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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FIRST YEAR, FOURTH SEMESTER, END OF SEMESTER EXAMINATION
FOR THE DIPLOMA IN BUSINESS ADMINISTRATION
DBA 1008: FINANCIAL MANAGEMENT

Date: 12TH APRIL 2023
Time: 11:30AM- 1:30PM

INSTRUCTIONS TO CANDIDATES
ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

a) Distinguish an investment decision from a financing decision. **(3 Marks)**

b) Outline routine functions of financial management. **(5 Marks)**

c) State the various kinds of agency relationships as integrated within the financial dynamics of a listed company. **(4 Marks)**

d) Jonah and David invested Ksh1,000,000.The investment is expected to earn interest at a rate of 20% compounded annually. Determine the future value of the investment after 3 years. **(5 Marks)**

e) Outline the importance "time value of money" concept to a layman in finance. **(4 Marks)**

f) Assume the company wants to invest in two mutually exclusive projects of 1000,000 shillings each generating the following cash flows:

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

Required:

Using payback period approach, advise management which project to choose. **(7 Marks)**

g) Explain the term capital structure. **(2 Marks)**

QUESTION TWO (20 MARKS)

a) Explain eight factors that govern choice of finance in a corporate firm. **(8 Marks)**

b) List SIX factors that influence the cost of capital. **(6 Marks)**

c) Kewa Kenya Ltd anticipates to pay dividends of Kshs.10 per share at the end of year 1. The expected growth in dividends is 10% while the current market price is Kshs. 10.

Required:

i) What is cost of equity? **(2 Marks)**

ii) Determine the cost of equity where floatation cost is Kshs. 5. **(4 Marks)**

QUESTION THREE (20 MARKS)

a) Outline eight differences between Debt Finance and Equity Finance. **(8 Marks)**

b) An investment project being considered by Cosim Ltd may generate the following cash inflows.

Year	2023	2024	2025	2026
C.F in shs	3,000,000	4,000,000	7,000,000	4,000,000

The CEO has informed you that the required rate of return is 9% and the Initial Cost of Invesment is Kshs 1,500,000.

Required:

i) Compute the profitability index of the investment. **(9 Marks)**

ii) Advice the Investment Manager of the company. **(3 Marks)**

QUESTION FOUR (20 MARKS)

a) Briefly outline advantages of using NPV to assess the viability of a venture. **(6 Marks)**

b) Sate five marketable securities where excess cash during a financial year may be invested. **(5 Marks)**

c) Kimatuni Ltd. currently purchases all its raw materials on credit and sells its merchandise on credit. The credit terms extended to the firm currently requires payment within thirty-day s of a purchase while the firm currently requires its customers to pay within sixty days of a sale. However, the firm on average takes 35 days to pay its accounts payable and the average collection period is 70 days. On average, 85 days' elapse between the point a raw material is purchased and the point the finished goods are sold.

You are required to determine:

i) The cash conversion cycle **(6 Marks)**

ii) The cash turnover assuming a year of approximately 360 days. **(3 Marks)**

QUESTION FIVE (20 MARKS)

a) Outline financial system components. **(5 Marks)**

b) State NINE factors affecting working capital needs. **(9 Marks)**

c) Lukhuna Holdings Ltd has Kshs 9,000,000 to invest in a project with the following after tax net profits:

year	1	2	3
	Shs	Shs	Shs
	200,000	100,000	300,000

The project`s life span is 3 years with no salvage value.

Required: Determine the Accounting Rate of Return (ARR). **(6 Marks)**