CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

CHUKA, EMBU & IGEMBE

EXAMINATION FOR THE AWARD OF DIPLOMA IN PROCUREMENT AND LOGISTICS MANAGEMENT, BUSINESS MANAGEMENT, ACCOUNTING AND LEADERSHIP MANAGEMENT

DIAC 0231: FINANCIAL MANAGEMENT

STREAMS: DIAC (Y2S1) **TIME: 2 HOURS**

DAY/DATE: MONDAY 02/12/2019 **8.30 A.M. – 10.30 A.M.**

INSTRUCTIONS: Answer question ONE and any other TWO questions

QUESTION ONE

(a) Determine the amount that should be deposited each year so as to accumulate to sh. 1 million in 20 years at an interest rate of 18% [3 marks]

(b) A financial analyst would prefer to have a shilling now rather than the same shilling tomorrow. Outline the reasons for this state of affairs [4 marks]

(c) Fernanda has invested in a 5 year 12% sh. 40,000 bond. Calculate the intrinsic value of the bond if the required rate of return is 14% [4 marks]

(d) Differentiate between the following terms as used in financial management [10 marks]

- (i) Discounting and compounding
- (ii) Financing decisions and liquidity decisions
- (iii) Mutually exclusive investment and dependent investment
- (iv) Retained earnings and mortgage finance
- (v) Primary markets and secondary markets

(e) Discuss the causes of conflicts between shareholders and managers [5 marks]

(f) A company is considering investing in a project that promises profit before depreciation and tax of sh.20,000 each year for 4 years. The cost of the project is sh. 36,000with a scrap value of sh. 6,000. Tax rate is 30% and depreciation is on straight line method. Determine the accounting rate of return. [4 marks]

QUESTION TWO

(a) State the circumstances that NPV and IRR rules conflicts in ranking the project .

[4 marks]

(b) A project with an initial outlay of sh 360,000 promises the following profit before depreciation and tax

Years	Profit before depreciation and tax
1	150,000
2	130,000
3	120,000
4	90,000
5	100,000
6	80,000

Additional information:

1. The cost of capital is 10%, deprecation is on straight line method and the tax rate is 30%

Required:

NPV, PI and IRR [14 marks]

(c) Define the term payback period [2 marks]

QUESTION THREE

(a) Explain the factors that affect the cost of finance [6 marks]

(b) Discuss the functions of Nairobi securities exchange [5 marks]

(c) The following is the capital structure of Awasi Company

	Sh
Ordinary share capital (sh 80)	8,000,000
12% preference shares (sh 50)	5,000,000
18% longterm debentures (sh 150)	6,000,000
Retained earnings	1,000,000
	Sh 20,000,000

Additional information:

(i) The company elements pays a dividend of sh 8 per share which is expected to grow at 10% and the ordinary shares are currently selling for sh 100per share

(ii) The preference shares currently sell for sh 75

(iii) The long term debenture currently sell for sh 250 and will mature in 50 years

(iv) Tax rate is 30%

Required: weighted average cost of capital [9 marks]

QUESTION FOUR

(a) Highlight the reasons for valuation of securities [4 marks]

(b) With the aid of examples differentiate between conservative approach and matching approach [4 marks]

(c) A company currently pays a dividend of sh 25 per share which is expected to grow at 10% for 3 years, 8% for 4 years, 15% for 3 years after which it will fall to a constant rate of 12%. Calculate the theoretical value of the share if the required rate of return is 16% . [12 marks]
