

KISII UNIVERSITY KERICHO CAMPUS

CIAF 0115: FINANCIAL MANAGEMENT

INSTRUCTIONS

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

QUESTION 1

- What is finance? (2 marks)
- Explain four importance of financial management. (8 marks)
- The following is a snap shot of equity trading in Nairobi Stock Exchange (NSE) as of 7th May 2018.

Stock	Previous price	Current price	Traded volume	Issued shares
KenGen	7.05	7.75	141,700	2,198,361,456
Britam holdings ltd	13.40	13.95	1,005,200	1,938,415,838
Nation Media Group Ltd.	101.00	103.00	8,500	188,542,286
Safaricom Ltd.	29.50	29.50	6,310,900	40,065,428,000

Required:

- Calculate daily stock return for each respective stock. (4 marks)
 - Calculate market capitalization for each respective stock. (4 marks)
 - Discuss liquidity of the sampled stocks in reference to traded volume. (3marks)
- d) Using the case study of Express KenyaPlc, highlight two sources of funds. (4 marks)

QUESTION 2

- Evaluate at least three advantages and disadvantages of equity shares (7 marks)
- Explain four roles of Nairobi Stock Exchange (NSE) in Kenyan economy. (8 marks)

QUESTION 3

- Discuss three factors affecting the capital structure of an organization. (6marks)

- b) Neptune Ltd has identified a project which will cost Ksh300,000 and forecasts indicate that this project will generate the following returns:
 Year1 = Ksh100,000
 Year2 = Ksh150,000
 Year3 = Ksh200,000

This company will pay an interest rate of 10% per annum.

Required:

- (a) Compute the present value of cash benefits. (6 marks)
 (b) Using Net Present Value method, why should the company invest on the project? (3 marks)

QUESTION 4

- a) Define cost of capital and explain three of its importance. (7 marks)
 b) Aqua Ltd has the following capital structure and after-tax costs for the different sources of funds used.

Source of funds	Amount (Ksh)	After-tax cost (%)
Debt	15,000,000	5
Preference shares	12,000,000	10
Equity shares	18,000,000	12
Retained earnings	15,000,000	11
Total	60,000,000	

Required:

- a) Compute the weighted average cost of capital (5 marks)
 b) What does the computed weighted average cost of capital mean? (3 marks)

QUESTION 5

- a) Briefly explain capital budgeting and two of its importance. (6 marks)
 b) What is capital? Discuss two types of capital. (6 marks)
 c) Mention three causes of over-capitalization. (3 marks)

QUESTION 6

- a. Describe agency relationship and agency cost. (7marks)
- b. Highlight four differences between profit maximization and wealth maximization. (8 marks)