



(KNOWLEDGE FOR DEVELOPMENT)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

SECOND YEAR SECOND SEMESTER

SPECIAL/SUPPLEMENTARY EXAMINATION

FOR THE DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE: DIB 105

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 3RD FEBRUARY, 2021 TIME: 11.00 A.M – 1.00PM

INSTRUCTIONS TO CANDIDATES

**ANSWER QUESTION ONE IN SECTION A AND ANY OTHER TWO (2)
QUESTIONS IN SECTION B**

TIME: 2 HOURS

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over. ►

SECTION A (COMPULSORY)

1. (a) Discuss the roles of a financial manager (5mks)
- (b) Explain the functions of money markets? 5mks)

(c) A manufacturing company intends to diversify into a new line of products.

The company is proposing the following financial capital structure in order to meet the target

The structure is as follows;

Equity	20,000,000
Preference shares	60,000,000
Debt	20,000,000

cost of Equity = 15%

cost of debt = 14%

Preffered = 11%

What is the weighted average cost of capital given the above cost of capital? (10mks)

d).An investment of sh200,000 is expected to generate the following cash flows in six years:

<u>Year</u>	<u>Net cash flow</u>
1	sh30,000
2	sh40,000
3	sh60,000
4	sh70,000
5	sh55,000
6	sh45,000

Required; Compute payback period of the investment. Should the investment be made if management wants to recover the initial investment in 3 years or less? (10 mks).

SECTION B (CHOOSE ANY TWO QUESTIONS)

2. (a) i) The need for Working Capital to manage the day to day business activities cannot be over emphasized, what are the determinants of working capital. (6mks)

ii) Differentiate between Systematic risk and unsystematic risk (4mks)

b) A friend is travelling to abroad to study a post graduate diploma for 2 years he/she has 15,000,000 to deposit either in Barclays or Stanbic. Barclays offers interest rate at 7% compounding interest quarterly while Stanbic is offering interest at the rate of 7.2 p.a compounding interest monthly. Advice a friend on the bank he/she should deposit money for a period of 2 years. Assume that the banks have equivalent risks. (10mks)

3 (a) List and explain five factors that should be taken into account by a company when making investment decisions. (10mks)

(b) Although profit maximization has long been considered as the main goal of a firm, shareholder wealth maximization is gaining acceptance amongst most companies as the key goal of a firm

Required

(i) Distinguish between the goals of profit maximization and shareholder wealth maximization (4mks)

(ii) Explain three limitations of the goal of profit maximization. (6mks)

4(a) Explain the short term sources of finance (5mks)

(b) Moha was recently appointed to the post of investment manager in a quoted company. The company has raised sh. 8,000,000 through a rights issue Moha has the task of evaluating two mutually exclusive project with un equal economic lives. project A has 7 years and project B has 4 years of economic life. Both projects are expected to have zero salvage value. Their expected cash flows are as follows

Project	A	B
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	2,760,00	-
6	3,200,000	-

7

3,600,000

-

The amount raised would be used to finance either of the projects. The company expects to pay a dividend per share of sh. 6.50 in one year's time. The current market price per share is sh. 50. Masada Ltd expects the future earnings to grow by 7% per annum due to the undertaking of either of the projects. Masada Ltd has no debt capital in its capital structure.

Required:

- i). The cost of equity of the firm (5mks)
- ii). The net present value of each project (9mks)