



POST GRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF MASTER OF MANAGEMENT AND LEADERSHIP

MML 5202: STRATEGIC FINANCIAL MANAGEMENT

DATE: 7TH APRIL 2026

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **FOUR (4)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **TWO** questions.
6. Question **ONE** carries **30 MARKS** and the rest carry **15 MARKS** each.

7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

SOLARIS ENERGY SOLUTIONS (SES)

Solaris Energy Solutions (SES) is a mid-sized firm specializing in renewable energy installations. Following two years of rapid growth, the company is facing a critical liquidity squeeze. The Board of Directors is reviewing a major new investment project while simultaneously addressing symptoms of financial distress.

SES is preparing its Budgeted Financial Statements for the upcoming fiscal year. Management uses Strategic Planning to align these budgets with their 5-year goal of capturing 15% of the regional market. However, recent Forecasting Techniques have been criticized for ignoring cumulative inflation, which is currently expected to be 4% per year.

The company's Cash Conversion Cycle has lengthened significantly.

- Inventory Holding Period: Increased from 45 to 70 days due to bulk buying to avoid supply chain disruptions.
- Receivables Collection: Customers are taking an average of 65 days to pay, despite a credit policy of 30 days.
- Payables Period: SES has started delaying payments to suppliers (now 80 days) to preserve cash, leading to a "stretch" in its Working Capital Policy.

Management is evaluating the "Project Helios" investment:

- Initial Outlay: \$15 million.
- Working Capital Requirement: 15% of annual sales revenue, required at the start of each year.

- Methods of Evaluation: The CFO prefers Net Present Value (NPV) but the Board also wants to see the Internal Rate of Return (IRR) and Profitability Index due to strict capital rationing.

Recent indicators show SES may be entering Financial Distress. Its interest cover has fallen below 2.0, and the bank is threatening to withdraw its overdraft facility. The Board is debating between a Financial Reorganization (restructuring existing debt) or a managed Liquidation of its smaller manufacturing division to raise \$5 million in immediate cash.

Required:

- a) Examine the role of Strategic Planning in the budgeting process at SES

(5 Marks)

- b) Calculate the current Cash Conversion Cycle and discuss the trade-off between liquidity and profitability for SES.

(5 Marks)

- c) Evaluate the impact of "stretching" payables to 80 days on SES's reputation and potential future financing costs.

(5 Marks)

- d) Calculate the Nominal NPV for Project Helios, ensuring you correctly model the incremental cash flows for working capital (investment at To and subsequent changes)

(5 Marks)

- e) Describe how Risk and Uncertainty should be incorporated into this decision, specifically referencing Sensitivity Analysis.

(5 Marks)

- f) Explore the symptoms of Financial Distress exhibited by SES and discuss the potential consequences of "Overtrading" in this context.

(5 Marks)

QUESTION TWO

- a) Jeremy limited wishes to expand its output by purchasing a new machine worth 170,000 and installation costs are estimated at 40,000/=. In the 4th year, this machine will call for an overhaul to cost 80,000/=. Its expected inflows are:

| Year | 1 | 2 | 3 | 4 | 3 |
|------------------|-------|-------|-------|-------|-------|
| Cash inflow(shs) | 60000 | 72650 | 35720 | 48510 | 91630 |

This company can raise finance to purchase machine at 12% interest rate. Compute NPV and advise management accordingly. **(8**

Marks)

- b) A firm is exposed to floating interest rates. Identify the risk type and suggest a hedging strategy to minimize this exposure while considering managerial risk aversion

(4 Marks)

- c) Compare and contrast the strategies of Reorganization and Liquidation as methods for dealing with a company in severe financial difficulty. **(3 Marks)**

QUESTION THREE

- a) A comparative study of the records of two oil companies, A Ltd and B Ltd., in terms of their asset composition, capital structure and profitability shows that they have been very similar for the past five years. The only significant difference between the two firms is their dividend policy. A Ltd. maintains a constant dividend per share while B Ltd maintains a constant dividend pay-out ratio. Relevant data is as follows:

| Year | Earnings per share | Dividend per share | Price range in | Earnings per share | Dividend per share | Price range in |
|------|--------------------|--------------------|----------------|--------------------|--------------------|----------------|
| | | | | | | |

| | Shs. | Shs. | stock exchan ge Shs. | Shs. | Shs. | stock exchan ge Shs. |
|------|-------------|-------------|---|-------------|-------------|---|
| 2021 | 1.89 | 0.45 | 16 - 18 | 2.05 | 0.35 | 11 - 15 |
| 2022 | 1.50 | 0.45 | 12 - 15 | 1.45 | 0.25 | 6 - 14 |
| 2023 | 2.00 | 0.45 | 14 - 20 | 2.07 | 0.36 | 7 - 16 |
| 2024 | 2.60 | 0.45 | 21 - 26 | 2.55 | 0.45 | 15 - 23 |
| 2025 | 3.90 | 0.45 | 26 - 40 | 4.08 | 0.69 | 21 - 44 |

Required:

For each company, determine the dividend pay-out ratio and the price earnings ratio for each of the five years.

(10 Marks)

- b) Critically discuss why Economic risk is often considered the most significant but also the most difficult to manage for a multinational corporation. **(2 Marks)**
- c) Traditional cost management systems are often criticized for being too inward-looking and static." Discuss this statement with reference to Strategic Cost Management

(3 Marks)

QUESTION FOUR

- a) Dividend policy is one of the most important financial decisions made by a firm, as it determines the proportion of earnings distributed to shareholders versus the amount retained for future growth. Even within the same industry, firms with similar earnings levels and share capital structures may adopt different dividend policies. This reflects

management's assessment of both internal and external factors influencing dividend decisions. Examine five reasons why firms in the same industry with equal earnings and share capital would pay different amounts of dividends.

(5 Marks)

- b) Agency problems can be resolved by proper corporate governance. Corporate governance lays emphasis on shareholders rights and enhancement of shareholder value. In many countries including Kenya, the concept of corporate governance has gained increasing prominence in recent times as evidenced by the issue of corporate governance guidelines by the Capital Markets Authority (CMA).

Required:

- i) Examine five reasons motivating the increasing interest in corporate governance.

(5 Marks)

- ii) Explore five benefits of good corporate governance to shareholders.

(5 Marks)