

LAIKIPIA



UNIVERSITY

# UNIVERSITY EXAMINATIONS

2<sup>ND</sup> SEMESTER 2023/2024 ACADEMIC YEAR

FOURTH YEAR EXAMINATION FOR THE DEGREE OF  
EDUCATION (ARTS)

BUST 421: FINANCIAL MANAGEMENT

***STREAM:***

***TIME: 2 HRS***

***DAY: THURSDAY [2.30-4.30 P.M]***

***DATE: 18/04/2024***

**THIS QUESTION PAPER CONSISTS OF FIVE (5) PAGES**

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**INSTRUCTIONS**

Answer question **one** and any other **two** questions

**QUESTION ONE**

- a) Explain the main functions of financial management. **(8 marks)**
- b) Matopeni enterprises plans to borrow sh. 4,000,000 at an interest rate 18% p.a. The loan is to be amortized for 4 years but payable on equal monthly instalment inclusive of interest charges.

**Required:**

- i) Monthly instalment. **(4 marks)**
- ii) Loan amortization schedule for the first 3 months. **(6 marks)**
- c) Taqua ltd has the option of investing sh.850,000 in **either** machine TAC or machine MAC. The machines are expected to generate the following cash flows;

Year	TAC	MAC
	Sh.	Sh.
2024	(110,000)	340,000
2025	380,000	(80,000)
2026	450,000	480,000
2027	550,000	530,000

**Required:**

- i) Evaluate the viability of each of the machines using the Payback Period method. **(10 marks)**
- ii) Advise the management on the machine to invest in. **(2 marks)**

<b>Question two</b>		
<b><u>Income statement for the year ended 31<sup>st</sup> December:</u></b>		
	<b>2022</b>	<b>2023</b>
	<b>Sh. '000'</b>	<b>Sh. '000'</b>
Sales (all on credit)	480,000	480,000
Cost of sales	(288,000)	(240,000)
Gross profit	192,000	240,000
Expenses	(144,000)	(144,000)
Net profit	48,000	96,000
Retained profit brought forward	<u>60,000</u>	<u>108,000</u>
Retained profit carried forward	<u>108,000</u>	<u>216,000</u>
<b><u>Statement of financial position as at 31<sup>st</sup> December</u></b>		
	<b>2022</b>	<b>2023</b>
<b>Non-Current Assets:</b>	<b>Sh. '000'</b>	<b>Sh. '000'</b>
Land	151,200	105,600
Plant and machinery	206,400	147,600
Building	<u>189,600</u>	<u>144,000</u>
	547,200	397,200
<b>Current Assets</b>		
Inventory	156,000	132,000
Trade receivables	<u>120,000</u>	<u>96,000</u>
	<u>276,000</u>	<u>228,000</u>
<b>Total Assets</b>	<b><u>823,200</u></b>	<b><u>625,200</u></b>
<b>Financed by:</b>		
Capital	261,200	235,200
10% Loan	<u>360,000</u>	<u>240,000</u>



	<u>621,600</u>	<u>475,200</u>
<b>Current Liabilities:</b>		
Trade payables	144,000	96,000
Proposed dividends	48,000	48,000
Bank	<u>9,600</u>	<u>6,000</u>
	<u>201,600</u>	<u>150,000</u>
Total equity and liabilities	<u>823,200</u>	<u>625,200</u>
Assume a 365-day year		

Compute the following ratios:

- i) Current ratio
- ii) Quick ratio
- iii) Gearing ratio
- iv) Debt to equity ratio
- v) Inventory turnover
- vi) Debtors turnover
- vii) Creditors turnover
- viii) Average collection period
- ix) Net profit margin
- x) Gross profit margin

**(20 marks)**

### Question 3

XYZ investment ltd wishes to raise funds amounting to sh.20,000,000 to finance a new investment project in the following manner:

- Sh.12,000,000 from debt capital
- Sh.8,000,000 from issue of new ordinary shares.

The present capital structure of the company is made up as follows:

- ✓ 1,200,000 fully paid ordinary shares of sh.10 each.
- ✓ Retained earnings of sh.8,000,000
- ✓ 400,000 10% preference shares of sh.20 each
- ✓ 80,000 6% debentures of sh.150 each.

The current market value of ordinary shares is sh.60 per share. The expected ordinary dividend in one year's time is sh.2.4 per share. The average growth rate in the dividends and earnings has been 10% over the past 10 years and this growth rate is expected to be maintained in the foreseeable future.

The company's debentures currently change hands for sh.100 and will mature in 100 years.

The preference shares were issued 4 years ago and still change hands at par value.

**Required:**

- a) Compute the component cost of capital of:
  - i) Ordinary share capital
  - ii) Debentures
  - iii) Preference share capital **(15 marks)**
- b) Compute the company's current weighted average cost of capital **(5 marks)**  
Assume the corporation tax rate is 30%.

**Question 4**

- a) Discuss the four major dividend policies that can be followed by a firm. **(8 marks)**
- b) Discuss the following types of finance:
  - i) Three long-term sources of finance **(6 marks)**
  - ii) Three short-term sources of finance **(6 marks)**