

KIBABII UNIVERSITY COLLEGE

DIB 105: FINANCIAL MANAGEMENT

MAIN EXAM

ANSWER QUESTION ONE (COMPULSORY)

AND ANY OTHER THREE QUESTIONS

- (a) A company is considering two mutually exclusive projects requiring an initial cash outlay of Shs.10,000 each and with a useful life of 5 years. 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

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

- (i) Net present value (NPV) (8mks)
(ii) Accounting rates of return (ARR) (17mks)

QUESTION TWO

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

	Kshs.
Ordinary Share capital (400,000 shares@)	16,000,000
10% preference share capital	2,000,000
14% Band capital	14,000,000

Additional information:

- (i) The market price of each ordinary share as at 31st March 2010 was Ksh.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 is 7%
(iv) The corporation tax rate is 30%

Required:

Complete the Weighted Average cost of capital (WACC) of the firm as at 31st March 2010 (15mks)

QUESTION THREE

- (a) Highlight THREE assumptions of the Economic order quantity (3mks)
- (b) Demand for part CD 484 used by Karen Ltd of 4 million units. The cost per unit for this part is 200/= and the cost of placing an order is sh.500. Karen Ltd estimates that the annual inventory carrying cost is 20% of the cost per unit.

Required:

- (i) Calculate the EOQ (3mks)
- (ii) Number of orders in a year (3mks)
- (iii) Calculate the re-order level. Assume lead time is 10 days and the company works for 300 days in a year (3mks)
- (iv) Total cost (3mks)

QUESTION FOUR

- (a) Discuss in detail the THREE main functions of a finance manager (9mks)
- (b) It is believed that the goal of the firm is to maximize profits. However, profit maximization faces a number of challenges. Discuss in detail, THREE short comings of profit maximization as a goal of the firm. (6mks)

QUESTION FIVE

- (a) Explain the following sources of funds to a business
 - (i) Trade credit
 - (ii) Ordinary share capital
 - (iii) Commercial paper
 - (iv) Retained earnings (8mks)
- (b) ABC Company Limited produces three products A, B and C. For the coming accounting period budgets are to be prepared based on the following information.

Budgeted sales

Product A 2,000 units at Sh.100 each

Product B 4,000 units at Sh.130 each

Product C 3,000 units at Sh.150 each

Finished inventories budget

	Product A	Product B	Product C
Opening	500	800	700
Closing	600	1,000	800

Required:

- (i) Calculate sales in units and equivalent value in Shs. (3mks)

(ii) Calculate budgeted production in units

(4mks)