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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FIRST YEAR, FOURTH SEMESTER EXAMINATION
FOR THE DIPLOMA IN ACCOUNTING
DBA 1008: FINANCIAL MANAGEMENT

Date: 8TH AUGUST 2023

Time: 11:30AM-1:30PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Discuss FIVE causes of conflict between shareholders and managers in relation to agency theory and provide solutions for the conflicts. (5 marks)
- b) KWUST intends to invest Sh 200,000 in one of the projects that will yield better between project A and Project B. The cash flows expected from the two projects are as follows:

| YEAR | PROJECT A(Sh.) | PROJECT B(Sh.) |
|------|----------------|----------------|
| 1 | 100,000 | 40,000 |
| 2 | 60,000 | 40,000 |
| 3 | 40,000 | 40,000 |
| 4 | 20,000 | 80,000 |
| 5 | - | 60,000 |
| 6 | - | 70,000 |

Required:

Using payback period method, advice the management on which project to invest in and why.

(6 Marks)

- c) Several methods exist for evaluating projects under capital budgeting. Identify and explain FOUR features of an ideal investment appraisal method. (4 Marks)
- d) Define the term "cost of capital" and explain THREE reasons why a company should calculate its cost of capital with care. (4 Marks)
- e) Jipe Moyo Ltd. Has the following capital structure for the year 2023.

| SOURCE | AMOUNT(Sh.) |
|------------------------|----------------|
| Debentures | 30,000 |
| Preference capital | 20,000 |
| Retained earnings | 20,000 |
| Ordinary share capital | 30,000 |
| Total | 100,000 |

The component costs of capital are: K_d is 6%, K_p is 10.5%, K_r is 14% & K_s is 17.2%

Required:

- i. Compute the weighted average (WACC) of the company in the following cases:
- i. Before exhausting retained earnings. (3 Marks)
- ii. After exhausting retained earnings. (2 Marks)
- ii. Highlight THREE reasons for WACC analysis in a company. (3 Marks)

- f) Ananda wishes to pursue financial management as a course. Briefly explain THREE reasons for pursuing this course. (3 Marks)

QUESTION TWO

- a) Financial management is a broad term involving raising and allocation funds in firms. Advice Tumaini Millers Finance Department Intern on at least THREE decision areas she might come across in her working tenure. (6 Marks)
- b) KWUST has an equipment which is intended to be replaced four years from now. The estimated cost for the equipment at the end of the four years will be Sh. 30 million. Family bank has assured that the interest rate will be fixed at 8% per annum. The finance director intends to set aside a constant amount from his annual budgets to finance the plant. The rate of interest will be compounded semi-annually.

Required:

Compute the amount that should be deposited with Family Bank at the end of every year to achieve this objective. (4 Marks)

- c) Working capital management involves analyzing the current assets and current liabilities of a company for decision making. Briefly explain five determinants of working capital management in a firm. (10 Marks)

QUESTION THREE

- a) Define the following terms:
- i. Sunk costs and opportunity costs. (2 Marks)
 - ii. Independent projects and mutually exclusive projects. (2 Marks)
 - iii. Capital structure and capital budgeting. (2 Marks)
 - iv. Primary and secondary markets. (2 Marks)
- b) Briefly highlight FOUR advantages of being listed in Nairobi Stock Exchange (NSE) in Kenya. (4 Marks)
- c) The shareholders operate in an environment using the license provided by the government. Briefly highlight FOUR causes of conflicts between the shareholders and government and provide its resolutions. (8 Marks)

QUESTION FOUR

- a) Briefly explain FOUR types of costs related to inventory management process. (4 Marks)
- b) Pentasa Ltd is considering two projects to invest in. Project X is to majorly renovate manufacturing arena and Project Y to replace a few obsolete items in the manufacturing arena. The company is to select one of the projects based on the proposals.

The following are the cash flows from the two projects.

| YEAR | PROJECT X(RENOVATION) | PROJECT Y(REPLACEMENT OF ITEMS) |
|------|-----------------------|---------------------------------|
| 1 | 3,500 | 600 |
| 2 | 3,000 | 500 |
| 3 | 3,000 | 400 |
| 4 | 2,800 | 300 |
| 5 | 2,500 | 200 |

Additional information:

- The investment for Project X is Sh. 9,000 while for Project Y is Sh. 1,000.
- The firm discounts cashflows at the rate of 15%

Required:

- i. Rank the two projects using net present value (NPV) approach. (6 Marks)
- ii. Rank the two projects using the internal rate of return (IRR) approach. (6 Marks)
- iii. Compare the rankings under the NPV and IRR approaches and advice Pentasa Ltd on the project to undertake. (4 Marks)

QUESTION FIVE

- a) Define EOQ and highlight four assumptions related to it. (5 Marks)
- b) Ahmed borrowed Sh. 1,600,000 from Absa Bank, with an interest rate of 12% to be repaid within 4 years. The instalments were payable at the end of each year.

Required:

- i. Calculate the amount of instalment to be paid each year. (3 Marks)
 - ii. Assuming the payment is rendered annually, prepare a loan amortization schedule showing clearly loan payment, beginning of the year principal, interest, principal and balance due at the end of each year. (6 Marks)
- c) Stock market efficiencies exist in three dimensions. Briefly explain the THREE forms of market efficiency. (6 marks)