



**MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY
(MMUST)**

**MAIN/BUNGOMA/WEBUYE/NAIROBI CAMPUS
UNIVERSITY SUPPLEMENTARY EXAMINATION**

**2021/2022 ACADEMIC YEAR
FIRST YEAR SPECIAL/SUPPLEMENTARY EXAMINATIONS
FOR THE DIPLOMA
OF
BUSINESS MANAGEMENT**

COURSE CODE: DAF 106

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: MONDAY, 1ST AUGUST 2022 TIME: 8-10am

INSTRUCTIONS TO CANDIDATES

Answer **QUESTION ONE** and **ANY OTHER TWO** questions.

TIME: 2 HOURS

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over.

SECTION A (COMPULSORY)

QUESTION ONE

- (a) Explain the long term sources of finance. (5 marks)
- (b) The central concern of financial management is considered to be a rational matching of funds to their uses. What are the main goals of a firm. Explaining the shortcomings. (8 marks)
- (c) Working capital management requires making a balance or a trade-off between profitability and liquidity. Explain what determines the working capital. (8 marks)
- (d) A manufacturing company is planning to acquire a new machine and has two alternatives, machine A and machine B.

		Machine A Kshs.	Machine B Kshs.
Cost		1,000,000	3,000,000
Estimated life (years)		5	5
Residual value		nil	nil
Net returns			
Before depreciation	Year		
	1	500,000	900,000
	2	800,000	100,000
	3	700,000	800,000
	4	100,000	500,000
	5	500,000	500,000

Required:

Based on the ARR method which of the two machines should be purchased.

(9 marks)

QUESTION FOUR (20 MARKS)

- (a) Explain the types of capital budgeting projects. (10 marks)
- (b) The following information is extracted from Maji Mazuri Limited financial statement for the year 31 December 2015.

	Amounts
	Kshs.
Net sales	20,000
Cost of goods sold	6,000
Administrative expenses	4,000
Interest	700
Income tax	25%

Additional Information

The firm had the following:

Current Assets worth Kshs.8,000 and

Fixed Assets worth Kshs.15,000.

It also had total liabilities of Kshs.5,000

Required:

- (i) Calculate the Return on Assets (ROA). (5 marks)
- (ii) Gross Profit Margin. (5 marks)

QUESTION FIVE (20 MARKS)

- (a) Discuss the financial decisions used in financial management and their impact on the value of the firm. (10 marks)
- (b) The following is information from Glory Ltd. Company Income Statement:

	Year 1	Year 2
	Kshs.	Kshs.
Sales	50,000	53,000
Variable cost	1,400	1,600
Fixed cost	17,000	17,000
Earnings Before Interest and Tax (EBIT)	31,600	34,400
Interest (Fixed)	700	700
Earnings Before Tax (EBT)	30,900	33,700

Required:

- (i) Calculate operating leverage. (5 marks)
- (ii) Calculate financial Leverage. (5 marks)

SECTION B (CHOOSE ANY TWO QUESTIONS)

QUESTION TWO (20 MARKS)

- (a) What are the key differences between compounding and discounting. (5 marks)
- (b) (i) Mwenda Pole investment is considering two projects, A and B, with cash flows as shown below:

Period	A Kshs.	B Kshs.
0	(150,000)	(100,000)
1	20,000	60,000
2	30,000	15,000
3	25,000	25,000
4	20,000	15,000

The opportunity cost of capital for A is 12% and for B is 8%.

Required:

Calculate the NPV for each project. (12 marks)

- (ii) Give reasons with a brief explanation why the NPV method of investment appraisal is thought to be superior to other approaches. (3 marks)

QUESTION THREE (20 MARKS)

- (a) List and explain five factors that should be taken into account by a business man in making the choice between financing by short term and long-term sources. (10 marks)
- (b) The following information has been extracted from the balance sheet of Fashion Ltd. as on 31 December 2016

Equity	400
12% debenture	400
18% term loan	1,200

FashionLtd. had been paying divided at a consistent rate of 20% p.a.

Required:

Determine the WACC of the company. (10 marks)