# MAASAI MARA UNIVERSITY

## REGULAR UNIVERSITY EXAMINATIONS
## 2022/2023 ACADEMIC YEAR
## SECOND YEAR SECOND SEMESTER

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

## COURSE CODE: DBM 19
## COURSE TITLE: INTRODUCTION TO FINANCIAL MANAGEMENT

**DATE: 18/4/2023** **TIME: 1100-1300 HRS**

**INSTRUCTIONS TO CANDIDATES**
Answer ALL Questions

**Question One**

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

i. Ordinary shares **(3mks)**

ii. Preference shares **(3mks)**

iii. Debentures **(3mks)**

iv. Retained earnings **(3mks)**

v. Reserves **(3mks)**

b) Kenya Airways Ltd had the following capital structure as at 31st march 2022

Ordinary share capital (400,000 shares) @ sh4

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

14% bond capital 1400 bonds @ Sh 14,000

***Additional information***

i. The market price of each security as at 31st March 2022 was Sh. 40, Sh. 60 and Sh.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 **(6mks)**

iii. Compute the weighted average cost of capital of the firm as at 31st March 2022. **(3mks)**

**Question two**

a) Explain any four reasons for valuation of business securities. **(4 marks)**

b) Briefly discuss the agency theory and its relevance to finance **(6 marks)**

**Question three**

The cash flow of two mutually exclusive projects by Falcon Enterprises was as follows;

| | **Project P** | **Project J** |
|---|---|---|
| **Year** | Ksh.000 | Ksh.000 |

| | | |
|---|---|---|
| 0 (Initial Investment) | (40,000) | (20,000) |
| 1 | l3,000 | 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. Using the discounted payback period, estimate and advice management on the feasible project to undertake between project 'P' and 'J'. Use 10% as the cost of capital. **(7 marks)**

ii. Highlight Three pitfalls of using non discounted techniques in capital budgeting **(3 marks)**

**Question four**

a) Highlight FIVE similarities between preference and equity finance. **(5 marks)**

b) Briefly Outline any five components of a business plan **(5 marks)**

**Question five**

a) Mapeni Ltd is considering which of the following mutually exclusive project to invest in. each project will generate cashflows over a 3 year period.

| Project | Cost | year 1 | year 2 | year 3 |
|---|---|---|---|---|
| **M** | 10M | 5M | 5M | 5M |
| **N** | 10M | 0 | 0 | 17.28M |

The cost of capital for each capital for each project is 10%. Ignore taxation.

**Required**

i. Determine which project to undertake using NPV **(5 Mks)**

ii. Highlight the various financing policies under working capital management **(5 Mks)**

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