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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
FOR THE DIPLOMA IN HUMAN RESOURCE MANAGEMENT
DBA 1008 – FINANCIAL MANAGEMENT

Date: 12th April, 2022
Time: 11.30am-1.30pm

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Liquidity is more important than profitability. Discuss. (8 Marks)
- b) Discuss the extent to which the following are sources of finance
- i) Hire purchase and leasing (4 Marks)
 - ii) Sale and lease back (3 Marks)
 - iii) Deposits and receipts in advance. (5 Marks)
- c) ABC Ltd has the following two mutually exclusive projects:

Figures in '000

Year	Project P	Project J
0	(50,000)	(30,000)
1	13,000	7,000
2	9,000	10,000
3	12,000	14,000
4	20,000	12,000
5	11,000	8,000
6	15,000	

The company's cost of capital is 11.5%.

Required:

Determine which project should be undertaken using each of the stated criteria separately

- i) Payback period (4 Marks)
- ii) The internal rate of return (IRR) (6 Marks)

QUESTION TWO (20 MARKS)

- a) Describe the differences between finance leases and operating leases. (6 Marks)
- b) Financial management involves making decisions about the firm's resources. Identify any three decisions to be considered. (6 Marks)
- c) You have been asked to recruit a finance manager for your firm. Outline the roles of a finance manager. (4 marks)
- d) The Internal Rate of Return is one of the more common investment methods used by firms. Discuss the advantages of IRR. (4 Marks)

QUESTION THREE (20 MARKS)

- a) Every firm's existence, continuance and success largely depend on the objectives set. Critically examine the objectives of a firm. (10 Marks)
- b) Preference share capital is referred to as quasi equity. Discuss the similarities between preference share capital and ordinary share capital. (10 Marks)

QUESTION FOUR (20 MARKS)

- a) Debentures are commonly issued as a means of raising funds by many firms around the world. Analyze the pros and cons of using this type of financing. (10 Marks)
- b) You are provided the following information about Benja Enterprises Ltd.

Number of ordinary shares 100,000
Nominal value per ordinary share Ksh. 50
Market price per ordinary share Ksh. 80
Net profit before interest and corporation tax Ksh. 5,000, 000
Rate of corporation tax 30%
Loan interest Ksh. 640,000
Dividend rate 10%

Required: Calculate and interpret the following financial ratios;

- i) Dividend yield (2 Marks)
- ii) Earnings per share (2 Marks)
- iii) Dividend cover (2 Marks)
- iv) P/E ratio (2 Marks)
- v) Times Interest Earned Ratio (2 Marks)

QUESTION FIVE (20 MARKS)

- a) Suppose Joe gives Molly Ksh. 100,000 and Molly decides to deposit the money in a bank account where it earns interest 9.5% p.a. and interest is compounded semi-annually. How much future sum would Molly receive after;
- i) One year (3 Marks)
- ii) Five years (2 Marks)
- b) Discuss five factors that influence the cost of capital of a firm. (5 Marks)
- c) Discuss the fundamental features that distinguish preference shares from ordinary shares. (10 Marks)