



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 019

**COURSE TITLE: INTRODUCTION TO
FINANCIAL MANAGEMENT**

DATE : 18/12/2023 TIME : 0830-1030 HRS

INSTRUCTIONS TO CANDIDATES

Answer Question ONE and any other THREE Questions

This paper consists of 2 printed pages. Please turn over.

Question one

- a. Highlight any **THREE** goals of a firm **(3 marks)**
- b. Briefly explain any **THREE** ways in which business ethics can be measured **(6 marks)**
- c. Explain any **THREE** ways to deal with the Conflict of interest that usually occur between managers and shareholders . **(6marks)**
- d .A Company anticipates Sh.150 million in cash outlays during the next year. The outlays are expected to occur equally throughout the year. The company's treasurer reports that the firm can invest in marketable securities yielding 8% and the cost of shifting funds from marketable securities portfolio to cash is Sh.7, 500 per transaction. Assume the company will meet its cash demands by selling marketable securities. Using the Baumol model:
- Determine optimal size of the company's transfer of funds from marketable securities to cash. **(3 marks)**
 - What will be the company's average cash balance? **(2 marks)**
 - How many transfers from marketable securities to cash will be required during the year? **(2 marks)**
 - What will be the total cost associated with the company's cash requirements? **(3 marks)**

Question Two

- a) Outline five limitations of the use of ratios as a basis of financial analysis. **(5 marks)**
- b) Magnet ventures has borrowed ksh 20,000,000 at an interest rate of 14% p.a. for investing in a project. The expected cash flows from the project for the next five years are as shown ;

Year	1	2	3	4	5
Cash flow	5m	8m	12m	6m	4m

- Compute the NPV at 14% and 30% **(6 marks)**
- Using the results determine the IRR and advice the management **(4 marks)**

Question three

Jirani Mixed Co. Limited sells plumbing fixtures on terms of 2/10 net 30. Its financial statements for the last three years are as follows:

	1999	2000
	Sh.'000'	Sh.'000'
Cash	20,000	5,000
Accounts receivable	260,000	290,000
Inventory	480,000	600,000
Net fixed assets	<u>800,000</u>	<u>800,000</u>
	1,560,000	1,695,000
Accounts payable	300,000	380,000
Accruals	210,000	225,000
Bank loan, short term	100,000	140,000
Long term debt	300,000	300,000
Common stock	100,000	100,000
Retained earnings	<u>550,000</u>	<u>550,000</u>
	1,560,000	1,695,000
Additional information:		
Sales	4,300,000	3,800,000
Cost of goods sold	3,600,000	3,300,000
Net profit	200,000	100,000

Required:

For each of the three years, calculate the following ratios:

- i. Acid test ratio **(2 marks)**
- ii. Average collection period **(3 marks)**
- iii. Inventory turnover **(3 marks)**
- iv. Total debt/equity **(2 marks)**
- v. Net profit margin **(2 marks)**
- vi. Return on assets. **(3 marks)**

Question four

a) Highlight any **FOUR** types of Efficiency **(4 marks)**

b) Determine the future value of a shs100, 000 investment made at the beginning of every year for 5 years assume the required rate of return is 12% compounded annually. **(3 marks)**

c) Lumumba needs to have Sh.1, 500,000 at the end of 5 years in order to fulfill his goal of purchasing a sports car. He is willing to invest the amount as a lump sum today but wonders what type of investment return he will need to earn. Figure out the annual compound rate of return needed in each of the following cases.

- i) Lumumba can invest Sh.1, 020,000 today.
- ii) Lumumba can invest Sh.815,000 today **(8 marks)**

Question five

a) List any five determinants of Working Capital Requirements of a firm **(5 marks)**

b) A company requires 2000 units of items costing shs. 50 each. Each order costs shs. 50 to prepare and process and the holding cost is 10% of the purchase price. This is the minimum or butter stock which acts as a cushion against any increase in usage or delay in deliver at time.

Required:

- a) How many units should be ordered each time an order is made **(3 marks)**
- b) What is the reorder level **(3 marks)**
- c) Determine total relevant costs. **(4 marks)**

Question six

a)The following is the capital structure of Lambak Limited as t 31st December 2022

25000 ordinary share of KSHs 100 each	2500000
Reserves	3500000
10% Debentures	1000000
12% loan	3000000

The market price of each ordinary share was kshs 125 while dividend paid per share was sh 5. the corporation tax was 30% p.a.

Required :

- a)Compute the weighted average cost of capital **(10 marks)**
- b)Highlight any five assumptions of economic order quantity **(5 marks)**

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