



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER
MAIN EXAMINATION

FOR THE DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE:DIB 105

COURSE TITLE:FINANCIAL MANAGEMENT

DATE:5THSEPTEMBER,202

TIME:9.00AM - 11.00AM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30**marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 6 Printed Pages. Please Turn Over.

QUESTION ONE.

- a) Differentiate between shares capital and debentures (2 marks)
- b) The financial plan of a business should be prepared carefully because the achievement of the business objectives and its long-term success depend on the financial plan along with other factors. Discuss FIVE characteristics of a sound financial plan. (10 marks)
- c) Sharon decided to invest Sh.100, 000 in savings account paying 8% interest compounded semiannually. If she leaves the money in the account for 2 years how much will she have at the end of the two years? (3 marks)
- d) Examine the reasons that may drive a company to raise equity finance than debt finance.(5 marks)
- e) The following information relates to machines A and B.

Year	Machine A	Machine B
0	(100,000)	(120,000)
1	40,000	50,000
2	40,000	50,000
3	10,000	50,000
4	20,000	10,000

Required.

- i. Find the Payback Period of the project costing 100,000 and 120,000 for A and B respectively. (8 marks)
- ii. Advise the management on the best project to invest. (2 marks)

QUESTION TWO

- a) Nyongesa was recently appointed to the post of investment manager of Clique limited, a quoted company. The company has raised sh. 8,000,000 through a right issue. Nyongesa has a task of evaluating two mutually exclusive projects with unequal 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 (A)	Cash flows(B)
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:

- i. The net present value of each project (8marks)
- ii. Advice the Management of Clique Co. Ltd. (2 marks)

- b) Financial planning has been defined as “the advance programming of all plans of financial management and the integration and coordination of these plans with the operating plans of the enterprise.” Argue the rationale of financial planning. (10 Marks)

QUESTION THREE

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

Required:-

- i. Evaluate the goals of profit maximization and shareholder wealth maximization. (6mks).

- ii. Explain the two limitations of the good of profit maximization (4mks)
- b) Reasons for individual's Time Preference for Money: (6 marks)
- c) Leasing has been touted as the most popular sources of business finance. Discuss this statement. (4 marks)

QUESTION FOUR

- a. Debate the important reasons for capital budgeting (10 marks)
- b. One of the major goals of the firm is to undertake social corporate responsibility. Examine FIVE ways in which a business can fulfill this goal. (10 marks)

QUESTION FIVE

- a. A project costs Ksh.36,000 and yields annual cash inflow of Ksh. 24,000 for Year1, Ksh. 6,000 for year 2, Ksh. 12,000 for year 3 and Ksh. 0 for year 4. Calculate its payback period. (5 marks)
- b. Discuss FIVE factors that may hinder companies from being listed at the Securities Exchange market. (10 marks)
- c. Appraise the Disadvantages of Pay Back Period in determining an investment of focus. (5 Marks).