



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS

MASTER IN BUSINESS ADMINISTRATION

COURSE CODE: MBA 8101

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 20/4/2023

TIME: 0830-1030 HRS

INSTRUCTIONS TO CANDIDATES

Question **ONE** is compulsory

Answer any other **Two Questions**

QUESTION ONE

a. Discuss the main differences between Capital Asset Pricing Model (CAPM) and Arbitrage model (APT). **(8 marks)**

b. ZYZ PLC have identified four assets in the market, with the following details: -

Probability/ Occurrence	Returns			
	Assets	Assets	Assets	Assets
	<u>Eastern</u>	<u>Western</u>	<u>Northern</u>	<u>Southern</u>
0.1	10%	6%	14%	2%
0.3	10%	8%	12%	6%
0.4	10%	10%	10%	9%
0.2	10%	12%	8%	15%

Required: -

- i. Compute the expected return and standard deviation of each asset. **(5 marks)**
- ii. Determine covariance of asset: -
 - a. Eastern and Western. **(2 marks)**
 - b. Western and Northern. **(2 marks)**
 - c. Northern and Southern. **(2 marks)**
- iii. Compute correlation coefficient of the combination of assets in ii. b above. **(5 marks)**
- c. Explain why mergers and acquisitions may fail to work in some cases. **(6 marks)**

QUESTION TWO

- a. With relevant illustrations discuss: -
 - i. Systematic risk **(3 marks)**
 - ii. Unsystematic risks **(3 marks)**
 - iii. Bonus shares. **(3 marks)**
 - iv. Rights issues **(3 marks)**
- b. Fitness PLC is evaluating an investment opportunity that would require an outlay of Ksh. 100 million. The annual net cash in-flows are estimated to vary according to economic conditions: -

Economic	Probability	Cash flows
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conditions		Kshs. 'Millions'
Very good	0.15	30
Good	0.45	28
Fair	0.30	24
Poor	0.10	23

The project's life span is six years with Fitness PLC having a 14% required rate of return: -

Required: -

- i. Compute expected net present value (NPV) of the proposed investment. **(6 marks)**
- ii. Advise Fitness PLC management of this investment. **(2 marks)**

QUESTION THREE

a) Explain the following terms:

- i. Operating lease. **(2 marks)**
- ii. Financial Lease. **(2 marks)**
- iii. Sale and lease back. **(2 marks)**

b) Define the following terminologies as used in capital budgeting:

- i) Independent projects **(1 mark)**
- ii) Conventional cash flow projects **(1 mark)**
- iii) Economic value added **(1 mark)**

c) Maji Moto Ltd. is planning to invest in a project valued at sh. 200,000. The life cycle of the project is 4 years and has the following information.

Year	Revenue (Sh.)	Expenses (Sh.)
1	155,000	55,000
2	130,000	40,000
3	100,000	60,000
4	70,000	50,000

Use the Net Present Value (NPV) to determine the acceptability of the project at a discount rate of 15%. **(6 marks)**

d) In evaluating investment decisions, cash flows are considered to be more relevant than profitability associated with the project. Explain why this is the case. **(5 marks)**

QUESTION FOUR

a) Discuss the agency problem. **(6 Marks)**

- b) Explains the measures you will undertake to minimize agency problems. **(6 marks)**
- c) What are the distinguishing features between shareholders' wealth maximization and profit maximization in a firm you are familiar with? **(8 marks)**

QUESTION FIVE

- a) Discuss the assumptions under the dividend relevance model. **(4 marks)**
- b) As a financial manager, you have come across three companies with the following data:

Company	A	B	C
r	0.08	0.10	0.15
k	0.10	0.10	0.10
EPS Shs)	10	10	10

Required to calculate value per share when payout ratio is:

- i. 40%. **(8 marks)**
- ii. 80%. **(8 marks)**

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MAASAI MARA UNIVERSITY

OFFICE OF THE REGISTRAR (ACADEMIC AFFAIRS)

COURSE OUTLINE FORM

1. SCHOOL: ECONOMICS DEPARTMENT: BUSINESS

2. COURSE CODE/TITLE: **MBA 8101 FINANCIAL MANAGEMENT**

3. COURSE DESCRIPTION:

The investment functions; Current assets, Cash Receivables, Fixed Assets, Purchasing, hire purchase and leasing. The Financial Functions, Capital structure, Capital Market, The cost of capital. The Dividend Functions; Declaration, Long Term Policy Decision, Simulation, Budgeting, International Aspects of finance.

4. COURSE OBJECTIVES:

The Purpose of this course is to ensure that the candidate is competent and up-to-date in theories and practice of financial management and financial functions. It is also meant to give the students thorough understanding of finance and the management of financial decisions in the business.

By the end of the course the learners should be able to:

- 1) Interpret trends in financial management fields.
- 2) Design and implement financial management systems.
- 3) Guide management on dividend policies, their rationale and impact on value of the firm.
- 4) Evaluation of investment alternatives open to a firm and choosing the best available.

5. LECTURER NAME: **Dr. Caleb Manyaga**_TEL.0721489589 SIGNATURE: _____ DATE: _____

6. CLASS REP. NAME: **Resian Tamoooh**..TEL0791409819. SIGNATURE: _____ DATE: _____

Investment Function

- 1.0 Introduction
- 1.1 Current Assets
- 1.2 Cash Receivables
- 1.3 Fixed Assets
- 1.4 Hire purchase and leasing

2 The Financial Function

- 2.0 Introduction
- 2.1 Capital structure
- 2.2 Capital Market
- 2.3 The cost of capital

3 The Dividend Function

3.0 Introduction

3.1 Declaration

3.2 Long Term Policy Decision

4 Simulation

4.0 Monte Carlo Simulation

4.1 The General Methodological Approach

5 Budgeting

5.0 Capital Budgeting

5.1 Methods of Budgeting

6 International Aspect of Finance

6.0 Foreign Exchange

6.1 International Parity Relations

6.2 International Fisher Effect

7. ASSESSMENT STRATEGY:

Course work-Two Continuous Assessment Tests (CATs)	40%
Final examination	60%
Total	100%

8. REFERENCES:

CORE READING MATERIAL FOR THE COURSE

- 1) Sharpe W. (1970), portfolio theory and capital market
- 2) Glen Anald (2002), corporate finance management, prentice England
- 3) Pikt Richard (1993) corporate finance and investment decisions, New York Printice Hall
- 4) Lumby Steve (2003) theory and practice, London. Thomson
- 5) Pandey (2002) Financial management, Agra
- 6) Financial management (sixth revised edition) by L.M. PANDEY
- 7) Principles of financial management by R. SHARMA
- 8) Fundamentals of financial management by SAUMITRA N. BHADURI

Recommended Reference Materials

Pandey L.M. (2005) financial management Vikas Publishing House PVT ltd

Lawrence j. Giaman principles of managerial Finance 4th edition.

9. HEAD OF DEPARTMENT-----SIGNATURE: -----