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University Examinations 2012/2013

SECOND YEAR, SECOND SEMESTER EXAMINATIONS FOR DIPLOMA IN INFORMATION TECHNOLOGY

CED 0305: FINANCIAL MANAGEMENT

DATE: APRIL 2013

TIME: 1½ HOURS

INSTRUCTIONS: Answer questions *one* and any other *two* questions

QUESTION ONE – (20 MARKS)

The chief accountant of Meru Ltd has presented the following extracts of final accounts for the year ended 30th September 2012.

Trading Profit and Loss Account For the year ended 30th September 2012

	Sh '000'	Sh '000'
Sales		30,000
Cost of Sales		<u>24,000</u>
Gross Profit		6,000
<u>Expenses</u>		
Administrative	1,350	
Establishments	1,265	
Financial	<u>385</u>	<u>3,000</u>
Net Profit Before Tax		3,000
Appropriation Account		
Net Profit for the year		3,000
Corporate tax at 40%	1,200	
Proposed Dividends	800	
Transfer to general reserves	<u>600</u>	2,600
Retained Profits		4,000
Retained Profits b/f		2,500
Retained Profit c/f		2,900

Balance Sheet as at 30th September 2012

Liabilities	Sh '000'	Fixed assets	Sh '000'
Share capital		Fixed assets	5,500
80 ordinary shares of Sh20 each fully paid	1,600	Current assets	
Reserves		Stock 1,900	
General reserves 2,000		Debtors 2,100	
Profit & loss A/C <u>2,900</u>	4,900	Cash <u>2,600</u>	6,600
Loan Capital			
15% debenture stock	1,200		
Current Liabilities			
Trade creditors 2,400			
Corporate tax 1,200			
Proposed dividend <u>800</u>	<u>4,400</u>		
	<u>12,100</u>		<u>12,100</u>

Required:

- a. Compute and comment on the following ratios
 - i. Current ratio (3 Marks)
 - ii. Acid test ratio (3 Marks)
 - iii. Capital gearing ratio (3 Marks)
 - iv. Earnings per share (3 Marks)
 - v. Dividend per share (DPS) (3 Marks)
- b. Explain the importance of financial ratios. (5 Marks)

QUESTION TWO – 20 MARKS

- a. Explain five sources of funds for an organization. (10 Marks)
- b. For the past five years the market price per share (MPS) and dividend per share (DPS) for ABC company were as follows:

Year	2008	2009	2010	2011	2012
MPS as at 31 st Dec	40	45	53	50	52
DPS for the year	----	3	4	3	----

Determine the estimated cost of equity on share holder's percentage yield for each of the years. (10 Marks)

QUESTION THREE – 20 MARKS

- a. Explain the importance of cost of capital to a firm. (5 Marks)
- b. Matendo Limited intends to invest either in project A or B. The initial cash outlay is Ksh1,000,000. The following are the expected cash flows from the projects:

Yr	Project A	Project B
1	200,000	450,000
2	400,000	100,000
3	300,000	200,000
4	200,000	350,000
5	150,000	150,000

The company's cost of capital is 8%. Advise the management on which project to invest in using the:

- Net present value
- IRR
- Pay back (15 Marks)

QUESTION FOUR – 20 MARKS

- a. Explain the concept time value for money. (2 Marks)
- b. Why would individuals prefer money presently and not in the future. (6 Marks)
- c. Peter intends to start a computer business in four years time and wants to start saving for it. How much should he save every year at an interest rate of 6% so that the amount would be Ksh21,847 at the end of the fourth year. (6 Marks)
- d. If Peter saves Ksh5,000 annually for four years at an interest rate of 10% pa, calculate the present value of the cash flow at the end of the fourth year. (6 Marks)

QUESTION FIVE – (20 MARKS)

- a. Explain the meaning of financial management. (4 Marks)
- b. A finance manager plays a very important role in an organization. Explain the role that he plays. (6 Marks)
- c. Highlight four advantages of financial planning in an organization. (8 Marks)
- d. Explain the meaning of the term working capital. (2 Marks)