



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR
SECOND YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS
DIPLOMA IN BUSINESS MANAGEMENT**

**COURSE CODE: DBM 019
COURSE TITLE : INTRODUCTION TO FINANCIAL
MANAGEMENT**

DATE: 14TH OCTOBER, 2021

TIME: 1100 – 1300HRS

INSTRUCTIONS TO CANDIDATES

Answer Question **ONE** and any other **THREE** Questions

This paper consists of 2 printed pages. Please turn over.

Question One

(a). EXPLAIN the following sources of finance giving clearly their Characteristics:

- i. Ordinary shares (3mks)
- ii. Preference shares (3mks)
- iii. Debentures (2mks)
- iv. Retained earnings (3mks)

(a)Kenya airways Ltd had the following capital structure as at 31st march 2020

Ordinary share capital (400,000 shares) @ sh4

10% preference share capital 200,000 shares @sh 8

14% bond capital 1400 bonds @ sh 140,000

Additional information

- i. The market price of each security as at 31st march 2020 was sh. 40, 60 and 140 respectively.
- ii. The firm paid a dividend of sh. 4.5 for each ordinary share for the year ended 31st march 2016
- iii. The annual growth rate of the dividends is 7%
- iv. The corporation tax rate is 30%

Required:

- i. Compute cost of each source of capital (6mks)
- ii. Compute the weight of each source of capital using market price. (5mks)
- iii. Compute the weighted average cost of capital of the firm as at 31st march 2020. (4mks)

Question two

- a) Identify and explain any four classes of ratios used in financial statement analysis. (6 marks)
- b) Briefly discuss the agency theory and its relevance to finance (9 marks)

Question three

The cash flow of two mutually exclusive projects as presented by the financial accountant of Mwalimu limited was as follows ;

	Project P	Project J
Year	Ksh.000	Ksh.000
0	(40,000)	(20,000)
1	13,000	7,000
2	8,000	13,000
3	14,000	12,000
4	12,000	6,000
5	11,000	2,000
6.	15,000	500

Required:

- i) Estimate the net present value (NPV) of the project 'P' and 'J' using 10% as the cost of capital. **(8 marks)**
- ii) Estimate the internal rate of return (IRR) of the project 'P' and 'J' **(5 marks)**
- iii) Which criteria will you use at such situation? **(2 marks)**

Question four

- a) Explain any five factors which influence the dividend policy of the firm. **(5 marks)**
- b) A company manufactures a single product with a selling price of shs. 150 and variable cost of shs. 90 per unit. Fixed cost amount to shs. 1,800,000 per annum.

Required:

- i) Determine the Breakeven point in units and in shillings. **(4 marks)**
- ii) What sales level in units and in shillings is required to reach a profit target of shs 900,000 p.a. **(6 marks)**

Question five

a) Outline the advantages of budgeting to an organization. **(5 marks)**

b) ABC Ltd company is preparing its cash budget for the first six months of 2019. The sales data for the year 2019 and sales forecast for January to July are:

Sales forecast 2019

	Shs.
December	340,000
January	450,000
February	500,000
March	700,000
April	800,000
May	600,000

Additional information

i) All sales are made on credit with 70% collected in the first month following the sale and 30% in the second month.

ii) Purchases are 60% of the following month's sales and are paid in the following month.

iii) Monthly expenses equal 30% of the current month's sales and are paid currently each month.

iv) Beginning cash was shs. 100,000.

v) Purchased new furniture in march at a cost of sh 20,000.

Required:

Prepare the cash budget for the first quarter of 2019 **(10 marks)**

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