



*(Knowledge for Development)*

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2020/2021 ACADEMIC YEAR**  
**MAIN EXAMINATION**

**COURSE CODE: DIB 105**

**FOR DIPLOMA IN BUSINESS MANAGEMENT.**

**COURSE TITLE: FINANCIAL MANAGEMENT.**

**DATE: 8<sup>TH</sup> OCTOBER 2021 TIME: 9.00AM – 11.00AM**

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**INSTRUCTIONS TO CANDIDATES**

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours

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KIBU observes ZERO tolerance to examination cheating

This Paper Consists of Printed Pages. Please Turn Over.

## SECTION A (COMPULSORY)

### QUESTION ONE

- a) Differentiate between Jobbers and Brokers in reference to the stock market. (3 marks)
- b) Discuss the differences between ordinary and quasi shareholding (4 marks)
- c) Discuss FIVE roles of financial system in an economy (10 marks)
- d) Marks Valley Co. Ltd is a fruit and an owner-managed company. The owner of this firm intends to list his firm in the Nairobi Securities exchange. You have been hired as a finance consultant in the firm, advice on the owner on the perquisites for listing in the NSE. (8 marks).
- e) Explain FIVE objectives of a firm. (5 marks)

### SECTION B (CHOOSE ONLY TWO QUESTIONS)

#### QUESTION TWO

- a) Paul was recently appointed to the post of investment manager of Masada limited, a quoted company. The company has raised sh. 8,000,000 through a right issue. Paul has a task of evaluating two mutually exclusive projects with unequal economic lives. Project x has 7 years and project y has 4 years of economic life. Both projects are expected to have zero salvage value. Their expected cash flows are as follows:

Project	A	K
Year	cash flows (sh)	cash flows (sh)
1	2,000,000	4,000,000
2	2,200,000	3,000,000
3	2,080,000	4,800,000
4	2,240,000	800,000
5	2,760,000	-
6	3,200,000	-
7	3,600,000	-

The cost of equity of the firm is 15%

Required:

The IRR of each project (10marks)

b) Advice the management of Masada limited. (2 marks)

Identify the fundamental features that distinguish preference shares from ordinary shares (10 marks)

### QUESTION THREE

- a) Social corporate responsibility is one of the objectives of a firm. Discuss FIVE ways in which an enterprise can maximize the welfare of its employees. (10 marks)
- b) Discuss and explain the advantages of a firm engaging ordinary share capital as a source of funding. (10 marks)

### QUESTION FOUR

- a) Explain the factors responsible for financial innovations. (10 marks)
- b) Financial management is that managerial activity which is concerned with the planning and controlling of the firm's financial resources. Discuss this statement. (10 marks).

### QUESTION FIVE.

- a) The following information relates to a project undertaken by ABC co ltd.

Year	Cash flows
0	(100,000)
1	10,000
2	30,000
3	15,000
4	30,000

Give 10% as the cost of equity, as finance manager determine the NPV of the project and advice the management appropriately. (12marks)

b) Discuss FOUR functions of a money market

(8 marks)