



KISII UNIVERSITY
UNIVERSITY EXAMINATIONS

FIRST YEAR EXAMINATION FOR THE AWARD OF THE DEGREE OF
MASTER OF PHILOSOPHY IN BUSINESS ADMINISTRATION
SECOND SEMESTER, 2021/2022
(JUNE-SEPTEMBER, 2022)

MBAD 731: FINANCIAL MANAGEMENT

STREAM: Y1 S2

TIME: 3 HOURS

DAY: FRIDAY, 9:00-12:00 PM

DATE: 14/10/2022

INSTRUCTIONS

- 1. Do not write anything on this question paper.***
- 2. Answer Question ONE and any other THREE Questions.***

QUESTION ONE

- Any business firm would have certain objectives which it aims at achieving. Discuss the major goals of a firm (15marks)
- Briefly discuss the major finance managerial functions of an organization. (5marks)
- Discuss the agency theory as played out in business organizations across the world. (5marks)

QUESTION TWO

A company is considering two mutually exclusive projects requiring an initial cash outlay of Sh 100,000 each and with a useful life of 10 years. The company required rate of return is 15% and the appropriate corporate tax rate is 30%. The projects will be depreciated on a straight line basis. The before depreciation and taxes cashflows expected to be generated by the projects are as follows.

YEAR	1	2	3	4	5
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Project A Shs	24,000	24,000	24,000	24,000	24,000
Project BShs	26,000	23,000	22,000	25,000	25,000

REQUIRED:

Calculate for each project

- i. The payback period
- iii. The net present value
- iv. Profitability index
- ii. The average rate of return

Which project should be accepted? Why? (15marks)

QUESTION THREE

Consider two investments A & B each having the following characteristics:

<i>Investment</i>	<i>Expected Return (%)</i>	<i>Proportion</i>
A	17.3	1/3
B	25.3	2/3

REQUIRED:

Compute the portfolio standard deviation if the correlation coefficient between the assets is

- a. 1
 - b. 0
 - c. -1
- (15marks)

QUESTION FOUR

- a) In recent times in Kenya, we have seen one company acquire another, the most recent ones being NIC and CBA, KCB and NBK, discuss the reasons and benefits that arise from such mergers. (10marks)
- b) Discuss the Pros and Cons of capital budgeting decisions in an organization. (5marks)

QUESTION FIVE

- a) Cash is one of the key components of current assets of an organization, discuss the motives for holding cash in an organization. (5marks)

b) Describe the concept of Zero Working Capital in working capital management
(10marks)