



# MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

SECOND YEAR SECOND SEMESTER EXAMINATION FOR

DIPLOMA IN ACCOUNTANCY

DACC 211 FINANCIAL MANAGEMENT II

DATE: 8/5/2019

TIME: 11.00-1.00 PM

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**INSTRUCTIONS:** Attempt Question One and any other Two Questions

## QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Discuss the key characteristics of long-term investment (6 marks)
- b) State and explain the main components of cash flow (6 marks)
- c) Explain the following terms as used in capital budget decisions:
  - i) Independent vs mutually exclusive projects
  - ii) Unlimited funds vs capital rationing (6 marks)
- d) What is the payback period for an investment that requires a Ksh. 10,000 initial investments and returns of Ksh.3000 per year thereafter. Comment on your answer (6 marks)
- e) Discuss the advantages of payback period (6 marks)

## QUESTION TWO (20 MARKS)

A project will cost Ksh. 80,000,000. Its stream of earnings before depreciation and interest and taxes (EBDIT) during the first year through four years is expected to be Ksh. 20,000,000, Ksh24,000,000, Ksh. 28,000,000 and Ksh. 40,000,000. Assuming a 30% corporation tax rate and depreciation on straight line basis, Calculate the projects accounting Rate of Return.

### **QUESTION THREE (20 MARKS)**

- a) The owner of Trans line is considering to buy a 62-seater bus which will sale for Ksh.6000,000 and is expected to bring about Ksh. 1000 per day after expenses. The cost of funds is 15%. Should the bus be purchased? The bus is expected to last three years before a newer model will be needed to attract passengers. (16 marks)
- b) Discuss the disadvantages of Net Present Value (4 marks)

### **QUESTION FOUR (20 MARKS)**

The initial cash outlay of a project is Ksh. 100,000 and it can generate cash flows of Ksh. 40,000, Ksh. 30,000, Ksh. 50,000, and Ksh. 20,000 in year one through year four. Assuming 10% rate of discount, calculate the Net Present Value and the Profitability Index of the Project.

### **QUESTION FIVE (20 MARKS)**

- a) State and explain the differences between capital structure and financial structure. (8 marks)
- b) Discuss the factors of that are considered when deciding the capital structure of the business firm (12 marks)