

The
Management
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POST GRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF MASTER OF MANAGEMENT AND
LEADERSHIP

MML 5202: STRATEGIC FINANCIAL MANAGEMENT

DATE: 29TH JULY 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

- a) The following information represents the financial position and financial results of AMETEX Limited for the year ended 31 December 2024.

AMETEX Limited Trading, profit and loss account for the year ended 31 December 2024		
	Sh."000"	Sh."000"
Sales - Cash		300,000
- Credit		<u>600,000</u>
		900,000
Less: cost of sales		
Opening stock	210,000	
Purchases	<u>660,000</u>	
	870,000	
Less: closing stock	(150,000)	<u>720,000</u>
Gross profit		180,000
Less expenses:		
Depreciation	13,100	
Directors' emoluments	15,000	
General expenses	20,900	
Interest on loan	<u>4,000</u>	
		(53,000)
Net profit before tax		127,000
Corporation tax at 30%		(38,100)
Net profit after tax		88,900
Preference dividend	4,800	
Ordinary dividend	<u>10,000</u>	<u>14,800</u>
Retained profit for the year		<u>74,100</u>

AMETEX Limited Balance Sheet as at 31 December 2024			
	Sh."000"	Sh."000"	Sh."000"
Fixed Assets			213,900
Current Assets:			
Stocks	150,000		
Debtors	0		
Cash	<u>35,900</u>	205,900	
	<u>20,000</u>	0	
Current Liabilities:			

Trade creditors	60,000		
Corporation tax payable	63,500		
Proposed dividend	<u>14,800</u>	<u>138,300</u>	<u>67,600</u>
		<u>0</u>	<u>281,500</u>
Financed by:			
Ordinary share capital (Sh.10 par value)		100,000	
8% preference share capital		60,000	
Revenue reserves		81,500	
10% bank loan		<u>40,000</u>	<u>281,500</u>

Additional information:

- The company's ordinary shares are selling at Sh.20 in the stock market.
- The company has a constant dividend payout of 10%.

Required:

Determine the following financial ratios:

- Acid test ratio. **(2 Marks)**
 - Operating ratio **(2 Marks)**
 - Return on total capital employed **(2 Marks)**
 - Price earnings ratio. **(2 Marks)**
 - Interest coverage ratio **(2 Marks)**
 - Total assets turnover **(3 Marks)**
 - Determine the working capital cycle for the company. **(4 Marks)**
- b) Your company is facing early signs of financial distress due to rising interest rates and declining cash flows. As part of the management team, propose FIVE strategic financial actions that can be taken to avoid bankruptcy **(5 Marks)**
- c) In a listed manufacturing company, a conflict has emerged between shareholders and management on dividend policy and reinvestment

strategies. Using your understanding of strategic financial management, propose four ways to resolve the agency problem

(4 Marks)

- d) Discuss two factors that can influence the choice of capital budgeting technique used by a firm when evaluating investment projects. Support your discussion with examples where appropriate

(4 Marks)

QUESTION TWO

- a) The following is the summarized balance sheet of Kaka Kuona Ltd. as at 30 November 2023:

	Sh.
Fixed assets:	
Land and buildings	60,000,000
Furniture and fittings	8,000,000
Current Assets:	
Stock	35,000,000
Prepaid expenses	5,000,000
Debtors	30,000,000
Cash in hand	<u>10,000,000</u>
	<u>148,000,000</u>
Financed by:	
Capital:	
Ordinary shares of Sh.10 each	60,000,000
Retained earnings	10,000,000
Long term liability:	18,000,000
Long-term debt	
Current liabilities	40,000,000
Creditors	<u>20,000,000</u>
Accruals	
	<u>148,000,000</u>

Additional information:

1. In the past, Kaha Kuona Ltd.'s earnings per share (EPS) averaged Sh.6 and the dividend payout rate was 50% or Sh.3 per share. For the

year ended 30 November 2023, the EPS declined to Sh.2.50. Because it was felt that this decline was temporary, the annum dividend of Sh.3 per share was maintained for the financial year ended 30 November 2023, as well as for the first six months of the financial year ending 30 November 2024.

2. Recent projections, however, have caused management to revise downwards the expected EPS. For the financial year ending 30 November 2024, the forecast of EPS as been reduced to Sh.2 per share and for the financial year ending 30 November 2025, adjusted to Sh.2.20.
3. Kaka Kuona Ltd.'s ordinary shares are currently selling in the market at Sh.15 per share.

Management of Kaka Kuona Ltd. is considering whether or not to retain the cash dividend of Sh.3 per share for the next two financial years.

Required:

- (i) Calculations to help determine whether it will be feasible to maintain dividends at Sh.3 per share for the next two financial years.

(4 Marks)

- (ii) Determine whether the company should replace the cash dividend with a bonus issue of one share for every four ordinary shares.

(3 Marks)

- (iii) Explain the course of action that the management of Kaka Kuona Ltd. should take in the light of the declining projections in dividend payouts. **(3 Marks)**

- b)** As a financial strategist in a large energy company, design a comprehensive risk management plan to handle market volatility, currency fluctuations, and operational disruptions.

(5 Marks)

QUESTION THREE

- a) ABC Ltd. makes cash payments of Shs.10,000 per week. The interest rate on marketable securities is 12% and every time the company sells marketable securities, it incurs a cost of Shs.20.

Required:

- i) Determine the optimal amount of marketable securities to be converted into cash every time the company makes the transfer.

(2 Marks)

- ii) Determine the total number of transfers from marketable securities to cash per year.

(3 Marks)

- iii) Determine the total cost of maintaining the cash balance per year.

(3 Marks)

- iv) Determine the firm's average cash balance. **(3 Marks)**

- b) The following is the balance sheet of XYZ Ltd as at 31st December 2022:

	Sh.'00
Net fixed asset	0'
Current assets	300
	<u>100</u>
Financed by:	<u>400</u>
Ordinary share capital	
Retained earnings	100
10% debentures	70
Trade creditors	150
Accrued expenses	50
	<u>30</u>
	<u>400</u>

Additional Information

1. The sales for year 2022 amounted to Sh.500,000. The sales will increase by 15% during year 2023 and 10% during year 2004.
2. The after tax return on sales is 12% which shall be maintained in future.
3. The company's dividend payout ratio is 80%. This will be maintained during forecasting period.
4. Any additional financing from external sources will be affected through the issue of commercial paper by company.

Required:

Determine the amount of external finance for 2 years upto 31st December 2024.

(4 Marks)

QUESTION FOUR

a) Cedes limited has the following details of two of the future production plans. Only one of these machines will be purchased and the venture would be taken to be virtually exclusive. The Standard model costs £50,000 and the Deluxe cost £88,000 payable immediately. Both machines will require the input of the following:

i) Installation costs of £20,000 for Standard and £40,000 for the Deluxe

ii) A £10,000 working capital through their working lives.

Both machines have no expected scrap value at end of their expected working lives of 4 years for the Standard machine and six years for the Deluxe. The operating pre-tax net cash flows associated with the two machines are:

Year	1	2	3	4	5	6
Standar	28500	25680	24210	23410	-	-

d						
Deluxe	36030	30110	28380	25940	38500	35100

The deluxe machine has only been introduced in the market and has not been fully tested in the operating conditions, because of the high risk involved the appropriate discount rate for the deluxe machine is believed to be 14% per annum, 2% higher than the rate of the standard machine. The company is proposing the purchase of either machine with a term loan at a fixed rate of interest of 11% per annum, taxation at 30% is payable on operating cash-flows one year in arrears and capital allowance are available at 25% per annum on a reducing balance basis.

Required

For both the Standard and the Deluxe machines, calculate the payback period.

(10 Marks)

- b)** You have been appointed CFO of a multinational firm entering the East African market. Discuss how you would align the firm's strategic planning process with detailed budgeting and the preparation of budgeted financial statements to support long-term decision-making.

(5 Marks)