MUEO

MOI UNIVERSITY

OFFICE OF THE DEPUTY VICE CHANCELLOR
(ACADEMICS, RESEARCH & EXTENSION)

UNIVERSITY EXAMINATIONS
2024/2025 ACADEMIC YEAR

SECOND SEMESTER EXAMINATION

FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

COURSE CODE: MBA 811

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 1ST APRIL , 2025 **TIME:** 9.00 A.M. – 12.00 NOON.

INSTRUCTION TO CANDIDATES

- SEE INSIDE.

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MBA811: FINANCIAL MANAGEMENT

INSTRUCTIONS: ANSWER ANY FOUR QUESTIONS

QUESTION ONE

Kiboko Ltd. has the following capital structure as at 31st March 2020

	Kshs.
Ordinary Share capital (400,000 shares)	16,000,000
10% preference shares	2,000,000
Bonds(Coupon 14%)	14,000,000

Additional information:

(i) The firm paid a dividend of Kshs.4 for each ordinary share for the year ended 31/3/2020
(ii) The annual growth rate in dividend is 7%
(iii) The corporation tax rate is 30%

Required:

Complete the Weighted Average cost of capital (WACC) of the firm as at 31st March 2020 ***(15mks)***

(TOTAL 15 Marks)

QUESTION TWO

(a) Discuss in detail the THREE main functions of a finance manager **(9mks)**

(b) It is believed that the goal of the firm is to maximize profits. However, profit maximization faces a number of challenges. Discuss in detail, THREE short comings of profit maximization as a goal of the firm. **(6mks)**

(TOTAL 15 Marks)

QUESTION THREE

AgroChem Ltd. a large stock-exchange-listed company, is evaluating an investment proposal to manufacture Weed Killer, which has performed well in test marketing trials conducted recently by the company's research and development division. The product will be manufactured from AgroChem's factory. It is expected that all units of the product produced will be sold, in line with the company's policy of keeping no inventory of finished goods.

Year	1	2	3	4
Demand (units)	60,000	70,000	120,000	45,000

The following information relating to this investment proposal has now been prepared and is as below:

	Ksh.
Initial investment	200 million
Selling price per unit	2000
Variable Operating Cost (per unit)	800

$r = FV \frac{1}{(1+r)^n}$

Fixed cost (per year)	17m
Discount Rate	10%

No terminal value or machinery scrap value is expected at the end of four years, when production is planned to end.

Required:
Calculate the following values for the investment proposal:
(i) Net present value **(8marks)**
(ii) Internal rate of return **(7marks)**
(TOTAL 15 Marks)

QUESTION FOUR

The ordinary shares of Slavmax LTD. have a nominal value of Ksh.25 per share. The current ex-dividend share price on the Nairobi Securities Exchange is Ksh.95/share which the company expects to grow at 5% per year for the foreseeable future. Kenyan treasury bills currently pay 3%. Total shareholder returns (dividends and price appreciation) on the NSE20 SHARE index have averaged 14% over the last 5 years. The equity beta of Slavmax is 0.95.
Calculate Slavmax's cost of equity capital as implied by the Capital Asset Pricing Model.

(TOTAL 15 Marks)

QUESTION FIVE

Discuss the following theories of capital structure:

i. Trade-off (5marks)
ii. Pecking order (5marks)
iii. Modigliani-Miller (5marks)
(TOTAL 15 Marks)