



(Knowledge for Development)

**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2021/2022 ACADEMIC YEAR**

**FIRST YEAR FIRST SEMESTER**

**MAIN EXAMS**

**FOR THE DEGREE OF MASTER OF SCIENCE HUMAN  
RESOURCE MANAGEMENT**

**COURSE CODE: HRM810**

**COURSE TITLE: ACCOUNTING AND FINANCIAL  
MANAGEMENT**

**DATE 6<sup>TH</sup> OCTOBER, 2022      TIME: 9.00AM - 12NOON**

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**INSTRUCTIONS TO CANDIDATES**

1. Answer Question One in Section A and Any other THREE (3) Questions in Section B
2. Question one carries 40marks and each of the other THREE questions carry 20 marks each.

TIME: 3 Hours

**QUESTION ONE(40Mrks)**

- a) Evaluate the assumptions of William Boumals model of cash management? (4mks)
- b) In formulating the dividend policy a company goes out of its way to ensure it strikes a balance between the retention ratio and the payout ratio. Summarizethe three dividend policies (6mks)
- c) Highlight the differences between invoice discounting and factoring. (4mrks)
- d) A company's expected dividend is sh 4 now, dividends grow at 14% for the first 5 years thereafter at a constant rate of 8% forever. If the required rate of return is 10%.what is the price of the share today. (6mks)
- e) Com-Tech Company Ltd is in the telecommunication industry. The company's balance sheet as at 31.12.2018 is given below

Liabilities and Equity	Sh000	Assets	Sh000
			65,000
Current liabilities	25000	Current asset	
18% debentures (sh1000 par)	32000	Net fixed assets	85,750
10% Pref shares	12500		
Ord Shares (Sh10 par)	25000		
Retained Earnings	<u>56,250</u>		
	<u>150,750</u>		<u>150,750</u>

1. The debentures are now selling at sh950 in the market and will be redeemed 10years from now.
2. By the end of the last period the company had declared and paid sh 10 as dividend per share. The dividends are expected to grow at an annual rate of 10% in the foreseeable future, currently the company's shares are trading at sh38 per share at the local security exchange.
3. The preference shares were floated in 2013 and their prices have remained constant.
4. Most banks are lending money at an interest rate of22% per annum.
5. The corporation rate of tax is 30%.

- Required. Calculate the market weighted average cost of capital for the firm. (10mks)
- f) Write up the asset, capital and liabilities accounts in the books of Khetias Enterprise to record the following transactions.

2015

- June 1 Started business with Kshs 500,000.00 in the bank
- June 2 Bought motor van paying by cheque Ksh 120,000.00
- June 5 Bought office fixtures Ksh 40,000.00 on credit from young Limited
- June 8 Bought motor van from supper motors Kshs 80,000.00
- June 12 Took kshs 10,000.00 out of bank and put it into the cash till
- June 15 Bought office fixtures paying by cash Ksh 6,000.00
- June 19 Paid supper Motors a cheque for Kshs 80,000.00
- June 21 A Loan of Kshs 100,000.00 cash is received from J Jarvins
- June 25 Paid Kshs 80,000.00 of the cash in hand into the Bank account
- June 30 Bought more office fixtures paying by cheque Kshs 30,000.00 (10marks)

## QUESTION TWO

- a) In 1976 Jensen and Meckling established the Agency Theory following the Agency problems that faced corporate. In line with this show the areas of conflict that escalated the problem and resolutions thereto. (8mrks)
- b) Agency costs are incurred by the shareholders as a result of its being involved in direct management of the company. Directors may take decisions only catering from their interests and not the interests of shareholders. The shareholders thus incur costs in trying to monitor and control the behavior of the management. Explain the Agency costs in line with this scenario (12mrks).

(Total 20 mrks)



### QUESTION THREE

- a. In evaluating investment appraisals profits may not be preferred but liquidity through cashflows ,explain. (5mks)
- b. NB and K Ltd is analyzing a project whose cost is sh12million. The project is estimated to have an economic useful life of 6 years and a nil residual value. Earnings before depreciation and tax expected from the project are as follows

Year	EBDT (SH000)
1	16,000
2	16800
3	17600
4	18400
5	20000
6	20800

The required rate of return is 20% and the corporation rate of tax is 30%.depreciation on straight line method.

Required.

- i) After tax cash flows (5mrks)
- ii) Net present value of the project and decision made. (5mrks)
- iii) Internal rate of rate of return of the project and decision made. (5mks)
- (Total 20mks)**

### QUESTION FOUR

- a. The finance manager ILARA Ltd attended a workshop on the dynamics of finance functions. Different speakers spoke and gave various position regarding the finance functions. You are required to examine four traditional finance functions. (10mks)
- b. Profit maximization is one of the goals that optimizes the money income though it creates ambiquities in its interpretations what according to your opinion are the other shortfalls of this goal (4mks)
- c. Working capital may encompass gross working and net working capital. Demonstrate your understanding of any two working capital management strategies (4mks)

### QUESTION FIVE

The following was extracted from the books of Joel Mbugua sole trader as on 30th June 2021

	Shs	shs
Capital		2,100,000
Freehold land and building	980,000	
Furniture and fittings at cost	210,000	
Motor vehicle at cost	406,000	
Provision for depreciation 1 July 2012		
Furniture and fittings		140,000
Motor vehicle		280,000
Stock in trade	854,000	
Purchases and sales	8,218,000	9,702,000
Debtors and creditors	819,000	608,000
Rent received		38,500
Special loan from Sam Ogombe @ 5% p.a		168,000
Loan interest outstanding 1 July 2012		4,200
Discount allowed and discount received	184,800	129,500
Provision for Bad and doubtful debts 1 July 2012		15,400
Bad debts written off	45,500	
Wages and salaries	986,300	
Drawings	224,000	
Motor vehicle running expenses	80,000	
General expenses	411,000	
Balance at bank	95,200	
Rates and insurance	42,000	
	<u>13,185,900</u>	<u>13,185,900</u>

The following information is available

1. Stock on 30th June 2021 sh. 1,190,000
  2. Items due at 30<sup>th</sup> June 2021 wages and salaries shs. 58,000, General expenses shs. 9100
  3. Rates and insurance prepaid as at 30<sup>th</sup> June 2021 shs 10,500
  4. No interest was paid on loan from Sam Ogombe during the year
  5. The provision for bad and doubtful debts is to be adjusted to 5% of the total debtors
  6. Depreciation should be provided on reducing balance as follows  
     Furniture and fittings 5%  
     Motor Vehicles 25%
  7. Part of the freehold buildings was let to a tenant who owed sh 3,500 at 30<sup>th</sup> June 2021
- Required (a) Income statement for the year ended 30<sup>th</sup> June 2021(10mrks)  
 (b) Statement of Financial position as at 30<sup>th</sup> June 2021(10mrks)

**(Total 20 Marks)**