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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
FIRST YEAR, FOURTH SEMESTER EXAMINATION
FOR THE DIPLOMA IN BUSINESS INFORMATION TECHNOLOGY
DBA 1406 - FINANCIAL MANAGEMENT

Date: 6TH DECEMBER, 2022
Time: 11:30AM-1:30PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Firms have to make a number of key financial management decisions, which when acted upon, will ensure their success. Briefly explain any three financial management decisions that a firm should place focus. **(6 Marks)**
- b) Highlight any three advantages of using the net present value as an investment evaluation method. **(6 Marks)**
- c) List four rights that owners of ordinary shares of a public company enjoy. **(4 Marks)**
- d) Discuss the reasons for management of working capital in firms. **(6 Marks)**
- e) Determine the FV of sh.10, 000 compounded at an interest rate of 10% for 5 years if compounding is done;
- i) Half yearly **(4 Marks)**
- ii) Quarterly. **(4 Marks)**

QUESTION TWO (20 MARKS)

- a) Ordinary shares and preference shares are some of the more commonly used form of equity in firms. Explain five key differences found between these two types of equity. **(10 Marks)**
- b) Discuss factors that influence the cost of Finance. **(10 Marks)**

QUESTION THREE (20 MARKS)

- a) Bila Enterprises, a construction company based in Kericho wants to invest in one of two mutually exclusive projects of Kes. 1,000,000 each generating the following cash flows:

Year	A	B
1	200,000	100,000
2	400,000	200,000
3	500,000	300,000
4	600,000	400,000
5	-	500,000
6	-	600,000

- i) Determine the Payback Periods of the two projects and determine which of the two projects Bila Enterprises should undertake? (6 Marks)
- ii) What is the Accounting Rate of Return of the two projects project B has a salvage value of Ksh. 300,000 and project A has no salvage value? (8 Marks)
- b) Discuss the features of a good appraisal technique. (6 Marks)

QUESTION FOUR (20 MARKS)

- a) Faida Ltd. Is considering investing in a project which costs Kes. 6,000,000 and has the following cash flows:

Year	1	2	3	4
Cash flows	1,500,000	3,000,000	2,000,000	2,500,000

- The cost of capital is 10% and the project has no salvage value. Using the NPV method, advise Faida Ltd. on whether to invest in the project or not. (8 Marks)
- b) Highlight any two advantages of using the Internal Rate of Return as a capital budgeting method. (4 Marks)
- c) The capital market is a financial market for long-term securities. Describe services offered by capital markets. (8 Marks)

QUESTION FIVE (20 MARKS)

- a) Enumerate reason for preferring current income. (6 Marks)
- b) List four marketable securities that firms can invest their excess cash. (4 Marks)
- c) The agency theory explains the conflicts that exist between various stakeholders of the firm and the origin of these conflicts. Briefly discuss any two agency conflicts and propose possible solutions to these conflicts. (10 Marks)