PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE MASTERS IN BUSINESS ADMINISTRATION (MBA)

CAMPUS: ONLINE

DEPARTMENT: BUSINESS

COURSE CODE: MBA506

COURSE TITLE: FINANCIAL MANAGEMENT

EXAM DATE: NOVEMBER, 2025

TIME ALLOWED: 3HRS

INSTRUCTIONS

- Read the instructions and questions carefully before you write the answers.
- Write your **STUDENT NUMBER** in the Answer Booklet
- Answer ALL questions in Section A (Compulsory).
- Answer any ONE question in Section B.
- Cell Phones or smart watches are not allowed in the exam room. If you brought your cell phone or smart watch with you it must be switched off - **not** in silent mode - and stored away in your book bag.
- No digital or written or printed materials are allowed within your reach during the entire exam period.
- Time allocated - 3 Hours

SECTION A - ANSWER ALL QUESTIONS IN THIS SECTION

QUESTION ONE - 20 MARKS

WAYC Ltd Company, a medium-sized metal fabricator that is currently contemplating two projects: Project A requires an initial investment of $84,000, project B an initial investment of $90,000. The projected relevant operating cash inflows for the two projects are presented here below:

	PROJECT A	PROJECT B
	KES " 000"	KES " 000"
YEAR 1	24,000	28,000
YEAR 2	24,000	30,000
YEAR 3	24,000	20,000
YEAR 4	24,000	20,000
YEAR 5	24,000	20,000

Using a cost of capital of 12%, calculate the:

i. Payback Period for both projects (2 Marks)

ii. Net Present value for the two projects (4 Marks)

iii. Profitability Index for each of the project (2 Marks)

iv. Advice the Management of WAYC on the suitable investment to make out of the 2 proposed options (2 marks)

B. The following information was extracted from the books of ABC Ltd

	Scenario 1	**Scenario 2**
Debt Component	100000	300000
EBIT	150000	150000
After tax Cost of Debt	10%	10%
Cost of equity is 15%, and 20% for scenario 1 and 2 respectively the Rate of interest for for scenario 1and 2 is10% and 12% respectively		

I. Calculate the Earning before tax (2 Marks)

Ii. Calculate the Value of Equity (2 marks)

Iii. Calculate the Weighted average cost of capital (6 Marks)

SECTION B - ANSWER ANY THREE QUESTIONS IN THIS SECTION

QUESTION TWO - 10 MARKS

Under portfolio theory, the investors are expected to diversify their assets where the risks and the return on the assets are distributed under the portfolio

a. Describe the relevance of the diversifiable and non-diversifiable risk to a business (6 Marks)

b. Using an appropriate diagram, illustrate how a firm would appreciate and manage the systematic and unsystematic risk in a portfolio. (4 Marks)

QUESTION THREE - 10 MARKS

EVEC Ltd, an investor in factory machinery equipment manufacturer, plans to choose the better of two investments, A and B. Each requires an initial outlay of $10,000. The Management has made pessimistic and optimistic estimates of the returns associated with each investment as follows:

	Probability	**Returns**
ASSET A		
PESSIMISTIC	0.25	13
MOST LIKELY	0.5	15
OPTIMISTIC	0.25	17
ASSET B		
PESSIMISTIC	0.25	7
MOST LIKELY	0.5	15
OPTIMISTIC	0.25	23

a. Calculate the Expected Return on the Assets A and B (4Marks)
b. Calculate the Standard Deviation for Assets A and B (4 Marks)
c. Calculate the coefficient of variation for Assets A and B (2 Marks)

QUESTION FOUR - 10 MARKS

As the finance Manager of ADC Ltd. You have been approached by one of the employees - David, who intends to make investments towards his retirement. The employee suggests that he would like to set aside and invest KSH 100,000 per annum for the next 20 years. Using a discount rate of 10%. David wants to know how much the investment would be valued at after the 20 years of investment. Advice David on the planned investment

QUESTION FIVE - 10 MARKS

Different Capital Budgeting Techniques may suit different situations, objectives, and preferences of the investor. Identify at least Four capital budgeting techniques and explain why the investor would prefer to use each of them in their decision making on capital investments.