FOUR**

ABC is contemplating to invest in a project whose initial cost is Sh. 28,000,000 and additional capital of Sh. 1,500,000 on the first day of year three. The project promises the following uncertain cash flows.

|  |  |  |
| --- | --- | --- |
| Year | Uncertain cash flow | Certainty equivalent coefficient |
| 1 | 10,100,000 | 0.95 |
| 2 | 13,200,000 | 0,75 |
| 3 | 11,400,000 | 0.45 |
| 4 | 5,200,000 | 0.25 |

1. If the risk-free discount rate is 12% compute the NPV of the project and advice the firm whether it is worth undertaking the project. **(7 marks)**
2. Show whether your advice would change if certainty equivalent was not incorporated in the decision making process. **(4 marks)**
3. Outline the weaknesses and strengths of certainty equivalent as used in project appraisals. **(4 marks)**

**QUESTION FIVE**

Company X and Y are in the same risk class and are identical in every respect except that Company X is geared while Y is not. Company X has Sh 6 million in 5% bonds outstanding. Both companies earn 10% before interest and taxes on their Sh 10 million total assets. Assume perfect capital markets, rational investors, a tax rate of 30% and a capitalization rate of 10% for an all equity company.

**Required:**

a) Compute the value of firms X and Y using the net income (NI) approach and Net operating income (NOI) approach. **(5 marks)**

b) Using the NOI approach, calculate the after tax weighted average cost of capital for firms X and Y. Which of these firms has the optimal capital structure according to NOI approach and why? **(6 marks)**

c) According to the NOI approach, the values of firms X and Y computed in (a) are not in equilibrium. Assuming that you own 10% of X's shares, show the process which will give you the same amount of income but at less cost. At what point would this process stop? **(4 marks)**

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**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

***THIRD YEAR* *FIRST* SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF HUMAN RESOURCE MANAGEMENT**

**COURSE CODE: BHR 305**

**COURSE TITLE:** **FINANCIAL MANAGEMENT**

**DATE: 23RD FEBRUARY 2017 TIME: 08-10 HOURS**

**INSTRUCTIONS TO CANDIDATES**

Answer Question **ONE** and any other **THREE** questions

*This paper consists of* ***FOUR*** *printed pages. Please turn over.*

**QUESTION ONE**

1. The finance manager in most cases takes a lot of time making managerial finance decisions compared to routine finance ones. Discuss this statement in the context of corporate bodies. **(10marks)**
2. What is the meaning of cost of finance?  **(1 mark)**
3. Discuss reasons, why in your view you think the analysis of cost of finance is imperative in financial matters of corporate firms. **(6 marks)**
4. “Budgeting and budgetary control is a waste of time for the management of companies”. Discuss. **(8 marks)**

**QUESTION TWO**

The summarized accounts of Tukopamoja Ltd. for the year ended 31 March 2013 and 2014 are as follows:

**2013 2014**

**Balance Sheet** **Sh. ‘000’ Sh. ‘000’**

Investments at cost 16,000 16,000

Land 12,600 8,800

Plant and machinery, at cost 2,200 2,000

Buildings, at cost 18,000 10,000

Stock 13,000 11,000

Debtors 10,000 8,000

Bank -\_\_\_ -\_\_

71,800 50,400

Ordinary shares Sh.20 each 10,000 8,000

Share premium 2,800 2,600

Revaluation reserve 4,000 5,000

Profit and Loss Account 5,000 5,000

10% Debentures 30,000 20,000

Accumulated Depreciation:

Plant and machinery 1,000 800

Building 2,200 2,200

Creditors 12,000 8,000

Proposed dividend 4,000 4,000

Bank 800 -\_\_

71,800 50,400

**Profit and Loss Account::**

Sales 40,000 40,000

Cost of Sales 24,000 20,000

16,000 20,000

Expenses 12,000 12,000

4,000 8,000

Dividends 4,000 4,000

- 4,000

Balance brought forward 5,000 1,000

Balance carried forward 5,000 5,000

**Required:** Determine for Tukopamoja Ltd. for 2013 and 2014 the following ratios:

1. Gross profit percentage
2. Net profit percentage
3. Debtors turnover
4. Creditors turnover
5. Current ratio
6. Acid test ratio
7. Gearing ratio
8. Return on capital employed **(15 marks)**

**QUESTION THREE**

Waiguru Ltd is considering three possible capital projects for next year. Each project has a 1-year life, and project returns depend on next year’s state of the economy. The estimated rates of return are shown in the table:

State of the Probability Rates of Return

economy of occurrence X Y Z

Recession 0.2 11% 10% 14%

Average 0.65 15% 13% 12%

Boom 0.25 17% 18% 10%

**Required:**

i. Compute each projects expected rate of return. **(3 marks)**

ii. Compute the variance and standard deviation of each project. **(9 marks)**

iii. Compute the co-efficient of variation for each project.**(3 marks)**

iv. Which is a better project? Why?**(1 marks)**

**QUESTION FOUR**

Nasa Limited has approached you for advice on an equipment to be purchased for use in a five year project.

The investment will involve an initial capital outlay of Sh. 1.4 million and the expected cash flows are given below:

|  |  |  |
| --- | --- | --- |
| **Year** | **Cash inflows** | **Cash outflows** |
|  | Shs. | Shs. |
| 1 | 800,000 | 65,000 |
| 2 | 750,000 | 80,000 |
| 3 | 900,000 | 50,000 |
| 4 | 1,200,000 | 55,000 |
| 5 | 1,100,000 | 70,000 |

The has a nil residual value and the cost of capital is 12% ..

**Required:**

1. The payback period **(2 marks)**
2. The net present value (NPV) of the investment. **(6 marks)**
3. The internal rate of return. **(6 marks)**
4. Make a comment about investment in the project.  **(1 mark)**

**QUESTION FIVE**

1. Project X promises the following cash flows over its useful life of 4 years. The abandonment values have also been given.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 0 | 1 | 2 | 3 | 4 |
| Cash flow | (4,890,000) | 2,200,000 | 1,500,000 | 1,290,000 | 500,000 |
| Abandonment value | 4,900,000 | 3,100,000 | 1,700,000 | 200,000 | 0 |

Required: advice the investor whether the project should be held for its entire useful life assuming a discount rate of 10%. **(9 marks)**

1. Discuss the circumstances under which abandonment, as a project appraisal technique is applicable in real life situations highlighting its weaknesses and strengths. **(6 marks)**

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