



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

P.O. Box 62157
00200 Nairobi - KENYA
Telephone: 891601-6
Fax: 254-20-891084
E-mail: academics@cuea.edu

MAIN EXAMINATION

MAY – JULY 2015 TRIMESTER

FACULTY OF COMMERCE

MBA EVENING PROGRAMME

CFI 619: CASES IN FINANCIAL MANAGEMENT

Date: JULY 2015

Duration: 3 Hours

INSTRUCTIONS: Answer ANY FOUR Questions

- Q1. Read the attached case “Variety Enterprises Corporation” : “Capital Budgeting Decision” and answer Q1 and Q2. Below.
- a) Explain the concept of Weighted Average Cost of Capital (WACC) and its applications in capital budgeting decisions. **(7 marks)**
 - b) It may be difficult to estimate the cost of borrowing in a recessionary environment. Explain. **(6 marks)**
 - c) Differentiate between the capital asset pricing model (CAPM) method and the discounted cash flow (DCF) approaches to calculating the firm’s cost of equity when retained earnings are used. **(6 marks)**
 - d) Explain why sensitivity analysis can be useful tool in the capital budgeting decision-making process when economic and financial conditions are likely to change in the future. **(6 marks)**
- Q2. a) Calculate the firm’s WACC using the data in exhibit 1. **(7 marks)**
- b) Calculate the project’s cash flows using the data exhibits 2. **(7 marks)**

- c) Evaluate the profitability of the project using the following methods.
 - i Net present value (NPV) **(4 marks)**
 - ii Internet rate of return (IRR) **(4 marks)**
 - iii Simple payback period (PBP) **(3 marks)**

Q3. Read the case titled “Integrating a New Business into the Financial Planning Process at Unilever” and answer the following questions.

- a) What are the obstacles or challenges faced in trying to impose a global standard chart of accounts. (SCOA) **(5 marks)**
- b) How do you ensure that accounting treatment is in accordance with Unilever standards of local regulations. **(5 marks)**
- c) What are the important issues in determining financial and management reporting requirements? **(5 marks)**
- d) What are the key steps in ensuring you have the information to properly prepare a capital budget and who should be consulted? **(5 marks)**
- e) Why is an accurate inventory valuation methodology critical? **(5 marks)**

Q4. Read the case “Drifting Exchange Rate” and answer the following questions.

- a) Assuming Mr. Bozarth would prefer to use external sources for an exchange rate, how would you suggest a rate for converting next year’s budget from pesos to US dollars be determined? **(5 marks)**
- b) What alternative methods might Mr. Bozarth propose to the board for dealing with foreign currency fluctuations? **(5 marks)**
- c) How might Mr. Bozarth go about formulating an estimate of the exchange rate for the upcoming year rather than relying on external quotes? **(5 marks)**

- d) What are the implications for the owners and the HOA manager of using the actual foreign exchange rate as compared to the 10.5 pesos per US dollar rate used in prior years budgeting process? **(5 marks)**
- e) How might this influence the owner's and managers preferences regarding the choice of exchange rate for next year's budget? **(5 marks)**

END