



Kasarani Campus
Off Thika Road
Tel. 2042692 / 3
P.O. Box 49274, 00100
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

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

Date: 26TH JULY 2022
Time: 11:30AM – 1:30PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Highlight the limitation of profit maximization goal of a firm (6 Marks)
- b) List five rights that owners of ordinary shares of a public company enjoy. (5 Marks)
- c) Suppose Joe gives Molly sh.100, 000 and Molly decides to deposit the money in a bank account where it earns interest 10% p.a. and interest is compounded semi-annually. How much future sum would Molly receive after;
- i) Two years (3 Marks)
- ii) Ten years (2 Marks)
- d) Highlight any four routine functions of the finance manager of a company of your choice. (4 Marks)
- e) State four assumptions of Cost Volume Profit (CVP) analysis (4 Marks)
- f) 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)

QUESTION TWO (20 MARKS)

- a) Explain four significance of cost of capital. (4 Marks)
- b) The following information was extracted from the books of Lotan Ltd

	Sh
Ordinary shares par value, sh.25	800,000
10% preference shares par value, sh.20	400,000
10% debentures	400,000
Total capital employed	1,600,000

Additional information

The capital employed is in book value, thus we have to ascertain the respective market value of the above finances.

- i) Ordinary shares currently sell at Sh. 30
- ii) The 10% preference shares currently sell at sh.25
- iii) The 10% debentures is currently valued at sh.500,000

The company has maintained a cash dividends of sh.3.80 per share over the past five year. Assume a corporate tax of 30%.

Required: Compute the firm's weighted average cost of capital (WACC). (16 Marks)

QUESTION THREE (20 MARKS)

- a) Differentiate the following
- i) Mutually exclusive projects and independent projects (2 Marks)
 - ii) Divisible project and indivisible projects (2 Marks)
- b) A project costs sh. 16,200 and is expected to generate the following cash flows.

Year	sh.
1	7,500
2	7,500
3	7,500
4	7,500

Assuming the required rate of return is 10%.

Required: Compute

- i) Payback period (4 Marks)
- ii) The NPV (4 Marks)
- iii) Profitability index (4 Marks)
- iv) The IRR (4 Marks)

QUESTION FOUR (20 MARKS)

- a) Explain any five advantages of using the Net Present value as a capital budgeting method. (6 Marks)
- b) Discuss the major objectives of a firm. (9 Marks)
- c) Suppose Jane receives at the end of each year an amount of sh.5,000 for 4 years. If the discount rate is 10%, what is the present value of the annuity? (5 Marks)

QUESTION FIVE (20 MARKS)

- a) Using appropriate example, discuss the various sources of finance available to a company listed at the Nairobi Securities Exchange (NSE) under;
- i) Short-term sources (5 Marks)
 - ii) Long-term sources (5 Marks)
- b) Ratio analysis is a process of determining the strength or position of a company by comparing various items in the financial statements. Discuss five limitations of using ratios to analyse a company's performance. (10 Marks)