



**KISII UNIVERSITY
KERICHO CAMPUS**

FACULTY: COMMERCE

COURSE CODE: DHRM 0201

COURSE TITLE: INTRODUCTION TO

FINANCE

ANSWER QUESTION AND ANY OTHER THREE

QUESTION ONE (30marks)

- i. Discuss any four roles of finance manager (8marks)
- ii. The existing capital structure of Mwarakaya Limited is given as follows:

	Sh 000
Ordinary share capital (sh.100 par value)	40,000
12% debentures (sh.100 par value)	25,000
10% preference share capital (sh. 20 par value)	20,000
15% Bank loan	5,000

Required. Compute the weighted average cost of capital (WACC). Assume that the tax rate 30%

(12 marks)

- iii. John wishes to make sh 1million in 5 years' time to pay school fees for his daughter.
- i) Calculate the amount of money he requires to deposit in a fixed deposit account at an interest rate of 20% per annum? (6marks)
- ii) Compute the shortfall in the amount of fees if interest rate dropped by 2% per annum. (4 marks)

QUESTION TWO (20marks)

- i. Discuss any five source of finance available to sole trader (10marks)
- ii. Assuming that after your university education you want to start a business. Which form of business would you prefer between partnership and company. Support your choice by giving at least five advantages of the selected option and at least five disadvantages of the one unselected. (10marks)

QUESTION THREE (20marks)

- iv. Discuss the three basic financial decisions in business. How are these decisions made?
(6marks)
- v. The following information has been extracted from the accounts of Maendeleo Ltd. For the year ended 31st Dec 2015.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DEC 2015.

	KSH
Sales	9600
Cost of goods sold	<u>(5900)</u>
Gross profit	<u>3700</u>
Trading expenses	<u>(1650)</u>
Trading profit	<u>2050</u>
Taxes	<u>(500)</u>
Net profit	<u>1550</u>

BALANCE SHEET AS AT 31 ST DEC 2015

	KSH	KSH
Fixed assets		3700
Current assets		
Cash	1650	
debtors	1050	
Stock	<u>2700</u>	<u>5400</u>
		<u>9100</u>
Liabilities		
Current liabilities		5650
Financed by;		
Ordinary share capital		1900
Net profit		<u>1550</u>
		<u>9100</u>

Compute the following ratios

- a. Gross profit margin (3marks)
- b. Net profit margin (3marks)
- c. Current ratio (3marks)
- vi. Acid test ratio (3marks)

QUESTION FOUR (20marks)

- a. Suggest four possible solutions to the conflicts arising between the management and the shareholders of an organization (6marks)
- b. A firm is considering the following investments projects:

Projects	Cashflows			
	year 0	year 1	year 2	year 3
A	1,000,000	500,000	500,000	-
B	1,000,000	-	650,000	850,000
C	1,000,000	300,000	500,000	1,000,000
D	1,000,000	800,000	400,000	400,000

The firm's opportunity cost of capital is 12%.

Required:

- i) Rank the projects using payback period (7marks)
- ii) Rank the projects using net present value method (7marks)