MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

SECOND YEAR SECOND SEMESTER EXAMINATION FOR DIPLOMA IN ACCOUNTANCY

DACC 202: FINANCIAL MANAGEMENT II

DATE: 6/6/2017 **TIME: 8:30 – 10:30 AM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

Rafiki Hardware Tools Company Limited sells plumbing fixtures on terms of 2/10 net 30. Its financial statements for the last three years are as follows:

	2010	**2011**	**2012**
	Sh.'000'	**Sh.'000'**	**Sh.'000'**
Cash	30,000	20,000	5,000
Accounts receivable	200,000	260,000	290,000
Inventory	400,000	480,000	600,000
Net fixed assets	800,000	800,000	800,000
	1,430,000	1,560,000	1,695,000
Accounts payable	230,000	300,000	380,000
Accruals	200,000	210,000	225,000
Bank loan, short term	100,000	100,000	140,000
Long term debt	300,000	300,000	300,000
Common stock	100,000	100,000	100,000
Retained earnings	500,000	550,000	550,000
	1,430,000	1,560,000	1,695,000

Additional information:

Sales	4,000,000	4,300,000	3,800,000
Cost of goods sold	3,200,000	3,600,000	3,300,000
Net profit	300,000	200,000	100,000

Required:
For each of the three years, calculate the following ratios:

Acid test ratio, Average collection period, inventory turnover, Total debt/equity, Net profit margin and return on assets. (30 marks)

QUESTION TWO (20 MARKS)

a) Highlight four advantages and disadvantages to a company of being listed on a stock exchange. (10 marks)

b) List and explain five factors that should be taken into account by a businessman in making the choice between financing by short-term and long-term sources. (10 marks)

QUESTION THREE (20 MARKS)

Briefly explain the Factors to consider in paying dividends (factors influencing dividend)

(20 marks)

QUESTION FOUR (20 MARKS)

You are provided with the following information about Marco. Ltd.

a) Number of issued ordinary shares 250,000

b) Market price per ordinary share Shs.37.50

c) Total earnings for the year Sh.5, 000,000 (before tax).

d) Rate of corporation tax 30%

e) The total ordinary dividend will be 25% of the earnings for the year after tax.

f) Preference dividend will be Sh.300,000

From the above information, calculate:

i Earnings per share

ii Dividend yield

iii Earnings yield

iv Price earnings ratio (P/E) ratio

v Dividend cover. (20 marks)

QUESTION FIVE (20 MARKS)

The following is the capital structure of XYZ Ltd as at 31/12/2002.

	Shs.M
Ordinary share capital Sh.10 par value	400
Retained earnings	200
10% preference share capital Sh.20 par	100
value	200
12% debenture Sh.100 par value	900

Additional information

1. Corporate tax rate is 30%
2. Preference shares were issued 10 years ago and are still selling at par value MPS = Par value
3. The debenture has a 10 year maturity period. It is currently selling at Sh.90 in the market.
4. Currently the firm has been paying dividend per share of Sh.5. The DPS is expected to grow at 5% p.a. in future. The current MPS is Sh.40.

Required

Determine the WACC of the firm. (20 marks)