



MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

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University Examinations 2023/2024

FIRST YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF MASTER IN BUSINESS ADMINISTRATION, MASTER IN FINANCE, MASTER IN SUPPLY CHAIN MANAGEMENT AND MASTER IN ENTREPRENEURSHIP

BFA 5102/BBE 5104: FINANCIAL MANAGEMENT/FINANCIAL MANAGEMENT IN SUPPLY CHAIN/FINANCING IN SMALL ENTERPRISES

DATE: APRIL 2024

TIME: 3 HOURS

INSTRUCTIONS: Answer question *one* and any other *three* questions

QUESTION ONE (24 MARKS)

- a) You have been appointed as financial officer in the upcoming company. Discuss the evolving role of the finance function in contemporary business environments. (8 marks)
- b) Analysis of how the goals of the finance function have shifted from focusing primarily on profit maximization to a broader perspective that includes wealth maximization and welfare. (8 marks)
- c) Discuss the significance of the finance function in strategic planning and decision-making within an organization. (8 marks)

QUESTION TWO (12 MARKS)

- a) Examine the challenges faced by the finance function in managing risk in the current global economic environment (6 marks)
- b) Critically evaluate the significance of dividend policy decisions on shareholder value and company performance. (6 marks)

QUESTION THREE (12 MARKS)

- a) You have been appointed to give seminar on investment decisions. Describe the comprehensive process of making investment decisions in a corporate setting, from project generation to project implementation. Discuss the importance of each stage and discuss how each contributes to the final investment decision. (6 marks)
- b) Discuss the importance of accurate cash flow data in the context of investment decision-making and how inaccuracies in cash flow projections can impact the evaluation of a project. (6 marks)

QUESTION FOUR (12 MARKS)

- a) Describe the various sources of finance available to corporations and provide a brief survey of financial instruments that companies can use. (6 marks)
- b) Explain how EBIT-EPS analysis can be used to determine the optimal capital structure for a company. (6 marks)

QUESTION FIVE (12 MARKS)

Solar Edge Innovations, a leading firm in the renewable energy sector, is at a critical point in its expansion phase. The company has identified several new projects that promise to significantly increase its market share and contribute to sustainable energy solutions. However, these projects require substantial investment. The CFO, Job Lee, is tasked with navigating the company's financing decisions to support this growth while maintaining financial stability to finance its expansion, Solar Edge Innovations is

considering a mix of equity, debt, and preferred stock. Each option comes with its own set of implications for the company's capital structure, cost of capital, and future dividend policies. The projects under consideration vary in scale and risk, necessitating a careful analysis of financing options to determine the optimal capital structure. The financial officer is faced with the following issues to deal with;

- i. Debt Financing: Interest rates on long-term debt are currently favorable, but leveraging could increase the company's risk profile.
- ii. Equity Financing: Issuing new equity would dilute current ownership but avoid increasing the company's debt load.
- iii. Preferred Stock: An option that provides a middle ground, but with fixed dividend requirements that could impact cash flow.
- iv. The company also needs to revisit its dividend policy in light of its expansion plans. It has traditionally offered steady dividends, but the new investments may require retaining more earnings.

Required;

- i. Discuss how Solar Edge Innovations approach its capital structure decision to support its expansion while managing risk. (3marks)
- ii. Discuss the implications of using debt, equity, and preferred stock on the company's WACC and financial stability. (3 marks)
- iii. Given the need for expansion and the potential changes in the company's capital structure, how should Solar Edge Innovations adjust its dividend policy? (3 marks)
- iv. Discuss the potential impact of this adjustment on shareholder value and the company's attractiveness to investors. (3 marks)