



REFORMED CHURCH UNIVERSITY

FACULTY OF COMMERCE
MASTER OF BUSINESS ADMINISTRATION
MANAGERIAL FINANCE

MBA 203

PART 2 SEMESTER 1 EXAMINATION

TOTAL MARKS [100]

DATE: APRIL 2024

Time: 3 Hours

INSTRUCTIONS

1. This paper has *six (6)* questions
2. Answer question *one (1)* and *any* other *three (3)*
3. Each question carries *25 marks*
4. Start each question on a new page

Question 1

1. (a) Distinguish between:

(i) internal finance and external finance

(4 marks)

(ii) simple interest and compound interest

(3 marks)

(iii) Divisible and indivisible project

(3 marks)

(b) Examine factors that should be taken into account by a finance manager before investing excess cash in marketable securities.

(15 marks)

Question 2

(a) The following are the financial statements of TIGRESS Company.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

	2021	
	\$	\$
Sales		
Cash Sales	32 000	
Credit Sales	342 000	374 000
Less Cost of goods sold		236 000
Gross profit		298 000
Less: Operating expenses		
Warehousing	14 000	
Transport	10 000	
Administration	19 000	
Selling	14 000	57 000
Operating profit (EBIT)		19 000
Interest payable		3 000
Profit before tax		16 000
Income tax		2 000
Profit for the year		14 000

**STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31
DECEMBER 2021**

ASSETS	\$	\$
Fixed assets		
Machinery		40 000
Current Assets		
Cash at bank	82 000	
Receivable	7 000	
Stock	94 000	183 000
Total assets		223 000
EQUITY AND LIABILITIES		
Equity		
Share capital	75000	
Reserves and surplus	42 000	
Debentures	30 000	147 000
Liabilities		
Long-term liabilities	20 000	
Payables	56 000	76 000
Total equity and liabilities		223 000

Required:

Calculate:

- (i) Inventory turnover (2 marks)
- (ii) Debtor collection period (2 marks)
- (iii) Asset turnover (2 marks)
- (iv) Inventory turnover (2 marks)
- (v) Debt to asset ratio (2 marks)
- (vi) Interest coverage ratio (2 marks)
- (b) Examine the significance of working capital management (13 marks)

Question 3

Evaluate the following methods of raising capital:

- a) Equity financing (15)
- b) Preference shares (10)

Question 4

- (a) With the aid of an example, explain sensitivity analysis as a method of assessing risk (8)
- (b) Discuss the advantages and disadvantages of the payback period and net present value technique of capital budgeting. [17]

Question 5

- (a) The following table shows the probability distribution of TWO projects A and B.

Possible outcome	Probability	Project	
		A	B
Pessimistic	0.25	15%	8%
Most Likely	0.50	18%	25%
Optimistic	0.25	20%	18%

Calculate

- (i) The expected return for each project (4 marks)
- (ii) The variance for each project (4 marks)
- (iii) The standard deviation for each project (2 marks)
- (iv) Calculate the expected return of a portfolio given that an investor decides to split the portfolio equally between X and Y (3 marks)
- (b) (i) Explain the reasons against inventories (6 marks)
- (ii) Justify the management of inventories (6 Marks)

Question 6

- (a) (i) Distinguish between an ordinary annuity and an annuity due. (5 marks)
- (ii) Explain any two functions of money. (4 marks)
- (b) A firm borrows \$10 000 to be spread over 3 equal payments at the end of each of the next three years. The lender is to receive 6% on the loan balance that is outstanding at the beginning of each year.
 - (i) Find the annual instalment. (1 mark)
 - (ii) Prepare an amortization schedule for the company (15 marks)

END OF PAPER