



MURANG'A UNIVERSITY OF TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF HUMAN RESOURCE

UNIVERSITY POSTGRADUATE EXAMINATION

2017/2018 ACADEMIC YEAR

**FIRST YEAR FIRST SEMESTER EXAMINATION FOR MASTER OF
BUSINESS ADMINISTRATION**

BCF 608: FINANCIAL MANAGEMENT

DURATION: 3 HOURS

DATE: 3RD MAY, 2018

TIME: 9.00 A.M. – 12.00 NOON

Instructions to Candidates:

1. Answer **Any Four** questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

QUESTION ONE

The following financial statements for Murang'a Trading Company and Maragwa Ltd were published in the local dailies.

Statement of financial position as at 31.12.17

	Murang'a Trading Co.	Maragwa Ltd
Total current assets	14,000,000	10,000,000
Total non-current assets	<u>10,000,000</u>	<u>5,000,000</u>
	<u>24,000,000</u>	<u>15,000,000</u>
Financed by:		
Equity capital	10,000,000	8,000,000
Returned earning	2,000,000	-
14% long term debt	5,000,000	3,000,000
Current liabilities	<u>7,000,000</u>	<u>4,000,000</u>
	<u>24,000,000</u>	<u>15,000,000</u>

Statement of comprehensive income for the period ending 31.12.17

	Murang'a Trading Co.	Maragwa Ltd
Sales	34,500,000	17,000,000
Cost of goods sold	<u>27,600,000</u>	<u>13,600,000</u>
G. Profit	<u>6,900,000</u>	<u>3,400,000</u>
Operating expense	2,000,000	1,000,000
Interest	700,000	420,000

	Murang'a Trading Co.	Maragwa Ltd
<u>Additional information:</u>	40%	60%
Dividend pay out ratio	100,000	80,000
No. of equity shares	400	150
Market price per share		

Murang'a Trading Co. and Maragwa Ltd are in the process negotiations merger through an exchange of equity shares that have been assigned to establish an equitable exchange terms by

- Assessing the share prices of Murang'a Trading Co. and Maragwa Ltd into EPs P/E

(3 marks)

- ii. Segregating the EPs into return on equity and book value per share components (3 marks)
- iii. Estimate the future EPs growth rate for Murang’a Trading Co. and Maragwa Ltd (4 marks)
- iv. Suppose Murang’a Trading Co. offers that Maragwa Ltd’s intrinsic value is Sh.200 per share on acquisition, develop a range of justifiable share exchange ratios that can be offered by Murang’a Trading Co. to Maragwa Ltd (2 marks)
- v. Based on your analysis (I, ii, iii, iv), where do you expect the negotiated terms to a closer? Why? (3 marks)

QUESTION TWO

Your friend has been appointed a member of the Board of Directors of Murang’a Investment Bank, in his first meeting of the board, he realizes that he is not the only one from non business background, in fact he establishes that the entire board apart from the CEO comprises of graduates from diverse backgrounds hence they are not clear on the objectives and scope of financial management. However, he prides that you are currently pursuing your MBA at MUT, therefore invites you to address the following:

- (a) Objectives of financial management using appropriate examples (5 marks)
- (b) Scope of financial management (5 marks)
- (c) Agency theory (5 marks)

QUESTION THREE

The following is a statement of financial positions of A Ltd as at 31.12.2017.

Land	150,000,000
Plant	150,000,000
Inventory	80,000,000
A/c receivable	10,000,000
Cash	<u>10,000,000</u>
	400,000,000
Financed by:	
Equity share capital	100,000,000
Retained earnings	70,000,000
10% debt capital	150,000,000
Creditors	50,000,000
Accounts payable	<u>30,000,000</u>
	<u>400,000,000</u>

Additional information:

- i. Sales for 2017 amounted to 500,000,000, sales are expected to increase in 2018 and 2019 by 15% and 10% respectively.
- ii. The after tax return on sales is 20% which shall be maintained in future.
- iii. The company's dividend payout ratio is 80%. This will be maintained during the forecasting period.
- iv. Any additional financing from external sources shall be effected through issue of preference share capital.

Required:

- (a) Determine the amount of external finance for the two years up to 31.12.2019. (8 marks)
- (b) Prepare a proforma statement of financial position as at 31.12.2019. (7 marks)

QUESTION FOUR

- (a) Discuss four determinants of capital structure (7 marks)
- (b) Explain the different capital structure theories (8 marks)

QUESTION FIVE

- (a) Discuss five factors that a finance manager needs to consider while developing a dividend policy (10 marks)
- (b) Explain the different types of dividend policies that a company may adopt (5 marks)