



UNIVERSITY EXAMINATIONS
SECOND YEAR EXAMINATION FOR THE AWARD OF THE
DIPLOMA IN ACCOUNTING AND FINANCE
FIRST SEMESTER 2023/2024
[AUGUST-DECEMBER, 2023]

DHRM 0201: INTRODUCTION TO FINANCE

STREAM: Y2 S1

TIME: 2 HOURS

DAY: TUESDAY, 9.00 – 11.00 A.M.

DATE: 30/11/2023

INSTRUCTIONS

- 1. Do not write anything on this question paper.***
- 2. Answer Questions ONE and any other THREE Questions***

Question one

- Explain any four functions of a finance manager (8marks)
- James intends to invest in a piece of land costing 850,000. He is certain that he will sell the piece of land for 910,000 the same time next year, a sure gain of sh 60,000. Given that banks are offering interest, should he invest in this project? (5marks)
- A company is considering two mutually exclusive projects requiring an initial cash outlay of sh 10,000 each and with a useful life of 5 years. The company required rate of return is 10% and the appropriate corporate tax rate is 50%. The projects will be depreciated on a straight line basis. The before depreciation and taxes cash flows expected to be generated by the projects are as follows

Years	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

Calculate

- i) The payback period
- ii) The net present value (NPV)
- iii) Profitability index (PI) (12 marks)

QUESTION TWO

- a) Discuss the key features of partnership form of business (7marks)
- b) Bosongo enterprises had the following structure as 31/12/2021

Ordinary share	sh
200,000@ sh 20 each	4,000,000
10% preference shares	1,000,000
14% debentures	<u>3,000,000</u>
Total	<u>8,000,000</u>

The shares of this company sell at 20/= each. It is expected that the company will pay next year a dividend of 2 shillings per share which will grow at 7% for ever. Assume a 50% tax rate. You are required to:

- i) Compute the weighted average cost of capital based on existing capital structure.
- ii) Compute the new weighted average cost of capital if the company raises an additional Ksh 2,000,000 debt by issuing 15% debenture. This would result in increasing the expected dividends to ksh 3/= and have the growth rate unchanged, but the price of the share will fall to Ksh 15 per shar(8marks)

QUESTION THREE

- a) Identify and explain the disadvantages of sole proprietorship form of business (5marks)
- b) A project has the following details

Year	Cash flow
0	(950,000)
1	300,000
2	470,000
3	480,000
4	320,000

Calculate the IRR if the IRR proposal is at 20% and 25% respectively(10marks)

QUESTION FOUR

- a) Briefly explain reasons why lease finances is not well developed in Kenya (7marks)
- b) From the following information , advise the management on the project to undertake using payback period (5marks)

	Project	I	II	III
Cash flows	Y0	(150,000)	(150,000)	(150,000)
	Y1	60000	40000	30000
	Y2	50000	50000	50000
	Y3	40000	60000	40000
	Y4			30,000
	Y5			30,000
	Y6			30,000

C) Identify and explain the advantages of Net present value. (3 marks)

QUESTION FIVE

- a) Explain reasons behind unpopularity of debentures in Kenya's financial markets (7 marks)
- b) Outline the factors that influence the working capital needs for a company (8marks)