MACHAKOS UNIVERSITY

University Examinations for 2017/2018 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

DATE:5/12/2017 **TIME: 2.00-4.00 PM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

1. a) Explain five factors that finance manager should analyse before making a dividend decision (10 marks)

b) Outline five functions of a finance manager.

c) Explain three ways in which a company could pay dividends to its shareholders.(6 marks)

d) An investor has two securities, X and Y with the following returns characteristics.

State of economy	Probability	Returns X(%)	Returns Y(%)
Recession	0.3	12	6
Stable	0.4	15	7.5
Expansion	0.3	10	5

Required

Assess the riskiness of securities X and Y. (9 marks)

2. a) Explain five factors a firm should consider when it wants to operate globally. (10 marks)

b) Lamu Ltd has to choose one project to undertake. The following cash flow of each project is as follows:-

Year	**Project X Ksh**	**Project Y Ksh.**
0	(320,000)	(240,000)
1	80,000	120,000
2	80,000	100,000
3	120,000	100,000
4	120,000	80,000
5	30,000	(20,000)

The cost of capital is 14%

Required

i) Calculate the Net present value

ii) Advise the management on the project to undertake. (10 marks)

3. a) The demand for a firm's commodity is 1,500,000 units per year at a steady rate. It costs Ksh. 1,500 to place an order and Ksh. 300 to hold a unit for one year.

Required

i. Economic order quantity (10 marks)

ii. The number of orders placed. (10 marks)

b) Outline five conflicts of interest that occur between managers and shareholders.

4. a) Explain five sources of risks associated with a given investment vehicle. (10 marks)

b) Securities X and Y have the following characteristics.

Return	**Probability**
30%	0.1
20%	0.2
10%	0.4
5%	0.2
-10%	0.1

Security Y

Return	Probability
-20%	0.05
10	0.25
20	0.30
30	0.30
40	0.10

Required

i) Calculate the expected return for each security.

ii) Calculate the standard deviation of return for each security. (10 marks)

5\. a) Explain the following components of return.

i) Current income

ii) Capital gains

iii) Capital loss. (5 marks)

b) Pendo limited intends to invest in projects C, D and E. The following information relates to the projects.

Year	Initial Investments Kshs	Net Present Value Kshs.
K	400,000	1,200,000
M	40,000	400,000
L	800,000	1,600,000

The company has Ksh. 600,000 to invest in all the projects. All projects are viable.

Required:

i) Determine the profitability index for each project

ii) Rank the projects in order to desirability.

iii) Prepare an optimal investment plan. (15 marks)