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**KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR**  
**SECOND YEAR, SECOND SEMESTER EXAMINATION**  
**FOR THE DIPLOMA IN BUSINESS & INFORMATION TECHNOLOGY**  
**DBA 1406 – FINANCIAL MANAGEMENT**

Date: 11<sup>TH</sup> April 2024  
Time: 8:30AM – 10:30AM

**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) What will be the total amount contributed by an individual towards their pension fund at maturity if they save Ksh10,000 monthly, for the next 30 years until their retirement, assuming a rate of 13%? (4 Marks)
- c) List reasons why financial managers need to consider the concept of time value of money in their activities. (2 Marks)
- d) Highlight any three advantages of using the net present value as an investment evaluation method. (6 Marks)
- e) Mary, a student is considering the following scenarios and is seeking your help in deciding what to do;  
Option 1: Invest Kes. 10,000 in cryptocurrency today for a promised total return of Kes. 15,000 after one year.  
Option 2: Lend her friend the Kes. 10,000 today at an interest rate of 10% for one year.  
Required:  
With the help of appropriate calculations, which of the two options will be most profitable to Mary? (6 Marks)
- f) List six duties or functions that are expected of a finance manager. (6 Marks)

**QUESTION TWO (20 MARKS)**

- a) Every firm is driven by its own guiding principles. However, most firms share a number of common overall goals to which they align their activities and strategies toward. Discuss the objectives of a firm, giving appropriate examples where necessary. (10 Marks)
- b) Ordinary shares and preference shares are some of the more commonly used form of equity in financing decisions. Explain four key differences found between these two types of equity. (10 Marks)

**QUESTION THREE (20 MARKS)**

- a) Cost of capital is a term commonly referred to by financial managers when making financing decisions in a firm. Discuss any three components of cost of capital and explain what they are used for. (6 Marks)
- b) ABC Ltd recently announced a dividend of Kes. 5 per share. According to past performance, the dividends have grown at an average rate of 10% and their latest valuation gave an intrinsic value of Kes. 80 per share. What is the cost of equity on this share? (4 Marks)

- c) Bila Enterprises, a construction company based in Kericho wants to invest in 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) Distinguish between the discounted and non-discounted payback period methods, and when it is ideal to use each method, as used in project appraisal. (4 Marks)

**QUESTION FOUR (20 MARKS)**

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

Year	1	2	3	4
Cashflows	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.

Required:

- i) Using the NPV method, advise Faida Ltd. on whether to invest in the project. (8 Marks)
- ii) Obtain the Internal Rate of Return of Faida Ltd. Project. (6 Marks)  
IRR is when NPV=0
- b) Highlight any three advantages of using the Internal Rate of Return as a capital budgeting method. (6 Marks)

**QUESTION FIVE (20 MARKS)**

- a) Working capital management is an important part of a firm's liquidity decisions and it comprises of various components whose proper monitoring ensures efficiency in the firm. Discuss the importance of working capital management. (6 Marks)
- b) A company holds raw materials on an average for 120 days, it gets credit from the supplier for 60 days, production process needs 30 days, finished goods are held for 45 days and 30 days of credit is extended to debtors. Calculate and interpret the firm's operating cycle in days. (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)