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Knowledge for Development

DEPARTMENT OF BUSINESS MANAGEMENT & ECONOMICS

DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE: DIB 105

COURSE TITLE: FINANCIAL MANAGEMENT

DATE:8th August, 2014 **TIME:**2.00PM – 4.00PM

INSTRUCTIONS

- Answer question one (compulsory) and any other three questions

QUESTION ONE

a) Define Financial management and the possible functions of Financial Management (10mks)
b) Explain the Limitations of the goal of Profit maximization (5 marks)
c) Highlight the importance of budgeting (5 marks)
d) Outline five assumptions of EOQ (5 marks)

QUESTION TWO

Discuss in detail the agent Relationship between shareholders and Managers and the specific measures put in place to motivate managers to act in shareholders interest (15 marks)

QUESTION THREE

A company is considering two mutually exclusive projects requiring an initial cash outlay of Kshs 10,000 each and with a useful life of 5years. The company's required rate of return is 10% and the corporate tax is 50%. The project will be depreciated on a straight line basis. The inflows before depreciation and taxes are as follows:

Year	1	2	3	4	5
Project A	4,000	4,000	4,000	4,000	4,000
Project B	6,000	3,000	2,000	5,000	5,000

Required:

Advice the management on which project to choose in consideration of:-

i) Net present value (NPV) (5 marks)
ii) Accounting Rate of Return (ARR) (10 marks)

QUESTION FOUR

ABC Ltd has the following capital structure as at 31st March 2010

	Shs
Ordinary share capital (400,000 shares)	16,000,000
10% Preference share capital	2,000,000
14% Bond Capital	14,000,000

Additional information:-

i) The market price of each ordinary share as at 31st March 2010 was kshs 40

ii) The firm paid a dividend of kshs 4 for each ordinary share for the year ended 31/3/2010

iii) The annual growth rate in dividend was 7%

iv) The Corporation tax rate was 30%

Required:-

Compute the weighted Average cost of Capital (WACC) of the firm as at 31st March 2010

(15 marks)

QUESTION FIVE

a) A company uses 50,000 nut per annum which are shs 10 each to purchase. The ordering and handing costs are shs 150 per order and carrying costs are 15% of purchase price per annum

Required:-

i) Calculate the EOQ (3 marks)

ii) Annual Number of orders (3 marks)

iii) Total cost (3 marks)

b) Discuss the following sources of funds to a business

i) Common share capital (2 marks)

ii) Debenture capital (2 marks)

iii) Trade credit (2 marks)