



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

**A. M. E. C. E. A**

**MAIN EXAMINATION**

**JANUARY - APRIL 2015 TRIMESTER**

**FACULTY OF COMMERCE**

**WRITTEN COMPREHENSIVE EXAMINATION**

**FINANCIAL MANAGEMENT**

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<b>Date: February 2015</b>	<b>Duration: 3 Hours</b>
<b>Instructions: Answer ALL FOUR Questions</b>	

Q1. Read the attached case of Trosoft LTD on Investment decision based on Adjusted Present Value and answer the following questions.

- a) Acting as an external consultant you have been asked to prepare a report on the proposed diversification of the company into internet actions. The report must include a revised financial analysis. You should use the adjusted present value method for this purpose.

Include in your report discussion of the limitations of the method used and other financial and non financial factors, including real options that Trosoft might consider prior to making the investment decision.

**(25 marks)**

Q2. Read the attached case of Blipton International on MRR and other Investment appraisal and answer the following question.

- a) Prepare a report for management to include the following:
- i) A six – year nominal dollar projection of the after tax cash flow for this project distinguishing between cash flows arising from its investments phase and those arising from its return phase.

**(12 marks)**

- ii) An estimate of the project's dollar net present value and the modified internal rate of return.

Note: You may use the following formula

$$\text{MIRR} = \left( \frac{PV_R}{PV_1} \right)^{\frac{1}{n}} \times (1 + r_e)^{-1}$$

When  $PV_R$  is the present value of the return phase of the project,  $PV$ , is the present value of the investment phase and  $V_e$  is the firm's cost of capital.

**(12 marks)**

- iii) An assessment of the viability of the project with a summary of the relative advantages and disadvantages of the Net Present Value and modified internal rate of return methods in investment appraisal.

**(12 marks)**

Q3. Read the attached case of OMNIRIT PLC on acquisition and answer the following questions:

- a) Discuss the advantages and disadvantages of organic growth and growth by acquisition.

**(7 marks)**

- b) Produce a report which evaluates which, if either of the two subsidiaries should be established by Omnikit. Use the net present value method for this evaluation.

**(18 marks)**

Q4. Read attached case of Your Company on Islamic Bond Markets and answer the following questions.

- a) Discuss the appropriateness of the proposal that the company should make use of the dim sum bond market and the Islamic bond markets as future sources of financing.

**(12 marks)**

- b) Discuss the origins of the European Sovereign Debt Crisis and its implications for many banks in the euro zone, and recommend measures that the company could take to reduce its exposure to 'bank risk'

**(13 marks)**

**\*END\***