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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR**  
**DIPLOMA IN BUSINESS ADMINISTRATION**  
**SPECIAL EXAMS**

Date: 2<sup>nd</sup> August 2022.  
Time: 11.30am – 1.30pm

**DBA 024 - INTRODUCTION TO FINANCIAL MANAGEMENT**

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

- a) Company XYZ LTD. had a Project KK had the following characteristics;

Year	Cashflow
Y <sub>0</sub>	(1,950,000)
Y <sub>1</sub>	1,350,000
Y <sub>2</sub>	1,370,000
Y <sub>3</sub>	1,450,000
Y <sub>4</sub>	1,320,000

Required;

- i) If the discount rate is 25 % should the company accept the project (10 Marks)
- ii) If the discount rate is 30% calculate the project IRR (6 Marks)
- iii) Calculate the project profitability index (4 Marks)
- b) The following information relating to Okech LTD.was obtained from the financial statement of the Company for the year ended 30 December 2015.

	Sh.'000'
Ordinary share capital (Sh.10 par value)	60,000
8% debentures	22,000
Profit after tax for the year	16,000

Additional information;

- i) The share of the company are currently quoted on the stock exchange at sh.55 per share.
- ii) Corporation tax rate is 30%

Required;

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

- i) Times interest earned ratio (5 Marks)
- ii) Price -earnings ratio (5 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 non discounting technique as an investment appraisal technique (5 Marks)
- c) Advantages of raising capital at capital markets (5 Marks)

**QUESTION THREE (20 MARKS)**

- a) Outline the similarities between preference share capital and debt finance (10 Marks)
- b) Discuss factors that influence the cost of financing in Kenya today (10 Marks)

**QUESTION FOUR (20 MARKS)**

- a) The capital structure of Wuma Ltd. Which is considered optimal as at 31 September 2015 was as follows;

	Sh.'000'
Ordinary share capital	560000
Retained earning	220,000
12 % preference share capital(Sh.100 each par value)	320,000
10 % debenture (Sh.1000 each par value)	300,000
	1,400,000

Additional information as at 31 December 2015

- a. Any new ordinary share issued will incur a 15% floatation cost per share.

- b. The most ordinary dividend per share was Sh.75
- c. The past and expected future earnings growth rate is 15%
- d. Additional 15% preference share can be issued at the current market price of Sh.70 per share
- e. A new 12% debenture can be issued at sh.920 for each debenture through the stock exchange
- f. Corporation tax rate is 30%

**Required**

- i) Calculate the companies weighted marginal cost of capital as at 31 st September 2015  
(5 Marks)
- ii) Calculate the companies weighted marginal cost of capital as at 31 st December 2015  
(5 Marks)
- b) Explain the roles of a finance manager in relation to four objective of financial management in a company.  
(10 Marks)

**QUESTION FIVE (20 MARKS)**

- a) Discuss the practical difficulties in capital budgeting decision in companies today  
(10 Marks)
- b) Discuss dangers of holding inadequate working capital in a company  
(10 Marks)