



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, 2016/2017 ACADEMIC YEAR
DIPLOMA IN BUSINESS ADMINISTRATION**

DBA 024 - INTRODUCTION TO FINANCIAL MANAGEMENT

Date: 10th August, 2016.
Time: 3.30pm – 5.30pm

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) The capital structure of Jamaa Ltd which is considered optimal as at 31 September 2014 was as follows;

	Sh.'000'
Ordinary share capital	360000
Retained earning	120,000
8% preference share capital(Sh.100 each par value)	120,000
12% debenture (Sh.1000 each par value)	200,000
	800,000

Additional information as at 31 December 2014;

- Any new ordinary share issued will incur a 12% floatation cost per share.
- The most ordinary dividend per share was Sh.5.
- The past and expected future earnings growth rate is 10%.
- Additional 18% preference share can be issued at the current market price of Sh.80 per share.
- A new 12% debenture can be issued at sh.960 for each debenture through the stock exchange.
- Corporation tax rate is 30%.

Required;

- Calculate the companies weighted marginal cost of capital as at 31st September 2014
(5 Marks)
- Calculate the companies weighted marginal cost of capital as at 31st December 2014
(5 Marks)

- b) The following information relating to Kawaidi LTD. was obtained from the financial statement of the company for the year ended 30 November 2014.

	Sh.'000'
Ordinary share capital (Sh.20 par value)	80,000
10% debentures	12,000
Profit after tax for the year	12,000

Additional information;

- a) The share of the company is currently quoted on the stock exchange at sh.72 per share.
b) Corporation tax rate is 30%

Required;

Using the above information, compute and interpret the following financial ratios;

- i) Times interest earned ratio (5Marks)
- ii) Price -earnings ratio (5 Marks)
- c) Explain the roles of a finance manager in relation to four objective of financial management in a company. (10 Marks)

QUESTION TWO (20 MARKS)

- a) Outline the reasons that may constrain company from paying dividends to its shareholders at the end of a financial year. (10 Marks)
- b) State four merit of the net present value (NPV) as an investment appraisal technique. (5 Marks)
- c) Differentiate between capital markets and money market. (5 Marks)

QUESTION THREE (20 MARKS)

- a) Outline the differences between preference share capital and debt finance. (10 Marks)
- b) Discuss factors that influence the working capital needs for a company. (10 Marks)

QUESTION FOUR (20 MARKS)

Company MMM LTD. had a Project YY had the following characteristics;

Year	Cashflow
Y ₀	(950,000)
Y ₁	350,000
Y ₂	370,000
Y ₃	450,000
Y ₄	320000

Required;

- a) If the discount rate is 30% should the company accept the project? (10 Marks)
- b) If the discount rate is 35% calculate the project IRR (6 Marks)
- c) Calculate the project profitability index (4 Marks)

QUESTION FIVE (20 MARKS)

- a) Discuss the dangers of holding excess and inadequate working capital in a given organisation. (10 Marks)
- b) Discuss why it may be difficult for small companies to raise debt financing in Kenya. (10 Marks)