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 2016 TRIMESTER

FACULTY OF COMMERCE

MBA WRITEN COMPREHENSIVE: FINANCIAL MANAGEMENT

Date: JULY 2016	**Duration: 3 Hours**
INSTRUCTIONS: Answer ALL Questions	

Q1. Read the attached case of "Pacific Health Care: What should the controller do?" and answer the questions below.

a) Is Tim still bound by the AICPA code of ethics even though he is no longer working in public accounting? **(5 marks)**
b) Does anyone benefit personally if Amanda's request is met? Does it matter? **(5 marks)**
c) In considering the broad ethical issues, who is harmed by Amanda's plan? **(5 marks)**
d) Does it matter that this organization would both be in a better position to provide services to clients with Amanda's plan? **(5 marks)**
e) What should Tim do? What are his obligations to Pacific? To Pacific's clients? To the accounting profession? **(5 marks)**

Q2. Read the case "Steve Sharpe: A stock Report" and answer the questions below.

a) Using the regression output contained in Tables 1 and 2,
   i Determine the beta estimate from two sources. Show how. **(5 marks)**
   ii How much the variability in Big T- is answered by the market. Show how. **(5 marks)**
   iii Calculate and show work to obtain the covariance. **(5 marks)**
   iv Calculate the total risk for Big-T **(5 marks)**

Additional information for the questions below: For a company we will call “Big-T” selected Value Line data are given.

EPS projected growth rate of 14%, Dividend projected growth rate of 14%. P/E projected to be 20, most recent full year (2009) EPS is $ 3.37 and the dividend is $0.60 per share, Big-T pays quarterly dividends each year. The projected average annual dividend yield is 0.8% and the beta estimate if 0.55

b) Using data provided in the case as shown above, calculate the required rate of return using the Ibbotson’s approach as illustrated. **(5 marks)**

c) i Calculate N, the number of years, from August 31, 2010 through the end of year 2015. **(5 marks)**

ii Calculate the present value factor assuming the present date is August 31, 2010 **(5 marks)**

Q3. Read the attached case, “Variety Enterprises Corporation: Capital Budgeting Decision” Assume that you are Joan Hamilton. Answer the following questions.

a) Calculate VEC’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 with the NPV, IRR, simple payback period and methods. Is the project acceptable? Briefly explain. **(5 marks)**

d) Why is the NPV method superior to the other methods of capital budgeting? Briefly explain. **(5 marks)**

e) Conduct the stand alone risk analysis of the project with the sensitivity analysis and scenario analysis technique. Explain why sensitivity analysis and scenario analysis can be useful tools in the capital budgeting decision-making process when economic and financial conditions are likely to change in the future. **(10 marks)**

END