



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH INFORMATION TECHNOLOGY

CITY CAMPUS -EVENING

ABA 439: FINANCIAL MANAGEMENT IN SUPPLY CHAIN MANAGEMENT

Date: 30th November, 2016

Time: 5.30 - 8.30pm

INSTRUCTIONS:

- Answer Question ONE (Compulsory) and any other THREE.



QUESTION ONE

- a) Explain what is entailed in financial management. (5marks)
- b) Contrast the traditional role of a finance manager and the modern role of a finance manager. (10marks)
- c) Show that the net present value of an investment proposal is given by;

$$NPV = \sum_{i=1}^n PVIF_{i,k} A_i \quad (10marks)$$

QUESTION TWO

- a) Discuss the agency conflict in the perspective of organizational financial management. (5marks)
- b) For a business firm show that earnings per share figures are a linear function of earnings before interest and taxes. (10marks)

QUESTION THREE

- a) Explain why capital budgeting decisions of a firm are considered significant in the life of the firm. (5marks)
- b) A company is considering the following investment projects;

Project	<u>Cashflow (sh)</u>			
	c_0	c_1	c_2	c_3
A	-10,000	+10,000		
B	-10,000	+17,000	+7,500	
C	-10,000	+12,000	+4,000	+12,000
D	-10,000	+10,000	+3,000	+13,000

Required:

Rank the projects according to the NPV method. (10marks)

QUESTION FOUR

a) Explain the basic motivation of capital rating. (5marks)

b) A firm has the following five indivisible projects. There is a limit of capital for this period of shs.150,000.

Project	Outlay	(sh)	NPV(sh)
A	80,000		15,000
B	50,000		15,000
C	60,000		25,000
D	50,000		23,000
E	30,000		8,000

Required:

Which project should be selected? (10marks)

QUESTION FIVE

a) Explain the following terms associated with investment finance:

- i) Capital structure of a firm (2marks)
- ii) Financial market. (2marks)
- iii) Capital market. (2marks)
- iv) Money market. (2marks)

b) Olivia projects is considering two naturally exclusive projects with different lives. The cost of the projects are given below:

Project	Cashflow(shs.0000)			
	c_0	c_1	c_2	c_3
X	150	30	30	30
Y	75	40	40	

The discount rate is 10% .

Required;

- Which project should be selected and why? (7marks)