



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2012/2013

FIRST YEAR FIRST SEMESTER EXAMINATIONS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (HOMA BAY CAMPUS)

MBA 811: FINANCIAL MANAGEMENT

Date: 27th July, 2013

Time: 2.00 – 5.00 p.m.

INSTRUCTIONS:

1. Answer ANY FOUR questions.
2. All questions carry equal marks.
3. Show all your workings.
4. Do not write on the question paper.

QUESTION ONE

- (a) Explain the significance of financial forecasting in a business decision making process.
(5 marks)
- (b) Discuss the reasons motivating the increasing interest in corporate governance.
(6 marks)
- (c) Identify the benefits of good corporate governance to shareholders.
(4 marks)

QUESTION TWO

- a) Explain the importance of sound liquidity management decisions in a modern enterprise.
(6 marks)
- b) The executive director of Homa Ltd has circulated the following information as part of board paper:

Homa Ltd.
Financial Performance for the year ended 31 March:

	1999	1998
i) Return on investment	12%	10%
ii) Gross profit on sales	25%	20%
iii) Number of days credit given	30 days	45 days
iv) Administrative cost of sales	7%	10%

Required:

Brief report on each of the above 4 ratios indicating the reservation, if any, you may have or judging them as improvement in performance.
(9 marks)

QUESTION THREE

- a) Explain how portfolio involving two investments may be analyzed on the basis of risk and return statistics.
(9 marks)
- b) As a portfolio analyst at MBA Limited you are conducting an analysis of four alternative investment projects. Each project has a holding period of one year. The estimated rates of return for three alternative states of the economy are shown in the table below:

State of the Economy	Probability of each state occurring	Rate of return if state occurs			
		A	B	C	M
Recession	0.2	10	6	22	5
Average	0.6	10	11	14	15
Boom	0.2	10	31	-4	25

Required:

Calculate and interpret the expected return and standard deviation of each investment.

(6 marks)

QUESTION FOUR

- a) Discuss the importance of capital budgeting decisions in a business organization listed on an organized securities exchange market. (9 marks)
- b) ABC Ltd. is considering the following two mutually exclusive projects.

	Project X	Project Y
Investment outlay	Kshs.110,000	Kshs.110,000
Cash inflows		
Year 1	31,000	71,000
Year 2	40,000	40,000
Year 3	50,000	40,000
Year 4	70,000	20,000

The cost of capital associated with this firm is 10 % per annum.

Required:

Carry out financial feasibility analysis of the projects on the basis of:

- i. Net Present Value. (3 marks)
- ii. Profitability Index (3 marks)

QUESTION FIVE

- (a) Explain any five actions or transactions by branch office management that could be harmful to the interests of head office management. (5 marks)
- (b) Write short notes on any five actions that shareholders may use to protect their wealth from management raids. (5 marks)
- (c) Discuss the significance of financial ratio analysis to a financial manager of a firm operating in a turbulent environment. (5 marks)

QUESTION SIX

- a) Discuss any six factors determining capital structure decisions of a limited liability company. **(6 marks)**
- b) The following is the balance sheet of XYZ Ltd as at 31st December 2008:

	Kshs.'000'
Net fixed asset	300
Current assets	<u>100</u>
	<u>400</u>
Financed by:	
Ordinary share capital	100
Retained earnings	70
10% debentures	150
Trade creditors	50
Accrued expenses	<u>30</u>
	<u>400</u>

Additional Information:

1. The sales for year 2008 amounted to Kshs.500, 000. The sales will increase by 15 % during year 2009 and 10 % during year 2010.
2. The after tax return on sales is 12 % which shall be maintained in future.
3. The company's dividend payout ratio is 80 %. This will be maintained during forecasting period.
4. Any additional financing from external sources will be affected through the issue of commercial paper by company.

Required:

Determine the amount of external financing for 2 years up to 31st December 2010.

(9 marks)