



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR

MAIN EXAMINATION

FOR THE DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE: DIB 105

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 16TH MAY, 2022 TIME: 9.00 AM – 11.00 A.M

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 3 Printed Pages. Please Turn Over.

SECTION A: ONE COMPULSORY QUESTION

- 1(a) Define the term Financial Management (2marks)
- (b) Write briefly on the Four Managerial Finance functions (8 marks)
- © Write briefly the FIVE processes of capital budgeting (10 marks)
- (d) Discuss the goals of Financial Management and state which the best goal is? (10Marks)

SECTION B: ANSWER ANY TWO QUESTIONS

QUESTION TWO

(a) A company is considering two mutually exclusive projects requiring an initial cash outlay of Sh 10,000 each and with a useful life of 5 years. The company required rate of return is 10% and the appropriate corporate tax rate is 50%. The projects will be depreciated on a straight line basis. The before depreciation and taxes cash flows expected to be generated by the projects are as follows.

	<i>YEAR</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
Project A	Shs	4,000	4,000	4,000	4,000	4,000
Project B	Shs	6,000	3,000	2,000	5,000	5,000

Required:

Calculate for each project

- i. The payback period (3 marks)
- ii. The average rate of return (4 marks)
- iii. The net present value (4 marks)
- iv. Profitability index (3 marks)
- v. The internal rate of return (4 marks)

Which project should be accepted? Why?

(2 marks)
(Total 20 marks)

QUESTION THREE

(a) Define the term equity shares giving Four disadvantages in the context of source of finance (5 marks)

(b) A company negotiates a Sh 60 million loan for eight years from a financial institution. The interest rate is 14% per annum on the outstanding balance of the loan. The principal and interest will be repaid in eight equal year-end instalments.

Required
Prepare a loan repayment schedule

(15Marks)

(Total 20 marks)

QUESTION FOUR

(a) **Discuss** Business Ethics as an objective of an organization **(10marks)**

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

(b) The financial manager of ABC Ltd expects earnings before interest and taxes of £50,000 in the current financial year and pays interest of 10% as long-term loan of £200 000. The company has 100 000 ordinary shares and the tax rate is 20%. The finance manager is currently examining 2 scenarios.

A case where EBIT is 25% less than expected.

A case where EBIT is 25% more than expected.

REQUIRED

Compute the EPS under the 3 cases and the degree of financial gearing for both scenario 1 and 2. **(10marks)**

(Total 20 marks)

QUESTION FIVE

(a) As a finance scholar you have been given ksh 100,000.00 compounded at 6%.

Required; Determine amount

- i. Annually **(2 marks)**
- ii. Semi-Annually **(2 marks)**
- iii. Quarterly **(2 marks)**

(b) List Five assumptions underlying the (MM) **HYPOTHESIS** **(5marks)**

(c) Critically define the term working capital and give Five importance for its effective management **(6marks)**

d) Define the term TVM and highlight on its importance **(3marks)**

(Total 20 marks)