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(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: 14TH JULY, 2021

TIME: 2.00-4.00PM

INSTRUCTIONS TO CANDIDATES

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

TIME: 2 Hours



KIBUCO observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

SECTION A (COMPULSORY)

QUESTION ONE

- a) List 3 objectives a firm. (3 marks)
- b) Discuss the differences between ordinary and preference shares (4 marks)
- c) Discuss five reasons why leasing has been touted as the most common source of finance.(10 marks)
- d) Outdoor Living Ltd., an owner-managed company, has developed a new type of heating using solar power, and has financed the development stages from its own resources. Market research indicates the possibility of a large volume of demand and a significant amount of additional capital will be needed to finance production.

Advise Outdoor Living Ltd. on:

- i. The advantages and disadvantages of loan or equity capital. (8 marks)
- ii. The various types of capital likely to be available and the sources from which they might be obtained.(5 marks)

SECTION B (CHOOSE ONLY 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	x	y
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 20%

Required:

- The net present value of each project (10marks)
- b) Advise the management of Masada limited. (3 marks)
- c) Identify the fundamental features that distinguish preference shares from ordinary shares (7 marks)

QUESTION THREE

- a) Despite the large investment in the stock exchange and the various government activities, only a few companies are listed at the stock exchange of the three East African Countries''. This was that opening remark by the guest speaker in a seminar whose theme was ''Developing out capital market''.

Required:

- (i) The advantages of being listed at the stock exchange (7 marks)
- (ii) Highlight four factors that may hinder companies from being used at the stock exchange (5 marks)
- b) A firm's commitment to business ethics can be measured by the tendency of the firm and its employees to adhere to laws and regulations relating to: Enumerate and argue for this statement. (8 marks)

QUESTION FOUR.

- a) The following information relates to machines A and B.

Year	Machine A	Machine B
0	(100,000)	(120,000)
1	60,000	50,000
2	40,000	50,000
3	20,000	50,000

Find the Internal Rate of Return (IRR) of the project at rates 10% and 15% (12marks)

- b) Discuss FOUR functions of a money market (8 marks)

QUESTION FIVE

- a) Describe the advantages of capital budgeting (10 marks)
- b) Traditionally profit maximization is considered to be the fundamental goal of the firm. However this goal has been criticized in many aspects. Discuss this statement. (10 marks)