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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: 6<sup>TH</sup> AUGUST 2024  
Time: 11:30AM – 1:30PM

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE (30 MARKS)**

- a) Consider the following information on a Mary, a 30-year old worker at a government institution in Kisumu County;
- i) Mary is planning on saving for her retirement which is 30 years from now. Considering her current income and lifestyle, she believes that an annual saving of Ksh. 100,000 is adequate. Given that the current interest rates are 15% and are expected to remain unchanged, how much will she receive upon retirement? **(4 Marks)**
- ii) Upon reaching retirement age, the pension provider presents Mary with the following two payment options;
- a) Receive a lump sum amount of what she had been saving in part 'a' above, for the 30 years immediately she retires.
- b) Receive annual payments of Ksh. 2.5 million for the next 20 years.

**Required:**

With the help of appropriate calculation, advise on which of these two options she should accept. **(4 Marks)**

- b) There are various capital budgeting methods that can be used to evaluate the economic viability of an investment project. However, the method selected must satisfy certain conditions to be considered relevant. As such, describe the features of an ideal project appraisal method. **(6 Marks)**
- c) Elizabeth occasionally lends small amounts of money to her friends at a profit. On 1<sup>st</sup> June 2024, she lent Jane Ksh. 20,000 at an interest rate of 18% p.a. If Jane expects to repay the full amount plus interest on 30<sup>th</sup> November 2024, how much will Elizabeth receive? **(5 Marks)**
- d) Financial management mainly revolves around decision making and determining how these decisions will influence the achievement of the firm's objectives. Explain the financial management decisions that are made in the firm. **(5 Marks)**
- e) Working capital management is part of the liquidity decisions made in the firm. They help in determining and ensuring the firm's survivability in the short term. Highlight the various components of working capital management that a financial manager should be aware of. **(6 Marks)**

**QUESTION TWO (20 MARKS)**

- a) One of the goals of a firm involves establishing, maintaining and even strengthening the relationships it has with its stakeholders. This coexistence ensures the firm's survival in the long run. Discuss the relationships that firms maintain with stakeholders and the firm's duty to these stakeholders. (10 Marks)
- b) Time value of money is a concept that explains why and how money loses value over time, and is commonly applied by firms for various reasons. Using appropriate example, describe some of the applications of time value of money. (10 Marks)

**QUESTION THREE (20 MARKS)**

- a) Lenovo Ltd, a computer manufacturer, recently announced a dividend per share of Kes.10 which was an increase from their last dividends which have experienced an 8% year-on-year growth rate.

**Required:**

- i) Given that the book value of a Lenovo share was Ksh. 100, calculate Lenovo's cost of equity. (4 Marks)
- ii) Explain the weighted average cost of capital and its relevance in finance. (4 Marks)
- b) Solarpex Enterprises, a solar installer, wants to invest in a new technology that they believe will revolutionise the industry. They expect to utilize the Ksh. 2,000,000 grant award they received in May this year to fund the project. However, the research team has come up with the following two mutually exclusive activities that they believe will generate the following cash flows:

Year	Cash flows of A (Ksh.)	Cash flow of B (Ksh.)
1	400,000	200,000
2	800,000	400,000
3	1,000,000	600,000
4	1,200,000	600,000
5	-	1,000,000
6	-	1,200,000

**Required:**

- i) Using the payback period method to determine their economic viability, identify which of the two activities Solarpex should undertake to achieve their new technology objective. (8 Marks)
- ii) Using Solarpex Enterprises as an example, explain the disadvantages of the payback period as an investment evaluation method. (4 Marks)

**QUESTION FOUR (20 MARKS)**

- a) Chlorical Ltd. is considering the following project whose initial cost is Ksh. 12 million and will generate the following cash flows:

Year	1	2	3	4	5
Cash flows	1 million	2 million	4 million	5 million	3 million

The cost of capital is 10% and the project has a salvage value of Ksh. 1 million.

**Required:**

- i) Using the NPV method, advise Chlorical Ltd. on whether to invest in the project. (8 Marks)
- ii) Obtain the Internal Rate of Return of Chlorical's project. (6 Marks)

- b) Profit maximization is one of the key objectives of a firm. However, over time, scholars have criticized this objective as inadequate on its own. Discuss the critiques of profit maximization as a firm objective. **(6 Marks)**

**QUESTION FIVE (20 MARKS)**

- a) Conflicts between the management and shareholders of a firm constitute the largest portion of agency conflicts in a firm. Discuss the main causes of these conflicts and how they can be solved for the sustainability of the firm. **(10 Marks)**

- b) Aoki Feeds has provided the following information:

Raw materials holding period	160 days
Payables period	60 days
Receivables period	30 days
W.I.P period	30 days
Finished goods holding period	45 days

**Required:**

- i) Calculate the company's operating cycle and explain what your results mean. **(4 Marks)**
- c) Madiba Car Systems is considering investing in one of three vehicle security and accessory products since they have observed an increased demand in the market. Due to limited funds, they would like to know what they should invest in first.

	<b>Projected Present Values of Cash Flows</b>		
Period	<b>Car GPS and Tracker</b>	<b>Alarm System</b>	<b>Steering Lock</b>
0	(500,000)	(400,000)	(600,000)
1	300,000	250,000	400,000
2	300,000	200,000	300,000

**Required:**

Calculate the profitability index of each of these products and rank them in order of their economic importance to the firm. **(6 Marks)**