



# **GRETSA UNIVERSITY - THIKA**

## **UNIVERSITY EXAMINATIONS MAY - AUGUST 2018 SEMESTER**

### **DIPLOMA IN BUSINESS MANAGEMENT**

**COURSE CODE: DBFI 010**

**COURSE TITLE: PRINCIPLES OF FINANCE**

**DATE: 7<sup>TH</sup> AUGUST 2018**

**TIME: 3.00PM –6.00 PM**

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#### **INSTRUCTIONS TO CANDIDATES**

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

**CAUTION:** *All exam rooms are under CCTV surveillance during the examination period.*



## SECTION A: COMPULSORY

### Question One

a) Risper is the investment manager with Zedech insurance. Explain four objectives Risper aims at achieving in furtherance of the business activities **[8 marks]**

b) The following are some of the account balances of Kareb limited for the year ended 30<sup>th</sup> April 2018

Item	kshs
Earnings after tax	238,000
No of ordinary shares	25,000
Payout	50%
Cost of sales	300,000
Average stock	40,000
Sales	800,000
Non current assets	250,000

Required: compute the following ratios

i) Dividend per share **[2 marks]**

ii) Earnings per share **[2 marks]**

iii) Stock turnover **[2 marks]**

iv) Fixed assets turnover **[2 marks]**

c) Explain any four types of preference share capital **[8 marks]**

d) Elaborate five functions of Capital Market Authority in Kenya **[10 marks]**

e) Discuss three advantages of Net Present Value method of capital budgeting over Non discounted payback period method **[6 marks]**

## SECTION B: ANSWER ANY THREE QUESTIONS

### Question Two

a) The following represents the manufacturing sector industrial average ratios.

Current ratio	3:1
Times interest earned ratio	4 times
Debtors turnover	5 times
Debt ratio	30%
Net profit margin	60%

Bestel is a firm in the manufacturing sector and has provided the following account balances

Current assets	120,000
Non current assets	200,000
Sales	350,000
Average debtors	100,000
Earnings before interest and tax	80,000
Earnings after tax	60,000
Interest expenses	14,000
Current liabilities	110,000
Non current liabilities	90,000

Required: Compute the following ratios and comment on the position of the firm

- i) Current ratio **[3 marks]**
  - ii) Debt ratio **[3 marks]**
  - iii) Times interest earned ratio **[3 marks]**
  - iv) Net profit margin **[3 marks]**
  - v) Debtors turnover **[3 marks]**
- b) Explain five disadvantages of ratio analysis **[5 marks]**

### Question three

- a) Nakumatt holdings is a case study of a failed relationship between shareholders and creditors. Discuss four solutions of solving shareholders and creditors agency conflict **[8 marks]**
- b) Edith is considering investing kshs 78,000 in two investment proposals. The following is the expected cash flow from each of the two projects

year	PROJECT A	PROJECT B
1	30,000	25,000
2	36,000	41,000
3	56,000	80,000
4	90,000	156,000
5	100,000	500,000

Using the following techniques advise Edith the appropriate project to invest in

- i) Profitability index **[8 marks]**
- ii) Net present value method **[4 marks]**

#### **Question Four**

- a) Bestel is a firm that has been incurring huge losses due to poor investment choices. As a finance expert, explain to the management of Bestel limited the need to undertake capital budgeting before undertaking any investment **[8 marks]**
- b) Discuss any six application of ratio analysis **[12 marks]**

#### **Question five**

- a) Peris wants to expand her business. She has the option of financing through debt capital or the issue of ordinary shares. Discuss five reasons of using debt capital as opposed to ordinary share capital **[10 marks]**
- b) Apex limited is considering becoming a member of the Nairobi Security exchange (NSE) market. Explain five benefits the firm stands to benefit from by becoming a member of NSE **[10 marks]**