



(Knowledge for Development)

**KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS**

2021 /2022 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

MAIN EXAMINATION

**FOR THE DEGREE OF BACHELOR OF COOPERATIVE AND
ENTREPRENEURSHIP**

COURSE CODE: ENT210

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 27TH JANUARY, 2022 **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 3 Printed Pages. Please Turn Over.

SECTION A

QUESTION ONE

- a) List three weaknesses of the profit maximization goal (6mks)
- b) Highlight three solutions to the conflict arising between creditors and shareholders (6mks)
- c) Name Four limitations of ratio analysis (4mks)
- d) Identify three purposes of valuation (3mks)
- e) Identify four advantages of discounted cash flow techniques over non-discounted techniques (4mks)
- f) Identify three weaknesses of using WACC as the discount rate (6mks)
- g) List three reasons why individuals prefer current cash than future cash (3mks)

QUESTION TWO

- a) Highlight five differences between ordinary share capital and debt capital as sources of funds (10mks)
- b) Describe five problems faced by small businesses when raising funds (10mks)

QUESTION THREE

- a) Distinguish between factoring and invoice discounting in the context of management of debtors (6mks)
- b) J.B expects to save 2200 p.a for the next five years at which he will retire from employment. The savings will earn interest at 14% p.a. Determine the future value of the savings (6mks)
- c) A company has issued a 12% 10 year bond. The current market yield/interest rate is 14% p.a. Determine the intrinsic value if interest is paid : (8mks)

-Annually

-Semi-annually

QUESTION FOUR

The following capital structure relates to YZ ltd as at December 2003.

Ordinary share capital (sh10 par)	48000
Retained earnings	20000

8% preference share capital (sh 100 par)	15000
12% 10 year debt (sh1000 par)	<u>20000</u>
	103000

Additional information:

a) The company had a stream of dividends per share for the last five years as follows:

1999	2000	2001	2002	2003
1.9	2.3	2.65	2.9	3.4

b) The current market price per share of the firm as quoted on the stock exchange is 43.4 cum-dividend.

c) Preference shares are still trading at par in the stock exchange while debentures are trading at sh 950 ex-interest

d) Corporation tax rate is 30%

- i. Determine the minimum required rate of return by each category of investors in the firm (16mks)
- ii. Compute the WACC based on the market values (4mks)

QUESTION FIVE

Consider the following two mutually exclusive projects whose initial capital is 7000. Both have economic lives of 4years and will generate the following cash flows:

Year	Project	
	A	B
1	2300	2200
2	2400	2000
3	2100	2400
4	2500	2100

The cost of capital is 10%. Evaluate the two projects using NPV, PI and IRR and recommend which one should be taken under both methods (20mks)