



Kasarani Campus
Off Thika Road
P. O. Box 49274, 00101
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
DIPLOMA LEVEL EXAMINATION
DBA 1008 FINANCIAL MANAGEMENT
(SPECIAL EXAMINATION)

Date: 15TH AUGUST, 2024
Time: 2:30PM-4:30PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Describe the differences between finance leases and operating leases. **(6 Marks)**
- b) List the importance of capital budgeting in financial management. **(6 Marks)**
- c) Financial management involves making decisions about the firm's resources. Identify any three decisions to be considered. **(6 Marks)**
- d) You have been asked to recruit a finance manager for your firm. Outline the roles of a finance manager. **(6 Marks)**
- e) Financial ratios information is relied upon by a wide range of stakeholders. Describe six users of financial ratios and the information they need in each case. **(6 Marks)**

QUESTION TWO (20 MARKS)

- a) Njemwa Electronics Ltd. intends on expanding their business and are considering the following mutually exclusive investment projects;

	Projected Cash flows of A	Projected Cash flows of B
Year 1	300,000	200,000
Year 2	450,000	450,000
Year 3	750,000	650,000
Year 4	700,000	800,000
Year 5	650,000	800,000
Year 6	400,000	

Required;

Assuming the estimated investment cost is Ksh. 1,000,000 and discount rate is 10%, which of the two projects should Njemwa choose using the following methods?

- a) Payback period **(6 Marks)**
- b) Accounting Rate of Return **(4 Marks)**
- c) Net Present Value **(6 Marks)**
- b) 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) Financial ratios are used to assess a company's performance using various metrics. Describe the categories of financial ratios and the types of users interested in this information under each category. **(10 Marks)**

QUESTION FOUR (20 MARKS)

- a) Ordinary share capital is commonly issued as a means of raising funds by many firms around the world. Analyze some of the advantages 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)**