

(Knowledge for Development) KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER

MAIN EXAMINATION

FOR THE DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE:DIB 105; COURSE TITLE:FINANCIAL MANAGEMENT

DATE:15TH DECEMBER,2022

TIME:9.00AM - 11.00AM

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

QUESTION ONE (COMPULSORY)

- a) Discuss in detail the FIVE routine functions of a finance manager (10 marks)
- b) Discuss three advantages of using discounted payback period(5marks)
- c) Assume you were to receive sh. 172,800 three years from now on an investment and the required rate of return is 20 %. What amount would you receive today to be indifferent, justify? 5marks
- d) Explain three types of agency cost incurred by shareholders

6marks

e) Explain two types of financial budgets

4marks

QUESTION TWO

- a) Highlight THREE assumptions of the Economic order quantity
- b) Demand for part CD 484 used by Karen Ltd of 4 million units. The cost per unit for this part is 200/= and the cost of placing an order is sh.500. Karen ltd estimates that the annual inventory carrying cost is 20% of the cost per unit.

Required:

- (5mks) Calculate the EOQ i.
- Number of orders in a year (3mks) ii.
- Calculate the re-order level. Assume lead time is 10 days and the company works for 300 iii. days in a year (4mks)
- (5mks) Total cost iv.

QUESTION THREE

- a) Discuss in detail the agency relationship between managers and shareholders (10marks)
- b) Explain five benefits of financial planning. (10marks

QUESTION FOUR

a) Kamau took a loan of sh 200,000 from KCB bank to begin project X. He expects to generate the following cash flows: Shs. 90000, Shs.60,000 Shs. 45,000 and Shs. 70,000 for years 1,2, 3 and 4 respectively. The cost charged on capital was 12%.

Required

- Determine NPV 5marks i.
- 4maks Profitability index ii.
- Discounted payback period 5marks iii.
- b) Reasons Why Commercial Banks Prefer To Lend Short Term Loans6marks

QUESTION FIVE

a) Explain in detail THREE features of term loans 10marks

b) A company negotiates a Sh 30 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. Prepare a loan 14 marks amortization table