



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

MAY – JULY 2016 TRIMESTER

FACULTY OF COMMERCE

MBA REGULAR / EVENING PROGRAMME

CFI 619: CASES IN FINANCIAL MANAGEMENT

Date: JULY 2015

Duration: 3 Hours

INSTRUCTIONS: Answer ANY THREE Questions

- Q1. Read the attached case, “One Hundred Years in Prison for \$ 126 Million Fraud” and answer following questions.
- a) Are qualified intermediaries legitimate businesses. **(4 marks)**
 - b) Okun tried to avoid federal currency reporting requirements by instructing his employee to cash two checks: One for \$5,200 and one for \$9,800 so as to stay under the \$10,000 cash reporting requirements and then ship the \$15,000 cash in his personal yacht in Bahamas. Briefly describe the local currency reporting requirements and briefly describe the purpose of these requirements. **(4 marks)**
 - c) What is money laundering? **(4 marks)**
 - d) How does the Okun case compare to other cases in the news lately? **(4 marks)**
 - e) What are the ethical issues in this case? **(4 marks)**
- Q2. Read the attached case; “Variety Enterprises Corporation: Capital Budgeting Decision” and answer Q2 and Q3 below.
- a) Discuss the concept of Weighted Average Cost of Capital (WACC) and its application in capital budgeting decisions. **(5 marks)**

- b) Explain why it may be difficult to estimate the cost of borrowing in a recessionary environment. **(5 marks)**
- c) Differentiate between the capital asset pricing method (CAPM) and the discounted cash flow (DCF) approaches to calculating the firm's cost of equity when retained earnings are used. **(5 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. **(5 marks)**
- Q3. a) Calculate the firm's WACC using the data in Exhibit 1 **(5 marks)**
- b) Calculate the project's cash flows using the data in Exhibit 2. **(5 marks)**
- c) Evaluate the profitability of the project using the following methods
- i Net Present Value (NPV) **(4 marks)**
 - ii Internal Rate of Return (IRR) **(4 marks)**
 - iii Simple payback period (PBP) **(2 marks)**
- Q4. Read the case titled, "Pacific Health Care: What should the controller do? and answer the following questions.
- a) Does anyone benefit personally is Amanda's request is met? Does this matter? **(5 marks)**
- b) In considering the broad ethical issues, who is harmed by Amanda's plan? **(5 marks)**
- c) What should Tim do? What are his obligations to Pacific? To pacific's clients? To the accounting profession? **(10 marks)**

END